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IMPLEMENTING STRUCTURAL ADJUSTMENT IN ARGENTINA
THE POLITICS OF PRIVATIZATION

by

Ana Margheritis

A thesis submitted in conformity with the requirements
for the degree of Doctor of Philosophy
Graduate Department of Political Science
University of Toronto

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Implementing Structural Adjustment in Argentina
The Politics of Privatization
Ph.D. 1997
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Abstract

This work explains the sources of Argentina's efficacious economic policy implementation between 1989 and 1995. It studies the domestic and international politico-economic variables that shaped economic policy making and made structural reforms viable in the 1990s and not before. The findings signal the beginning of this decade as the turning point in the country's socio-economic history, a cross-roads where long-term trends and specific junctures met and created the conditions for policy innovation. Economic structural adjustment and reforms (and the privatization policy involved in them) were successfully implemented because of the combination of two main elements: one, the existence of a particular policy style (that of Menemism), which amalgamated old and new trends and articulated context, ideas, and power resources in an effective formula; and two, the tacit agreement between public and private elites on the distribution of costs and benefits of the reforms. The complete breakdown of the postwar state-centered socio-economic model --clearly reflected in the state's fiscal crisis towards the end of the 1980s-- altered the matrix of preferences and options for all actors so as to make the sale of public enterprises an economically and politically viable option. The new rules of the game agreed upon during the implementation process, that is, the new balance between the public and the private, put into practice a new form of state protection of the economic activities of a small economic elite. The degree of success in policy implementation was also reinforced by the high level of congruence between the micro and macro levels of analysis, that is, between the policy style used by the Peronist administration and the channels and patterns of relationship (the policy networks) used by

policy makers to implement economic reforms within particular issue-areas. This point arises from different policy networks identified and analyzed across three issue-areas where privatization was implemented (the telecommunications, oil, and social security sectors) and helps to explain the process of policy adaptation over time.

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Abbreviations

AFJPs	Administradoras de Fondos de Jubilaciones y Pensiones
ANSES	Administración Nacional de Seguridad Social
BANADE	Banco Nacional de Desarrollo
CAC	Cámara Argentina de Comercio
CEA	Consejo Empresario Asesor
CGE	Confederación General Económica
CGI	Confederación General de la Industria
CGT	Confederación General del Trabajo
COFEPRES	Consejo Federal de Previsión Social
CIA	Consejo de Trabajadores de la Argentina
ENTel	Empresa Nacional de Telecomunicaciones
IBD	Inter-American Bank of Development
IMF	International Monetary Fund
MIA	Movimiento de los Trabajadores Argentinos
PPP	Programas de Propiedad Participada
SAFJP	Superintendencia de AFJPs
SUPE	Sindicato Unidos Petroleros del Estado
UIA	Unión Industrial Argentina
UTA	Unión de Trabajadores Argentinos
WB	World Bank
YPF	Yacimientos Petrolíferos Fiscales

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Chapter I

Introduction

I.1.- Why Study Structural Adjustment?

Once again, the policy trends of advanced countries have spread over the less developed periphery. This time they are urging economic reforms that roll back the previous state expansion and enhance the free working of the market and of private economic agents. Since the late 1970s most developing countries, including those in Latin America, have made profound changes in their economic policies. In contrast with previous experiments with economic nationalism, self-reliance, increased state intervention, and nationalization, the 1980s witnessed a move towards liberalization, privatization, deregulation, and a general reduction of the state's role in the economy.

As Prebisch points out, this economic orientation is not a strange phenomenon in Latin America.¹ The new orthodoxy has the same roots as the neoclassical economics that had dominated the economic thought and policies in the 1920s. In the Argentine case, an account of liberal economic policies would probably have to go back in history to the country's independence and unification wars, or even before.² However, this new policy shift implies a radical break with the recent past. The economic reforms of the 1990s involve profound changes in order to dismantel the complete socio-economic structure that characterized those nations' development processes in the postwar period. They involved the transformation of relationship patterns prevailing in the state-centered model. In other words, the organization of the economy is being modified as well as the correlation of forces among sectors. In that sense, those reforms reflect shifting political and economic interests and power

¹ See Prebisch, 1982, p. 73.

² See Tulio Halperín Donghi: "Argentina: Liberalism in a Country Born Liberal", in Love and Jacobsen (eds.), 1988, pp. 99-116.

relations and, at the same time, give rise to a new situation that will also have an impact on social struggles.

Moreover, the impact of structural adjustment programs has become even more relevant since the 1980s in the light of a parallel process those same countries are undergoing: the resumption and consolidation of democratic institutions. Communist governments in Eastern Europe, as well as authoritarian military ones in Latin America, have been replaced by legitimately elected regimes. A new cycle of democratic institutional building has begun. Economic crisis, which clearly showed the exhaustion of previous development strategies and triggered social demands for change, is the common nexus of both economic and political liberalization. It is also the main limitation for new governments since the sustainability of those developments is interdependent. Consequently, the successful management of these processes in conjunction has been a crucial challenge for new democracies.³

For these reasons, once again scholars and politicians are seriously concerned with problems of governability. The end result of these complex processes is still uncertain. An assessment of the conditions that would make it possible to consolidate changes in both dimensions requires a close examination of specific historically grounded national contexts. In most countries this economic policy shift has been pushed by external pressures for the application of the so-called Washington Consensus prescriptions.⁴ Latin America was a particular target following the debt crisis. However, the adoption of the orthodox policies⁵ promoted by the international financial agencies has differed both in form and timing across countries and across

³ On these dilemmas, see the special issue of World Development: "Economic Liberalization and Democratization: Explorations of the Linkages", Vol. 21, # 8, August 1993; also Przeworski, 1991; Bresser Pereira et al., 1993; Haggard and Kaufman, 1995.

⁴ On the Washington Consensus, see Williamson, 1993.

⁵ Refer to Section I.2. for a detailed explanation of what is here considered an orthodox program.

different administrations within them. This was so largely because reforms raised serious opposition and conflict among domestic actors.⁶

The Argentine case becomes particularly interesting towards the end of the 1980s because at that time the return to democracy had already changed the dynamics of politics, and orthodoxy seems to have gathered generalized consensus as the best --and the sole-- possible alternative. Moreover, taking into account that orthodox programs had also failed in other countries and in Argentina in the late 1970s, what is interesting is not so much why democratic governments have embraced orthodoxy, but rather why it could not be successfully implemented until the 1990s. Although a more detailed historical account will be provided in Chapters III and IV, some brief comments on the contrasts between the last two Argentine governments are necessary.

The Radical party that took office in December 1983 was imbued with a social-democratic approach. It made several concrete attempts to forge a broad social pact that could support its measures on sensitive economic and political issues. Its first steps in the economic field were marked by a defiant attitude towards the International Monetary Fund (IMF) and World Bank (WB) demands. In 1985 it implemented a heterodox economic plan which assumed that stabilization and adjustment could be achieved without recession. This plan was successful for a time. Despite the government's effort to compromise with the business and labor sectors and to avoid excessive social costs, by the end of 1987 economic instability and high inflation generated an atmosphere of general criticism. The economic plans that followed gradually became increasingly orthodox⁷ and were all confronted with popular resistance

⁶ For a thorough account of comparative experiences of structural adjustment, see the special issue of *Pensamiento Iberoamericano*: "Las reformas económicas contemporáneas: experiencias comparadas", Book I, Vol. 22/23, Madrid, June 1992-1993; also Haggard and Webb (eds.), 1994; Edwards, 1988; Williamson (ed.), 1990 and 1994.

⁷ In fact, for some authors even the heterodox attempt implied a very modest departure from orthodoxy. See Anglade and Fortin, 1990, p. 297; Canak, 1989, pp. 141-142.

and a lack of credibility. Finally, a virtual "economic coup" engineered by the largest economic groups forced the government to put the official transfer of power forward by five months (see Section III.3.).

The Peronist government initiated its mandate in July 1989 with important concessions to the most conservative sectors of society and the appointment of various members of those sectors to its Cabinet. This was interpreted within the party as a betrayal of its historical populist commitment and its campaign slogans. After sending mixed signals on its economic orientation, since 1991 this administration has been implementing an orthodox program characterized by speed, neglect of democratic institutional mechanisms, and lack of concern for its social costs. Notwithstanding the negative effects on workers, public sector employees, and small- and medium-sized enterprises, no major disruptive opposition has come forward. Opposition has been virtually neutralized, and achievements in economic stabilization and the restoration of good relations with foreign creditors are being taken as signs of success.

Thus, assuming that there have been sustained external pressures from international actors promoting orthodoxy throughout the eighties and two ideologically opposed governments have finally accepted and implemented these programs, what accounts for the Radicals' failure and Peronists' "success"?⁸ What has changed in Argentine domestic politics over the last few years to make this kind of adjustment feasible? In attempting to answer this question, I will narrow down this issue in the following section, trying to justify its relevance in both theoretical and empirical terms.

⁸ The term "success" here is value-free and does not refer to positive economic achievements. For the purpose of this study, it is used instead in close connection with state capacities to explain the degree of success/failure in terms of policy implementation (see Section II.2.).

I.2.- Why Study Privatizations?

Although the rhetoric of international financial agencies has ambiguously included "reordering priorities," "more appropriate or efficient policies," and profound "structural adjustment" in their recommendations to developing countries, there is no question about the reduction of the state's role in the economy. It forms part of all orthodox programs, which usually include the application of two kinds of policies: those referring to economic stabilization and those implying a structural economic adjustment.⁹

Stabilization consists of short-term measures aiming to slow down inflation, reduce the balance-of-payments deficit, and cut the fiscal deficit.¹⁰ In more concrete terms, stabilization often means a devaluation, an exchange rate adjustment, and anti-inflationary and demand-management measures. This signifies steps such as the reduction in the rate of growth of money supply, fiscal adjustment, and the reduction of costs mainly through wage restraints.

On the other hand, structural adjustment is the set of policies designed to make the economy more competitive. It is based on the restoration of market mechanisms within the domestic economy through price deregulation, de-indexation, and the elimination of subsidies. It also promotes a market-oriented approach to external economic relations

⁹ It is not necessary that the two be instituted together, since the former applies only to those countries suffering from chronic inflation. However, they are usually applied simultaneously because the underlying rationale sees them as complementary and mutually reinforcing.

¹⁰ This general sketch follows from Taylor, 1988, Chapter 2, and Biersteker, 1990, pp. 482-486. For a thorough account of the evolution of orthodox and alternative thinking on stabilization and adjustment, see Miles Kahler: "Orthodoxy and Its Alternatives: Explaining Approaches to Stabilization and Adjustment", in Nelson (ed.), 1990, pp. 33-61.

by liberalizing trade, easing foreign exchange controls, and providing incentives to foreign direct investment. Structural adjustment also aims to change both the behavior and the nature of economic institutions. This can be achieved by privatizing economic activities, which includes the sale of public enterprises, the sub-contracting or elimination of public sector services, and the creation of incentives for private sector development (e.g., offering tax incentives, promoting the formation of private capital markets, reducing indirect taxes --such as pollution controls, worker safety and insurance regulations-- and assuring union compliance).

Of all these measures, the privatization of state-owned enterprises seems to provide fertile ground for a study of the political implications of neoliberal economics in Argentina. First of all, the Argentine case is a clear example of the interplay between international and domestic factors. Though embedded in the rhetoric of market efficiency, privatization has been, in practice, the alternative chosen by several countries --including Argentina-- to cope with the fiscal crisis and the debt problem, to raise cash, to alleviate external pressures, and to gain access to new financing.¹¹ In the case under consideration, the fiscal crisis has been, to a certain extent, a by-product of the public foreign debt (see Section III.4.). In a sense, the foreign debt problem has provided both the motivations to privatize and the mechanisms to carry it out since most operations took the form of debt-equity swaps.

Moreover, the issue seems to be highly relevant in the context of the research puzzle for reasons that concern state-society-market relationships, that is, the balance between public and private power. In itself, a privatization policy inherently implies a movement of resources, interests, and spheres of action from the public sphere to

¹¹ On this point, see Ravi Ramamurti: "Privatization and the Latin American Debt Problem", in Grosse, ed., 1992, pp. 153-176; Mosley, Paul: "Privatisation, Policy-Based Lending and World Bank Behavior", in Cook and Kirkpatrick, eds., 1988, pp. 125-140; also Glade, ed., 1991, pp. 96-98.

the private one. This alters the relative balance between the two sectors. As such, it is not merely an economic measure that transfers public assets to private hands, but also involves issues, institutions, functions, and decision-making power.¹² So, state withdrawal automatically enhances the scope of private economic agents' actions, specially of those that are relatively better positioned in the market.

The restructuring of public/private relationships is highly relevant in the light of Latin American Southern Cone history. Indeed, all across Latin America the state apparatus played a more prominent role than in the advanced industrialized countries.¹³ According to Rueschemeyer et al., the strong state involvement in society stemming from the colonial period was reinforced with the state expansion resulting from the growth of export economies. Thus, the power imbalance between state and civil society accounts for the belated or weak articulation of the emerging working-class in the first decades of this century.¹⁴ Furthermore, from the beginning the struggles and conflicts taking place in society were expressed within the state. So neither the neutrality of the state nor its mere instrumentality in the hands of only one segment of society can be assumed. The state itself became another social actor. A large bureaucracy developed and played a very special role in the management of economic affairs, hindering the dominant classes from settling into "true bourgeoisies". Consequently, social classes found it even more difficult to work out a long-range plan to integrate societies, which were characterized across the region

¹² On the meaning of privatization as an idea, as a rhetoric, and as a political praxis, see Paul Starr: "El significado de la privatización", in Kamerman and Kahn (comps.), 1993, pp. 27-64.

¹³ For a comparative study, see Rueschemeyer et al., 1992, Chapters 4 & 5. On what strictly concerns Latin America, see Graham, 1990, Chapters 1 & 2, and the historical synthesis by Cammack: "States and Markets in Latin America", in Moran and Wright (eds.), 1991, pp. 138-156.

¹⁴ See Rueschemeyer et al., 1992, Chapter 5.

by their strong external dependence, inequality in rural/urban areas, and capital/noncapital relationships.¹⁵

Since the 1940s, the view of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) strongly influenced economic policy making by supporting, among other ideas, the argument that the state had a major role to play in the industrialization process. As Schamis points out, the state's role in the Southern Cone also entailed a formula of governance based on three main features: an increasing development of the welfare machinery, an active state involvement in the economic sphere, and a recognition of the unions' rights to voice their demands and participate in the policy-making process in the framework of the implementation of redistributive policies.¹⁶ This arrangement set the basis for the incorporation of masses into the political system and for the implementation of the import-substitution economic strategy, representing the coalition of wage earners, manufacturers, and the state.

Together with advanced industrialization, a new form of state domination later emerged based on an increased coercive capacity and the mobilization of economic resources independently of the domestic dominant classes --the so-called "bureaucratic-authoritarian" regimes.¹⁷

¹⁵ For a more detailed analysis of these points, see Faletto, 1989.

¹⁶ See Shamis, Héctor: "Conservative Political Economy in Latin America and Western Europe: the Political Sources of Privatization", in Campello de Souza and Boron (eds.), 1992, pp. 48-67.

¹⁷ The term was originally coined by the political scientist Guillermo O'Donnell in the early 1970s. He refers to the authoritarian military governments that prevailed in the economically more advanced Latin American countries from the mid-1960s, as a result of the collapse of earlier populist experiments. An important body of literature grew out of his work as a response to the mainstream development theories, which had assumed a positive correlation between socio-economic modernization and democracy. Thus, by focusing on the social, economic, and political tensions generated by the particular type of dependent capitalist modernization undertaken by these countries, this approach links advanced levels of industrialization with anti-democratic, repressive, and income-regressive politics and policies --just the opposite of the hypotheses of earlier literature. Argentina from 1966 to

During this period, it is clear that the intermediary role of the state between the national and international economy strengthened the trends towards its expansion and autonomy. On the one hand, its activities to secure access to foreign markets, capital, and technology provided the incentives and the means for an expansion of its administrative and managerial capacities.¹⁸ On the other, U.S. foreign policy, financial assistance, and ideological and technical training for the military contributed to increasing and justifying the state's repressive capacity.

Argentina clearly fits this pattern. Yet, it is worth underlining that the state's deep involvement in the economy and society should not be taken as an indicator of state strength. The latter is a more controversial issue, with far more nuances than initially appears.¹⁹ In fact, the historical record of the postwar period shows that the state-society relationship is the key to understanding the reversal of economic and political development (see Section IV.1). Moreover, the development of bureaucratic interests within the state apparatus that accompanied its expansion cannot be overlooked.

In sum, the state had always been the arena of conflict, the arbiter of the struggle, and the allocator of resources. It is this latter facet that made social actors see the state itself as the spoils of war (for their struggles) which resulted in corrupt networks of clientelistic and prebendary ties. As is explained in Section V.1., the role of the state in the Argentine economy has grown dramatically even

1970 and from 1976 to 1980 was one of the key case-studies. The core of the original argument can be found in O'Donnell, 1979.

¹⁸ It was not until the 1970s that governments had access to the easy bank lending that led to a dramatic expansion in state enterprises. On this point and the relationship between state expansion and indebtedness in Latin American countries, see Kuczynski, 1988, Chapter 3.

¹⁹ See Alfred Stepan: "State Power and the Strength of Civil Society in the Southern Cone of Latin America", in Evans et al. (eds.), 1985, pp. 317-343.

under liberal and "market-oriented" governments. Consequently, the successive waves of nationalizations and privatizations have to be understood in this framework.

To mention only the most recent examples, it is interesting to note that the last military government's privatization policy did not modify this situation. Paradoxically, despite the fact that state expansion had been the target of harsh criticisms from all sectors between 1976 and 1983, its entrepreneurial, productive, and regulatory activities acquired a predominant place in the national economy. What is more, the privatization program implemented during those years did not lead to a reduction in public expenditures. Instead, it generated a new group of firms (a private-public complex) with increasing demands on the state for its future development (see Section V.1.). It deteriorated the administrative system and reinforced the role of the state in subsidizing the private sector.²⁰ Although the business sector as a whole was very critical of the public sector during that period, the private sector's reaction to and support of privatization initiatives were very heterogeneous and fragile.²¹

The same reaction was evident when the Radical government (1983-1989) tried to carry out a privatization program. Although by then the terms of the debate over nationalization/privatization had shifted peremptorily in Argentina as well as in most Latin American countries,²² few actual transfers to the private sector took place. Progress lagged behind government goals and was limited to the sale of industrial or utility companies that had been previously private and had been absorbed by the state when they became insolvent. Truth to tell, it would be

²⁰ As is explained in Section III.1., one of the main forms of state involvement in the economy during the postwar period was the concession of all kinds of subsidies to the private sector's development.

²¹ See Schvarzer, 1981, Part III & IV.

²² See the comparative account presented by Glade (ed.), 1991, Chapter 1.

better to label them as cases of "re-privatization" (see details in Section V.1.). The explanations for this setback revolve around the obstacles posed by the lack of interest on the part of the private sector, the nonexistence of an adequate legal and institutional framework, and the persistence of strong union opposition.²³

Consequently, the acceleration of the privatization process in the last three years of the Peronist administration is striking and raises the question of why privatization has suddenly become an attractive business for everybody.²⁴

Taking into account these considerations, it is now possible to narrow down the original question in the context of this policy issue-area and ask: Why is it that privatization has now become an acceptable policy given the particular form that the private and public power relationship took in Argentina's postwar politics? More concretely: Why does the private business sector look more homogeneous than ever, willing to sacrifice the benefits of a subsidiary and protective state and accept the risks of an open, fully "private" competition? Why doesn't organized labor resist the dismantling of the state's institutional mechanisms that have traditionally guaranteed its political power? Given that the state's involvement has historically gone hand in hand with its instrumental character for class disputes,²⁵ why do dominant and subordinate elites, broadly speaking, now accept state withdrawal?

In sum, this study explores the problems of legitimation and implementation of an orthodox economic program in Argentina, taking the dynamics of one policy area (the privatization of state-owned

²³ For an overview, see Javier A. González Fraga: "Argentine Privatization in Retrospect", in Glade (ed.), 1991, pp. 75-98.

²⁴ A detailed account of achievements can be found in Section V.2. and the Appendix.

²⁵ For the reasons explained above, I assume that the state institutions, as they developed in the postwar period, came to embody the result of the conflict and compromises between social classes.

enterprises) as an illustration of the micro-processes involved. Although it is difficult to distinguish the effects of liberalization, deregulation, and privatization measures when they are applied as part of an entire structural adjustment program --and they should probably be evaluated together--²⁶ this work will sustain the analytical distinction and focus on privatization because its results are more tangible than those of other measures. Therefore, such an approach can better illustrate the kinds of issues involved in the relationships between state, market, and society.

Instead of adopting a simplistic argument about either state instrumentality or state autonomy, it is more useful to see the issue as a dynamic process in which the boundaries between public and private spheres are very subtle and the assessment of the autonomy and strength of state and society can only be made in relative terms. The discussion presented in Chapter II will set the theoretical basis for this assertion.

²⁶ An important part of the debate about privatization attests that privatization alone is unlikely to produce significant results in terms of economic efficiency. It must be accompanied by liberalization and deregulation measures. For a detailed discussion of this point, see Van de Walle, 1989, and Cook and Kirkpatrick (eds.), 1988, Chapters 1 & 4.

I.3.- The Argument in Brief

The empirical data suggest that there is no lineal --much less unicausal-- relationship between explanatory factors and outcomes. The degree of success of policy implementation depends on a multiplicity of economic and political factors. In particular, this study emphasizes the interplay between historical trends and specific junctures and between two levels of analysis: the domestic and the international.

It is argued that the combination of old and new organizational features and institutional mechanisms in Argentine politics in the 1990s created a new scenario that altered the parameters within which economic policy making developed. In this way, the privatization program became viable. The deepening of the economic crisis marked the turning point between the state-centered socio-economic model and the market-oriented one.

In more concrete terms, economic structural reforms (including the privatization policy) were successfully implemented because of the combination of two main elements: a) the existence of a particular policy style (that of Menemism), which amalgamated old and new trends and articulated context, ideas, and power resources in an effective formula (see Chapters IV); and b) the tacit agreement between public and private elites on the distribution of the reforms' benefits and costs, which meant a new form of state protection of the economic activities of the dominant economic groups (see Chapter V). The success of the policy implementation was also reinforced by the high level of congruence between the micro and macro levels of analysis, that is, between the policy style used by the Peronist administration and the channels and relationship patterns (the policy networks) used by policy makers to implement economic reforms within specific issue-areas (see Chapters VI, VII, and VIII).

The context of crisis generated a sense of emergency and urgency that triggered a generalized demand for solutions, as well as increased pressure for policy change by international creditors. The Menem administration converted contextual elements into policy instruments. The economic policy shift was framed in a political discourse based on the "emergency" factors. This discourse was the main instrument to justify the use of extraordinary policy-making mechanisms. Peronist party structures and dynamics, as well as some general characteristics of the domestic political system, favored the development of a highly centralized, personalized, and discretionary policy style. President Menem's pragmatic leadership, together with Minister Cavallo's cohesive technocratic economic team largely facilitated implementation.

The other facet of this increased capacity to govern the crisis was the building of a coalition of support. This was achieved by privileging the relationship with the local business elite in the ascendant and by disciplining an already weakened labor movement. The implementation of the privatization program accurately reflected this structural configuration of forces. Policy content consolidated it and legitimated a new equilibrium between public and private interests. In that sense, it served to forge the coalition.

The policy networks that took shape in three specific issue-areas (the telecommunications, oil, and social security sectors), can be labelled "personalized", "hybrid", and "organizational", respectively. They show the existence of a considerable degree of congruence in policy practices at all levels of the decision-making structure. The findings prove that this congruence largely facilitated implementation; and also, that policy networks and organizational factors have to be understood in the context of the political culture and subcultures that give them meaning.

I.4.- The Plan of the Thesis

The following eight chapters go from the more macro levels of the economic policy-making process to the micro ground level of implementation of a particular measure of the adjustment program (i.e., the privatization policy).

Chapter II presents the theoretical discussion about the sources of policy making. An account of competing explanations and alternative levels of analysis are discussed in an attempt to identify the analytical categories that may help: 1) to understand the international and domestic roots of the different stages of economic policy; and 2) to design the theoretical and methodological assumptions of this study. Precisely, the critical analysis of these major approaches leads to the elaboration of both a dynamic historical-institutionalist framework and the main explanatory arguments about the construction of economic policy viability.

Chapter III summarizes the principal landmarks of Argentina's postwar economic history. It focuses on the consequences of the economic policies implemented over the last two decades, with particular attention to the orthodox program of economic reforms launched by the current Peronist government.

Chapter IV concentrates on the political and institutional aspects of economic policy making. The previous Radical administration and the ongoing Peronist one are analyzed in detail. The purpose is to highlight their similarities and differences and, specially, to comment on the evolution of some institutional variables that may explain how a package of structural adjustment and economic reforms could suddenly become viable in the 1990s. The interaction between political context, ideas, and power resources is the axis around which this evolution is studied.

Chapter V addresses the development of one of the measures contained in that package: the privatization policy. The issue is first analyzed from a historical point of view. It explains how the relative balance between public and private interests and strategies in the 1990s was converted into an extensive and fast privatization of state-owned enterprises and a generalized state withdrawal from economic and social functions. The implementation of this policy and the construction of its political, economic, and technical viability constitute the core of the chapter. The analytical categories are applied and exemplified here. A preliminary account of the economic and political impact of privatization is discussed as well.

The following three chapters present three case-studies to further illustrate the theoretical arguments with detailed empirical evidence. These cases correspond to the tender of the national telecommunications company (Chapter VI), the privatization of the national oil company and petroleum-related activities (Chapter VII), and the reform of the national social security system (Chapter VIII). They represent different stages and aspects of the policy implementation process and, in that sense, constitute good examples of varying policy networks developed around these particular cases.

Chapter IX gathers the main findings and conclusions of the work. To some extent, and taking into account certain inevitable limitations, some references to the comparative experience about the politics of adjustment and reform processes are made. However, drawing on the evidence from the Argentine case, the main purpose is to underline the linkages between the micro and macro levels of economic policy implementation in an attempt to further the theoretical and practical implications of this study.

The tables in the Appendix summarize the quantitative and qualitative data about the principal privatizations carried out between 1990 and 1994.

Chapter II

The Theoretical Discussion

Introduction

This chapter outlines the theoretical framework selected to help understand the success of policy implementation. To that end, the main alternative explanations to policy making will be considered in the first section, emphasizing the differences and relative applicability of various levels of analysis and theoretical approaches.

Drawing on this critical analysis, my own set of assumptions, variables, and hypotheses will be presented in the following section. A major concern has to do with the need to build a dynamic approach that pays due attention to both structural elements and processes and that accounts for the interaction between economic and political factors and does not simply add them up. This involves going one step beyond classical historical institutionalist analysis and gathering insights from diverse streams of thought.

The third section develops the full theoretical argument about the construction of economic policy viability. Although this study is concerned with Argentina's state capacities in the 1990s, the explanation is meant to serve as a very basic platform for comparative studies that may highlight differences and similarities across issue-areas of governmental action.

Finally, the conclusions are guided precisely by that aim: to identify the theoretical and practical implications of using such a framework to understand the process of economic policy making.

II. 1.- Alternative Explanations to Policy Making

As Nelson suggests, there is no general theory of the politics of adjustment¹. However, the literature indicates that explaining economic policy involves an examination of the sources and different phases of the entire policy-making process. The starting point depends on the primacy one accords to two basic levels of analysis: international and domestic.

Theories at the international level focus on systemic variables and view policies as responses to the particular set of opportunities and/or constraints that a certain country's position in the international system presents at any moment in time. They abstract from domestic politics and concentrate on the structural characteristics of the system. They emphasize the relative capabilities of countries --in the neo-realist version²-- and derive propositions from the relations and interactions between nation-states (especially those that, by way of an analogy with the behavior of firms in a market, account for a state "socialization" process with certain patterns given by the anarchical, self-help rules that characterized the international system). Or else, they emphasize the location of states in the international division of labor --in the neo-Marxist variants³-- explaining variations in state behavior and outcomes on the basis of structural factors.

¹ See Nelson, 1990, p. 17.

² The core of the theory can be found in Waltz, 1979, which has been the dominant systemic theory in the field of International Relations in recent decades.

³ See, for example, the world-system approach in Wallerstein, 1979, and that on dependency in Cardoso and Faletto, 1975. Of all the systemic theories, the latter is probably the only one to pay considerable attention to the interplay of the domestic and international levels of analysis.

Therefore, to accept the above explanations would mean identifying the changes in the global economic conditions that may have forced the adoption of a certain policy. It is plausible that such developments as the globalization of production, increasing economic competition and protectionism, and new patterns of competitiveness, by changing the conditions in which states choose policy options, may have forced most developing countries to accept economic orthodoxy in order to avoid marginalization from the world economy. Even more, the "contagion effect" of other countries' successful experiences and pressures from international institutions, like the IMF and WB conditional lending, and from other relevant states, like the U.S. foreign policy, may also have contributed to the adoption of a certain path.⁴

Despite the relevance of the systemic-level argument, it does have some shortcomings. On a general theoretical level, systemic explanations *per se* fall short of specifying causal relations and have little to say about dynamic processes and changes. Besides, as they take states as black boxes and policies as the result of either the choices of rational and unitary actors (in the neo-realist version) or of conformity to structural demands (in the neo-Marxist ones), they do not consider the policy-formation process. Therefore, they cannot account for questions of change over time, state agency, and the content, timing, orientation, and implementation of policies.

All these elements are highly relevant in the case under consideration. Although it is obvious that systemic factors (especially, the constraints created by the external debt problem, the demonstration effect of reforms in Chile, and the intensification of pressure from the international agencies) favored the adoption of economic orthodoxy in Argentina, it is not clear how they forced domestic actors to take the concrete measures and make privatization acceptable and viable in the 1990s and not before.

⁴ Some of these arguments are developed within a broader context in Biersteker, 1992.

Thus, as the literature on comparative politics reminds us, it is necessary to explore how international constraints and opportunities are mediated by domestic structures before producing certain policy outcomes. It seems reasonable, therefore, to move to the domestic level of analysis, where there is a vast array of approaches to explain the policy-making process. Mainstream political science literature had traditionally concentrated on society-centered perspectives. Nevertheless, during the 1980s there was a revival of state-centered studies. Far from trying to relate the debate that this revival has triggered here, I will concentrate on its implications for understanding the policy-making process.⁵

Society-centered explanations contend that political institutions (the state being the most prominent) are determined by or reflect the struggle for the control of resources in civil society. Therefore, state action/policies and structure are shaped by conflicts of interests in civil society. Two major approaches to the policy process can be included in this perspective: pluralism and Marxism.

Pluralism emphasizes the dispersal of economic and political power among social actors and the self-regulating nature of modern societies. Interactions are based on individuals' self-interest actions that accommodate to the actions of others according to shared values. The state is largely absent in these interactions because authority responds to multiple institutional sources. So, the state functions primarily as an arena where interest groups compete and as a neutral mechanism that aggregates and responds to preferences and represents and supports consensual values. Hence, the policy source is to be found in changes in

⁵ A historical account of the evolution of the discussion is presented by Fabrini, 1988; a general overview of the positions can be found in Ikenberry et al., 1988. For a historical view of how the debate has influenced development theories and Third World studies, see Migdal, 1988, Chapter 1.

the coalitions of interest groups or in their relative power to influence policy makers.⁶

Besides the critiques pluralism has received for being an ideology of the *status quo*,⁷ the application of its assumptions to policy analysis has been particularly questioned for its lack of theoretical rigor and predictive value. It has no independent measure of group power. Most analysts assess a given group's influence by observing the policy outcome, but such an approach runs the risk of tautological reasoning.⁸ If the outcome of intergroup struggles can only be explained after the fact, the predictive value of the approach is severely limited, and explanations tend to take an *ad hoc* character.

Moreover, the pluralist concept of the state as an arena does not take the state as an independent actor who can manipulate society. It ignores the role of institutions. Obviously, an approach that focuses exclusively on societal groups captures only the so to speak "demand" for policy, but not its "supply." There is empirical evidence that shows how state actors and institutions play a critical role in shaping the manner and extent to which social forces influence the formation of policies. These criticisms and some characteristics of the policy-making process in Latin American countries explained below demonstrate how inadequate a pure pluralist approach is to understanding the tensions and contradictions of such underdeveloped societies as Argentina.⁹

⁶ See Alford and Friedland, 1985, Part I. Also Alford, Robert R.: "Paradigms of Relations Between State and Society", in Lindberg et al. (eds.), 1975, pp. 145-160.

⁷ See Lowi, 1988, pp. 876-879.

⁸ See Ikenberry et al., 1988, pp. 7-9.

⁹ Most (1980) provides an example of the limitations of the theses that link the emergence of new ruling coalitions to public policy shifts in the Argentine case. Interrupted time-series analyses support his idea that coalition changes do not occur in a vacuum. Institutional factors --particularly, the growth of a large and well-entrenched public sector between 1930 and 1970-- have made key interest groups increasingly unable to promote their demands and shape policies in the way they would have preferred.

Marxist analyses relate the policy source to the power relationships and the domination between social classes. Since the real structure of society is determined by the economic appropriation and cultural hegemony of the capitalist class, the state becomes a tool of the dominant classes for the reproduction and management of existing class relationships.¹⁰ However, neo-Marxist versions treat the state as a relatively autonomous actor. Although state intervention is functional to preserving and advancing the interests of capital as a whole, its policies are determined by goals that are defined in the state sphere and that are related to its own needs for organizational maintenance and expansion. In that sense, the state is responsive to the requests of capital because public resources depend largely on maintaining a favorable climate for capital accumulation.¹¹

Like any grand theory, Marxism provides many useful analytical tools to help understand politics and policies but, for the same reason, the intermediate and micro-processes involved in decision making and policy making are not central to its analyses. The notion of the relative autonomy of the state introduced by neo-Marxism is absolutely pertinent to the issue under consideration. However, as Anglade and Fortin suggest, its initial formulation still misses the relationships between the adoption and implementation of policies, between stated preferences of dominant classes and their objective interests, between intended and unintended effects of state policies, and between the relative autonomy of the state and of the dominated classes.¹² Moreover, if it is to be applied to peripheral societies, this notion should incorporate the impact on state policies of social forces whose interests do not have a class basis (e.g., ethnic or religious groups, the military), as well as the external dimension of state autonomy.

¹⁰ See Carnoy, 1984, Chapters 2-4.

¹¹ See Block, 1987, especially Chapters 3 and 5.

¹² See Anglade and Fortin, 1990, pp. 212-222.

On the other hand, state-centered approaches place the study of policy making within the organizational context of the state. Two broad institutional approaches differing basically in the choice of their unit of analysis can be identified.¹³ First, the state is primarily an organizational structure, a set of laws and institutional arrangements shaped by previous events. Once formed, institutions are likely to endure; they tend to influence policy even after ideas and coalitions that initially gave rise to them no longer prevail.¹⁴ Second, the state is an actor; politicians and administrators are independent participants in the policy process. Emphasis is given to the goal-oriented behavior of bureaucrats as they respond to internal and external constraints so as to manipulate policy outcomes in accordance with their preferences. These preferences differ from the parochial concerns of either societal groups or particular governmental institutions and yet are tied to conceptions of national interest or the maximization of some social welfare function.¹⁵ Underlying these two approaches is the claim that the state can be treated as an independent variable, which implies that two dimensions are crucial: state autonomy and state capacities.¹⁶ For this approach the state then, rather than an arena for the conflicting

¹³ Rational actor models and bureaucratic politics models are usually considered within state-centered perspectives, but they are not included here because they are more strictly concerned with the decision-making phase of the policy process and provide very little insight into the ways societal pressures, historical experiences, ideologies, values, and individuals' perceptions shape policy outcomes. For a discussion, see Grindle and Thomas, 1991, Chapter 2.

¹⁴ Different authors could be included in this view. See the review essay by Krasner, 1984.

¹⁵ The clearest example of this perspective is Krasner, 1978. See also Nordlinger, 1981, Chapter 1.

¹⁶ According to Skocpol, autonomy refers to the ability of the state to formulate and to pursue goals that do not simply reflect the demands and interests of social groups or classes. Capacity is defined as the ability to implement the goals and policies that have been formulated, specially despite the real or potential opposition of social groups. See Theda Skocpol: "Bringing the State Back In: Strategies of Analysis in Current Research", p. 9, in Evans et al. (eds.), 1985, pp. 3-37.

interests of social groups, is seen as a structure with a logic and interests of its own.

Given the centrality of the state in Latin American politics, there is no doubt that the categories elaborated by the advocates of bringing the state back in are highly relevant to this project. State autonomy and capacity are closely linked to the adoption and implementation of policies. As they suggest, relative autonomy is a matter of degree that varies from society to society and from time to time. So autonomy is a contingent and historically relative concept. Moreover, autonomy is always relative because total independence between state and civil society or between state and a broader international environment is not implied. Rather, analyses of the state and public policies should be historically grounded and transcend national boundaries. Thus, the refined notion of "embedded autonomy" is probably more suitable to the analysis of the policy process.¹⁷

Nevertheless, as many authors have pointed out, the statist theoretical framework and its applicability are not completely clear.¹⁸ Dissimilar Marxist versions are labelled together and their juxtaposition with Weberian ideas leads to an abandonment of both, losing rigor in the multiplicity of factors considered relevant. Although the attempt to combine them may be very interesting, many incompatibilities are disregarded and we are left with no idea how that combination would look. I particularly agree with Lowi on the significance of the statist approach and also with his criticism: its distinctiveness and merits come from the focus on the state as an

¹⁷ According to the empirical evidence, effective state intervention is related to the existence of a coherent, efficient, and relatively autonomous bureaucratic apparatus and a network of external links with key social sectors --what is usually called embedded autonomy. On this notion, see Evans, 1989; and also Dietrich Rueschemeyer and Peter Evans: "The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention", in Evans et al. (eds.), 1985, pp. 44-77.

¹⁸ For a strong critique of the statist approach, see Almond, 1988.

independent actor, but its elusive definitions have led its advocates to reify the concept. In his own words: "They somehow came to the conclusion that 'the state' is a unitary, solitary reality that can be brought into theory as some kind of measurable force. (...) But there is no single dimension of strength, and there is no single dimension of autonomy. In fact there are several dimensions of each and any given state could be placed high or low on any of the dimensions of strength or autonomy. This is precisely why embrace of 'the state' as a unitary concept will inevitably be poorly defined."¹⁹

Therefore, the debate statisticians have generated needs to move towards a different and richer conceptualization of state-society relationships. As some authors argue, state and society should not be conceived of as separate and opposite entities. Instead, their elusive and porous boundaries as part of their own nature should be explored.²⁰ Indeed, the literature on corporatism, policy networks, and neo-institutionalism that is referred to in the next section has already been working along this line and has shown that, in fact, the "public" and the "private" very often overlap.

In addition, a number of public choice approaches have taken the form of either society- or state-centered explanations. They assume that politics is the sum of the action of individuals or interest groups seeking special advantage through public policy and individual officials seeking to benefit from public office through reelection and rents. Unlike pluralists, they perceive such a conflict and competition among interest groups as a threat to the ability of government to respond to public interest with policies that are economically rational for the whole society. Thus, this "political market" tends to produce negative outcomes: a state captured by narrow interests, policies distorted in

¹⁹ Lowi, 1988, p. 877.

²⁰ See Mitchell, 1991; Bendix et al., 1992.

economically and socially irrational ways by self-seeking groups, and public officials whose actions are inherently corrupt.²¹

In this way, the neoclassical political economy offers a parsimonious explanation for economically irrational policy outcomes, so frequent in developing countries. However, the society-centered explanation it provides can neither capture the dynamics that leads to such outcomes, nor account for the fact that policy making in developing countries tends to be more closed and less visible than that portrayed by the market image. It is also more centered on the political executive, high-level administrators, and political leaders. Besides, extensive organization and representation of societal interests in developing countries is usually lower than in advanced democracies, it is nonexistent or discouraged by authoritarian regimes. Consequently, lobbying activity is difficult to identify and the activities of interest groups often take the shape of personalized and informal interactions which focus more on implementation than on policy choice. More important, the notion that political interactions occur in a context of established or agreed-upon rules of the game cannot always be assumed in Latin America.²²

As to the state-centered explanations of this perspective, their main shortcomings lie in the following factors: the consideration of the state as unitary actor; the overemphasis on the link between policy choice and officials' concerns with survival²³ and support building; and the absence of a theory on the formation of the policy makers' preferences that goes beyond rational and self-interest factors and pays due attention to historical, ideological, and institutional

²¹ See Meier, 1991, Chapters 1-3.

²² See Douglas A. Chalmers: "The Politicized State in Latin America", in Malloy (ed)., 1977, pp. 23-45.

²³ Privatization can hardly be explained from the point of view of bureaucratic interests as a policy decision directly linked to a calculus of survival or staying in power.

determinants.²⁴ All of these are relevant elements in understanding the reaction of bureaucratic agencies to privatization policies.

So far, the purpose of this section has not been to dismiss one approach after another but rather to highlight relevant elements and limitations in each in order to show that a more appropriate framework would probably require the building of bridges between various levels of analysis and schools of thought. Consequently, borrowing elements from different perspectives and drawing mainly on historically grounded institutional or organizational arguments, the next section considers the theoretical and methodological framework that guides this project.

²⁴ For a full development of some of these criticisms, see Horowitz, 1989; and also Merilee S. Grindle: "The New Political Economy: Positive Economics and Negative Politics" and Robert H. Bates, Stephan Haggard, and Joan M. Nelson: "A Critique by Political Scientists", both in Meier (ed.), 1991, pp. 41-68 & 261-176.

II. 2.- The Case for a Dynamic Institutional Framework of Analysis

The process of economic policy making in Argentina in the particular issue-area of privatization is the focus of this work. The phenomenon to be explained is the degree of success/failure of policy implementation.²⁵ This can be defined as the possibility of state action to carry out privatization goals (basically, the sale or concession of companies in which the government holds majority or minority ownership and exerts control over decision making) in economically and politically acceptable terms for the actors involved.

For analytical purposes, it is useful to disaggregate the policy-making process into different phases. However, it is necessary to keep the dynamic interaction in mind between them since the outcome we observe is not the result of a lineal process but rather of multiple redefinitions of the same policy that occurred throughout the stages. Four major phases will be addressed:²⁶ the problem or issue formation; the inclusion of the issue on the government agenda; the policy adoption; and the policy implementation --the latter being the principal phase under consideration.

Note that implementation here is assumed to start once the decision has been taken (in the case of economic reforms, at the Executive level). It involves the bargaining process not only with major

²⁵ It is worth noting that this is only a methodological distinction. Implementation outcomes are not just successful or unsuccessful. There can be a broad range of possible outcomes, in part because the policy is often significantly altered during implementation. On this point, see Grindle and Thomas, 1989, pp. 234-240.

²⁶ This is an adaptation of the six-folded sequence proposed by Hughes and Mijeski, 1984 (see Chapter 1).

social actors to which policy is directed but also with other national powers (e.g., the Legislative) and other levels of the decision-making structure (e.g., bureaucratic agencies in public enterprises). That bargaining process may (or may not) lead to the implementation of the policy. In that sense, my definition of the implementation phase resembles that of other authors about "policy formation". I consider the latter is a broader concept that, like the expression "policy making", involves all the stages usually included in the entire process of policy development.²⁷

Furthermore, this is a study of the development of events over time. It thus aims to pay due attention to policy timing.²⁸ Although the fieldwork has been mainly concerned with economic policy making in the 1990s, only an analysis over time exploring both long-term patterns of policy development and particular junctures can highlight the question presented here and the contrasts with the experiences under the two previous governments.

In order to explain policy acceptability or viability, three interrelated dimensions of the term "viability" must also be

²⁷ The literature on implementation has not reached a clear consensus on the definition of the implementation phase. Three main kinds of behavior are indistinctly taken as the dependent variable: process, output, and outcome or impact of policy. See, for example, Palumbo and Calista (eds.), 1990, Introduction and Soren's essay (pp. 19-38).

²⁸ The literature on policy-making reminds us of the existence of a "life cycle" for any policy and, therefore, the need to go beyond implementation and trace instead how a policy works out more broadly, how it is altered, how it lapses, how it intersects with other policies at various stages. Timing (considered in the sense of simultaneity of events or circumstances surrounding policy choice) is also an important element of explanation. A set of events synchronized with a decision may turn the latter in a direction that it otherwise might not have taken. The distinction between crisis-driven policy and policy that arises in times of "politics-as-usual" has also proven useful in understanding the politics of adjustment in developing countries. See Grindle and Thomas, 1991, Chapter 4; Horowitz, 1989.

identified.²⁹ One, political viability is the degree to which a policy may serve as an instrument in coalition- and support-building. It is necessary, then, to look at the factors that may create policy credibility and legitimacy (e.g., how the policy is framed, defined, and presented to the public debate, and how it relates to past experience; how persuasive international pressure/advice is, and how effective the policy is in attracting international support; how the policy affects social consensus/opposition and regime stability). Two, economic viability refers to the symbolic and material costs and benefits that a certain policy may generate and that usually determine its sustainability³⁰ (i.e., in Laswell's terms, who gets what). Three, technical viability is the degree to which the policy accords with the existing institutional capacities and makes the mobilization of human, material, administrative and organizational resources that implementation requires feasible.

The interaction of these dimensions during the different phases of the policy-making process can be traced in three major arenas of interaction suggested by Nelson (1990): the decision-making circles within the state structures, the circuits of relationships between the government and external agencies and actors (external creditors, other

²⁹ These dimensions of viability follow those presented by Hall (1989), although they have been largely modified because his analysis focuses on the influence of ideas in policy making and how they become institutionalized rather than on the process of policy formation itself.

³⁰ There is no direct correspondence between economic policy impact and sustainability. The objective impact may differ from people's perceptions of losses and gains. That is why it is necessary to look at "symbolic" costs and benefits in terms of subjective interpretations that may determine political reactions. Some case studies suggest that such factors as the content of the policy, the concentration/dispersion of costs and benefits, the length of time needed to implement it and have a tangible result, the requirements of highly technical skills and administrative resources to sustain it determine the kind of conflict and opposition that surround implementation. This occurs because they influence the perceptions and reactions of the public in general, and of particular societal actors and bureaucratic groups. Thus, the analysis of costs and benefits as well as that of the other dimensions of viability has to be linked to the characteristics of the policy itself. See White, 1990, pp. 10-13; Nelson, 1988, 107-112; Grindle (ed.), 1980, Chapter 1.

states), and the broader realm of domestic politics where the policy is implemented. Therefore, one of the most important tasks will be to identify the key actors involved in these three arenas, their power relationships, and the ideas they hold (particularly, the ideological "mind-set" according to which they perceive both the interests at stake and the options and strategies available at critical points in time).

The purpose of examining all these elements is to discover the policy networks³¹ through which economic policy is made and applied. The factors mentioned so far can provide certain clues as to why we observe more or less successful policy implementation. Nonetheless, we also need to understand how such an outcome is produced. Thus, it is equally important to identify structural factors and processes, that is, the formal and informal organizational features and practices that structure politics and policies in a certain society.³²

The underlying assumption is that those organizational characteristics (broadly defined as institutions)³³ play a crucial role in mediating between interests and capacities of individuals and groups. This occurs because the norms and rules embodied in institutional arrangements constrain the ability of actors to achieve their goals as

³¹ The idea of policy networks refers to the linking process by which actors in a policy area are connected to one another; the network is the outcome of their exchanges or their combined actions. The concept has been widely developed in the comparative studies on industrial policy and foreign economic policy; see, for instance, Katzenstein, 1978 (Chapters 1 & 9); Wilks and Wright, 1987; Marsh and Rhodes, 1992 (Chapters 1 & 11); Coleman and Skogstad, 1990 (Chapter 13); Marin and Mayntz, 1992; Smith, 1993.

³² See March and Olsen, 1984 and 1989.

³³ Institutions will be used here as a generic word that includes both formal organizations and formal and informal rules and practices that structure politics. When applied to the organization of labor, for instance, it would imply looking at the role of formal institutions (unions, confederation of workers), their formal rules and procedures (e.g., bargaining mechanisms, unions-party and unions-government negotiation patterns, labor legislation), and the informal norms of behavior (e.g., union leaders' informal ties with other actors that may affect the possibility of their complying with or resisting a certain policy).

well as influence the nature of those goals. Institutions provide the arena, rules, and resources for the social struggles.³⁴ In that sense, they affect the policy-making process in two ways. They affect both any actor's power over the policy outcomes, and the actor's definition of his own interests according to his position and his relationship to other actors. However, the emphasis on institutions does not mean to divert attention from other variables; institutions are considered intervening variables that put other factors (the players, their interests, their strategies, their power relationships, etc.) into a context. They show how they relate to each other and how political situations are structured. In short, institutional or organizational variables constrain, enable, and refract politics, but are never the only cause of outcomes.³⁵

Accordingly, a central assumption of this study is that the pressures for a policy line and the possibility of its implementation are fundamentally affected by the organization of the capitalist sector, of labor, and of the state. The latter reflects both the position of the country in the international political economy and the domestic particularities of its political system and current political regime.

Indeed, those organizational features frequently arise from a combination of historical trends and specific junctures. As Stark argues, processes of change are always shaped by institutional legacies (which create a "path dependence") and by the dynamics of the transition

³⁴ It is worth stressing that the important political struggle is often not for a particular policy but for the institutions and rules within which that policy is conceived and discussed.

³⁵ The source of inspiration for this kind of approach is taken from some recent studies on the tradition of historical institutionalism that draw on the work of writers like Max Weber, Karl Polanyi, Thorstein Veblen, and others. See, for instance, Skocpol, 1985 (*op. cit.*), Hall, 1986 and 1989; Ikenberry, 1988a and 1988b; Ikenberry et al., 1988; Steinmo et al., 1992; Katzenstein, 1978; Gourevitch, 1986. To a certain extent, this new institutionalism shares many elements with the above policy networks literature and with corporative-associative models. For a comparative synthesis of the latter, see Streeck and Schmitter, 1985, Chapter 1.

itself, so, the explanatory factors will be found in the reconfiguration of existing institutional arrangements rather than in completely new ones.³⁶

The exploration of the historical processes in which these changes are rooted (see Chapter III and IV) will serve as a first cut on the research issue. It will provide the macro-level explanation of the entire process of economic policy making. As was mentioned above, privatization has to be understood in the context of the application of a broader orthodox program). However, in order to illustrate it with concrete examples, the analysis will move to the micro-level of empirical reality in order to see: how particular actors (e.g., a given union and its key leaders, a business corporation and its representatives, certain state agencies and key officials) "play the game" in specific circumstances of policy implementation; how they articulate their interests; how institutional mechanisms shape options and strategies; how perceptions and ideas change during the process; and how their interactions give rise to the formation of policy networks that differ across issue-areas.

In short, to understand how networks operate it is necessary to discover the explicit and "unwritten" rules of the game that guide actors' behavior. Some of those rules can be deduced from their actions or from the development of the game itself. Others can be inferred from what the actors say their perceptions and strategies are. I assume that in policy-making contexts in which highly personalized and individualistic practices prevail, it is most relevant to frame the purposive behavior of policy makers in culturally constructed organizational settings. Thus, the interpretive inquiry into their institutional affiliation and social background will constitute an important source of explanation.³⁷

³⁶ See Stark, 1992.

³⁷ On an interpretive mode of inquiry applied to policy analysis, see Healy, 1986.

In order to trace policy networks, the study will explore the details of the privatization of two major economic sectors and one crucial social service: telecommunications, represented by the national phone company (Empresa Nacional de Telecomunicaciones, ENTEL); the oil sector, which includes not only the sale of the national oil company (Yacimientos Petrolíferos Fiscales, YPF) but also the privatization of petroleum areas and all other oil-related activities; and the reform of the national social security system.

They have been selected from a large group of public enterprises³⁸ included in the privatization program because of their relevance as economic sectors (i.e., they all concern highly profitable activities) and as managers and purveyors of basic resources and services that concern the population as a whole. Also, they represent different stages of the Menemist privatization program. So, they can show the evolution of actors' goals, interests, and strategies, as well as the changes in the policy context.

Additionally, these three sectors present special characteristics that make them interesting cases to test viability questions. Telecommunications is today a key feature of modern life. It affects the daily life of the entire population in many ways. The telephone service in Argentina has had for decades the worst reputation among public services, mainly because of poor quality and insufficient demand (see Section VI.1.). The oil sector concerns a highly profitable activity, the exploitation of a non-renewable resource that has been considered a strategic factor in economic development. Its management has been ideologically linked to the exercise of national sovereignty and has thus generated serious political disputes (see Section VII.1.). Social

³⁸ Together with the national railway, steel, shipping lines, airlines, ports, and military holdings, most state-owned enterprises were created or bought during the first Peronist administration or immediately afterwards, when the state was assumed to play a crucial role in the sovereign use of essential resources and in the promotion of industrial activity and public service development. ENTEL was created in 1946; Gas del Estado was developed in 1945; YPF dates from 1922; SEGBA was bought in 1958; Obras Sanitarias was formed from the ex-Agua y Energía de la Nación, created in 1947. See Section V.1.

security is an issue that concerns the entire population; it has an impact on people's daily life as it affects their living standards. It is also one of the most important public policy issue-areas in terms of the economic resources involved and its impact on fiscal accounts. On the other hand, social security benefits have been closely linked to the social welfare function of the state for several decades. Their management is a good illustration of the special relationships established under the state-centered model among the state apparatus, the Peronist party, and the union organizations. For the latter, this has been one of the most important sources of their economic power (see Section VIII.1.).

The notion of policy networks is a meso-level category that makes it possible to link the micro and macro processes of policy making. Policy networks refer to the interacting process occurring around a policy issue and are basically defined by the actors participating in it, their linkages or communication channels, and the web boundaries. The concept highlights the interdependence between actors and levels of analysis and the predominance of informal relations that do not necessarily develop within institutional arrangements.³⁹ Indeed, the concept has emerged as a result of the scholarly concern with the blurring of boundaries between the public and the private and the consequent need to move from highly stable and structured images portrayed by the corporatist and other policy-making approaches towards a more open, complex, and looser concept that emphasizes ever-changing relationships.⁴⁰ Thus, it is appropriate to capture the dynamic nature of a process of change such as the one under consideration.

³⁹ The mainstream view assumes that policy networks refer to corporate actors' actions and are basically informal, decentralized, and horizontal, though it does not preclude such nonorganized or individual actors and hierarchical relations as the ones described in this study. See Marin and Mayntz (eds.), 1991, Chapter 1.

⁴⁰ On images of the policy-making process, see Jordan, 1981. There is also a particular line of policy analysis that applies the network terminology to implementation studies; see, for instance, Goggin et al.: "Studying the Dynamics of Public Policy Implementation: A Third-Generation Approach", in Palumbo and Calista (eds.), 1990, pp. 181-197.

Although network analysis alone does not provide a theory, it is compatible with and complementary to a broader institutionalist framework. Like the latter, it indicates the relational patterns and the different configurations arising from them. Moreover, for purposes of this study, the main theoretical usefulness of this notion lies in the possibility of testing assumptions about policy making, particularly the structural features that underlie and mold the process and its outcome. Thus, according to such factors as density, connectedness, centralization, and fragmentation, typologies of policy networks can be constructed in order to make cross-network comparisons.⁴¹ In that sense, the findings from three cases of privatization will be used to operationalize the theoretical assumptions about the policy-making process and compare policy networks across issue-areas. The main objective is to assess the relationship between the type of network and degree of success/failure of policy implementation.

Finally, the usefulness of an institutional approach is multiple. First of all, it can nurture a lively discussion. It is plausible that the ongoing world-wide privatization wave over the last decade continues to generate political and academic debate about the relationship between states and markets. As Van del Walle suggests, the distributional, ideological, and symbolic impacts of concrete privatization experiences in developing countries may have significant leverage in reshaping perceptions about the state's rightful role in the economy.⁴² Furthermore, the terms of the debate themselves are likely to be altered since the regulation of the privatized enterprises in imperfect markets, like those of developing countries, may require the development of new public bodies and administrative capacities --

⁴¹ See Kenis, Patrick and Volker Schneider: "Policy Networks and Policy Analysis: Scrutinizing a New Analytical Toolbox", in Marin and Mayntz (eds.), 1991, pp. 25-59. On typologies, see Marsh and Rhodes (eds.), 1992, Chapter 2.

⁴² See Van del Walle, 1989.

fulfilling in this way the so-called "orthodox paradox."⁴³ Thus, one of the potential contributions of this research project lies in the possibility of providing empirically based insights and policy recommendations for that discussion.

On the other hand, there is also a contribution to be made to the study of comparative politics and public policy. Historical institutionalism promises: to account for continuity within countries and variation across them; to overcome old dichotomies that obscure our understanding (e.g., state vs. society, states vs. markets, domestic vs. international realms, micro vs. macro phenomena); to take the role of human agency and choice in history seriously and *vice versa*; and to avoid parsimonious and static explanations that are inappropriate to a multicausal and dynamic social reality.⁴⁴ In short, by focusing on intermediate variables and using an analytical, inductive, and interpretive methodology, historical institutionalism calls for an exercise in middle-range theorizing that can integrate general patterns of political history with the contingencies of economic and political development.

Moreover, as some studies suggest, if taken merely as a framework or "route map" that indicates relevant issues and variables without assuming predetermined outcomes, the institutional approach can be applied to policy making in a way that transcends the categories of developed/developing countries and pays due attention to both processes and structures.⁴⁵ Even if the institutional assumptions finally prove

⁴³ The orthodox paradox refers to a contradiction in the neoclassical prescriptions in favor of a reduced and less interventionist state. It argues that it has become evident in the last decade that sustainable growth also requires increased and new state capabilities to carry out the reforms and sometimes greater concentration of power and/or authoritarian regimes (see Nelson, ed., 1989, Overview). Indeed, the Argentine case may well illustrate the contradictions and tensions between democratic legitimacy and a market-driven economic model (on this point, see Smith, 1991, pp. 304-307).

⁴⁴ See Steinmo et al., 1992, Chapter 1.

⁴⁵ For an application to Latin American cases, see Sikkink, 1991.

wrong, this study aims to contribute to the development of historical comparative studies that can highlight how policy is made in Latin America and which theoretical tools are more useful to understand it.

II. 3.- Understanding Economic Policy Viability

There is no lineal, much less unicausal, relationship that explains the degree of success of policy implementation. Within a multiplicity of economic and political factors, this study underlines the interplay between historical trends and junctures and between the domestic and the international realms.

The overall argument refers to the combination of old and new organizational features and institutional mechanisms within Argentine politics in the 1990s. These created a new scenario that changed the parameters within which economic policy making developed and made the privatization program viable. The deepening of a long and serious economic crisis --reflected in the state's lack of material resources and political capacities-- generated the breaking point between the previous state-centered socio-economic model and the market-oriented one promoted by the recent structural reforms.

In more concrete terms, a structural adjustment program and the privatization policy contained in it could "easily" be implemented because of the combination of two factors: i) the exercise of the Menemist policy style that amalgamated old with new trends and articulated context, ideas, and power resources to produce a successful formula (see Chapters IV); and ii) the convergence of public and private interests around the distribution of benefits and costs, which implies a

new form of state protection of the economic activities of the recently consolidated economic elite (see Chapter V). The positive performance of policy implementation was reinforced by the high degree of congruence between the policy style used by the governmental elites at the macro level of analysis and the mechanisms and relational patterns developed within particular issue-areas where policy was implemented (see Chapters VI, VII, and VIII).

By the time Peronism took office, the demand for change from both domestic society and the international actors was strong. The financial agencies exerted considerable pressure in the form of financial stringency and severe conditionality. The people's demand was closely intertwined with a request for a radical turnaround following long-standing frustration about the deterioration of living standards and a disenchantment with the unfulfilled promises of the reborn democracy. In other words, the deep economic crisis had not only undermined state finances to the point of no return but it had also created a sense of urgency and emergency that called for drastic solutions.

From the point of view of the policy-making process, this context represented a serious objective limitation. Nevertheless, at the same time, the context of crisis also created a window of opportunity for policy innovation, and even became a policy instrument in itself since it provided content to the political discourse that justified the use of extraordinary policy-making mechanisms.

In addition, Peronism had some "advantages" *vis-à-vis* its predecessor to cope with the task of implementing costly economic reforms. It could rely on its loose party structure, its pragmatic ideology, and its particular notion of political representation to make spurious alliances, justify an ideological shift, and obtain the acquiescence and/or discipline of the bases. Some fundamental characteristics of the political system and the party's own tradition made the use of extraordinary policy-making mechanisms an obvious and inevitable consequence. The kind of leadership exerted by President Menem and the technocratic elaboration and executive ability provided by

the economic team under Minister Cavallo worked together to facilitate implementation.

In that way, government capacities were increased by the discretionary use of some institutional mechanisms: centralizing and concentrating decision-making power around few bureaucratic structures and individuals; replacing the top bureaucratic cadres by like-minded technocrats and giving them a considerable degree of autonomy; incorporating selective key actors into the policy-making process; bypassing democratic deliberative mechanisms; emptying the republican division of power of its real content and function; and converting the contextual limitations into a discourse justifying all these actions. The compliance with international financial agencies' policy prescriptions guaranteed the external material and technical support that helped to legitimate the new economic orientation in the domestic sphere.

However, successful implementation is always a two-way process. It is not only a matter of willingness and quick responses, but also of building support among key social actors. In the case of a bankrupt state, an absolutely discredited government, and a suspicious party, such support could only be obtained by adapting the economic measures to the interests and demands of the local and foreign business community. And the latter also had incentives to change strategies because the complete exhaustion of the state-centered economic model put all interests --public as well as private-- at stake.

On the domestic "private" side of the story historical trends and a particular juncture also intersect in the 1990s in a functional-like way that facilitated the implementation of structural reforms. Profound changes in the business sector during the past two decades have altered its distribution of wealth and power and the functioning of corporate organizations. Participation in the decision-making structures -- especially that of the largest economic groups-- has clearly increased. By the 1990s this new business elite --which had grown at the expense of state expansion and protectionism over the previous years-- has completed an expansion, diversification, and internationalization of its

activities and has consolidated its role as a political actor. Thus, it became the "natural" partner for a Peronism *aggiornado* in search of financial and political support.

The traditional pillar of Peronism --unions, from which opposition to reforms could be expected-- had also undergone a deep transformation, although not towards healthier conditions. A long process of fragmentation within union ranks and the loss of a unifying factor weakened the labor position *qua* economic and political actor and resulted in a sharp reduction of its bargaining capacity and veto power. Thus, by the 1990s the labor movement had lost organizational and ideological cohesiveness and had been relegated to a secondary role within the party apparatus. Like many other sectors, it was also surprised by the Executive's shift. This, together with the persistent deterioration of economic conditions, made a confrontation strategy ineffective and risky. The government's "carrot-and-stick" approach did the rest.

Within the adjustment package, the implementation process of the privatization program fully reflected this structural configuration of forces and the consequent distribution of costs and benefits. Despite world-wide ideological and policy trends, recent privatizations in Argentina were another manifestation of successive waves of state intervention and withdrawal from the economy, as part of a historical process driven by both public and private interests. Although it was framed in the "emergency" and "efficiency" discourse and pushed by the state's desperate search for financing and credibility, privatization in the 1990s served to redefine and consolidate a governing coalition that reflected the current distribution of power within society. This mix of economic and political means and ends explains policy viability, timing, and content. The same institutional mechanisms that were mentioned above, as well as the same interaction patterns (highly concentrated, discretionary, personalized, informal, and nonstructured), were used to construct the political, economic, and technical viability of the privatization policy.

Indeed, the findings gathered from the three particular cases of privatization confirmed this general explanation. The first case relates the process of granting the telephone service through the privatization of the national telephone company. The second refers to the sale of the national oil company's shares and the awarding of most oil exploitation and commercialization activities to private managers. The third one focuses on the reform of the national social security system and its transformation into a mixed system.

The insights drawn from them illustrate the process of decision making and policy making in three concrete areas. From the examination of the interaction among actors and of the factors that shaped their perceptions and strategies, three different policy networks can be identified: a relatively small and highly centralized and "personalized" policy network in the case of ENTEL; an extended "organizational" one in terms of the number of actors, the channelling of interests and demands, and the duration of interactions over time in the case of the social security system reform; and an intermediate "hybrid" case of policy network, in the oil sector, sharing characteristics with the other two.

The three cases not only differ in the particular characteristics of each issue-area, but also in their timing within the entire privatization program. They are representative of different stages of the privatization policy implementation (see Section V.2.). So they reflect changes in actors' perceptions, attitudes, means, and ends over the years. In addition, the fact that no all-comprehensive and detailed *a priori* policy design existed determined that policy networks were formed in each issue-area in an *ad hoc* manner as privatization advanced. As a result, many of their features were contingent upon the junctures that marked the dynamic of the process. That was the first common characteristic of the networks developed in these three cases.

Secondly, the three policy networks, taken as the linking mechanisms between macro-institutional settings and micro-level structures and interactions, show an important degree of congruence between the policy style used by the governmental elites at the macro level of analysis and the mechanisms and relationship patterns that

developed within particular issue-areas where policy was implemented. This congruence arises from the fact that the same type of personalistic, discretionary, and centralized practices prevailed at all levels of the decision-making structure, as well as informal contacts and noninstitutionalized channels of interaction among actors.

Thirdly, the circuits of interactions generated in all policy networks reflect the relative power position of actors and their mutual interdependence. Hence, policy networks had to be understood in the broader framework of a process of building a governing coalition. However, the high level of centralization and vertical organization of the webs around the crucial role of the Executive substantially shaped interactions since actors' relative positions were determined not only by location in an institutional structure but also, and fundamentally, by the proximity and leverage over key decision makers. Power resources largely relied on the use of informal mechanisms. One of the main resources was direct access to the President as the hegemonic actor.

Fourth, the timing and content of the interactions taking place in these three policy networks were deeply conditioned by the economic and political context in which implementation was carried out and by the linkages across issue-areas. In this context, there is a great deal of evidence that the fiscal crisis of the state and external conditionality, as well as the government's lack of credibility *vis-à-vis* the domestic and foreign business community, strongly influenced on timing and content. What is more, policy options and actors' strategies in general were limited by the multiple negotiations taking place not only in the implementation of a particular measure within the adjustment program (in this case, privatization in three sectors) but also in the several policy issue-areas within the set of economic and social policies. For instance, the three were related to the debt negotiations; and the social security system reform clearly intersected with YPF's privatization, the constitutional reform, and labor legislation.

The differences between the three networks derived from the temporal dimension, the number of participants, and the specific characteristics of the issue-areas. ENTEL's case accurately represents

government strategy upon coming to office: the relatively small network developed there is the clearest example of the congruence between macro and micro levels of decision making in that it is characterized by a highly centralized, discretionary, and personalized management of public policies. The reform of the social security system is located at the other extreme, as an illustration of the second stage of the privatization program, and as the closest example of the classic "iron triangle" portrayed in the American literature. Its policy network contains a strong organizational element since a large number of actors participated through institutional and corporate mechanisms and structures and, within that context, technicians and the Congress acquired a relevant role. Somewhere in between lies the privatization of oil-related activities, which took place together with the other two and generated a hybrid policy network regarding the number of participants, actors' organizational level, and type of interactions. The impact of this network upon effectiveness in policy implementation also lies in a combination of the relatively high discretion and autonomy exerted by some individuals (typical of the ENTel case) and the increasing participation of private actors and institutions in the policy-making process (though not so explicit as in the case of the social security system reform).

These similarities and differences acquired more relevance in the broader context of the research puzzle. It is possible to infer two points from them: i) the greater the congruence between the macro and micro levels of policy implementation, the easier the construction of policy viability is; ii) to really matter as explanatory elements, networks and organizational factors have to be interpreted in terms of the intersubjective meanings prevailing in the political culture they belong to.

Conclusions

A context of crisis generated a concrete demand for solutions and a change towards a new order. Structural reforms were launched in answer to that demand and as the inevitable path to a better socio-economic order. However, given the serious credibility problem of the government, economic reforms were also a political tool to generate the necessary support to govern. To that end, some old and new institutional mechanisms (several extraordinary and quasi-authoritarian forms of decision and policy making) helped to enhance governing capacities. This strategy was closely linked to the establishment of collaborative ties with the domestic and foreign capital sector, the adoption of a policy orientation that was fully consistent with its interests, and the selective incorporation of some of its representatives into the policy-making process --something quite different from the concept of autonomy.

In sum, it is possible to talk of an increase in capacities to govern, that is, the ability to manage the crisis, but not of real state capacities. The latter would require other institutional changes -- unlike the ones already mentioned. To acquire real capacities, the state should be able to define and pursue its own goals, despite the potential or real opposition from particular interest groups or social classes. In other words, the above links with the private sector are necessary tools in building policy viability, but they should not prevent the state from exerting an autonomous function.

Some theoretical implications can also be drawn from the previous discussion. First, context is generally considered to be an intervening variable and defined merely as a framework of action. The concept itself is vaguely defined and the manner and the mechanisms through which context affects policy viability is less examined (e.g., it provides content to the construction of political discourse or, as the experiences examined here point out, determines the right timing for the

initiation of reforms since it embodies the intersection of long-term historical trends and specific junctures). Besides, the development of more accurate definitions of the concept is not a minor point since contexts of crisis for underdeveloped societies are predominant. Governments mostly deal with tremendous legacies --or pretend to do so, which has practically the same effect. Given that the previous crisis is usually portrayed as the worst, "politics-as-usual" becomes the management of a permanent emergency.

Second, the individual level of analysis is either not included in theoretical frameworks or else occupies a secondary role. Nevertheless, some aspects of policy-makers' personalities highlight differences between policy-styles. Because those aspects very often affect the exercise of leadership (e.g., in how leaders secure the compliance of followers and opponents), they indirectly influence policy viability. Moreover, individual variables become more important in socio-politico-economic settings where informal contacts, unwritten rules, personalism, nepotism, prebendalism, clientelism, discretionary power, and so forth are more the rules than the exceptions.

Finally, policy networks as an analytical tool convey its inherent characteristic of "connectedness". By highlighting the linkages between policies, policy phases, actors, issues, levels of analysis, etc., the idea that none of the explanatory factors works alone and that multicausality is grounded in reality is clearly reinforced.

Chapter III

Economic Policies in Argentina: from Perón to Menem

Introduction

Contemporary Argentine economic history is best portrayed as a downward road marked by instability and decline. Such a path was undoubtedly linked to the deterioration of politically democratic institutions.

The purpose of this chapter is not to trace the causes and circumstances of that reversal in political and economic development, but to place this work in a historical context. In particular, it will make clear the sources of structural changes that developed under the last military government and were completely unveiled in the late 1980s. These transformations implied a deep restructuring of relationships between social actors and between these actors and the state --a process that accounts for many aspects of politics and policy making in the 1990s.

The first section briefly describes the development of the Argentine economy in this century and the modification and/or progressive incorporation of key social actors into the political and economic realms. The second section concentrates on the economic policy implemented by the last *de facto* government (1976-1983) with special emphasis on its implications for the transformation of economic life and private actors. The third section relates the experience of the transition to democracy led by a Radical administration (1983-1989) during which an original heterodox approach to economic stabilization was applied. The fourth section turns to the analysis of the object of this study: the program of structural reforms and adjustment process launched by the current Peronist government (1989-1995). Finally, some general indicators of this last period are provided as an illustration of the economic performance.

III. 1.- Brief Historical Background

The economic model on which Argentina built its wealth dates back to the XIXth century and was based on agricultural exports. The economy began to show a decline in the 1920s when World War I produced a restriction on imports. This sparked the development of local industrial production. Domestic capital and foreign investment joined in this activity. This was basically oriented towards the local market. Some years later, the Great Depression further intensified this industrialization process via import substitution.¹

The increasing complexity of society went hand in hand with these economic changes. The traditional agro-elite divided itself between those who remained totally devoted to export-related activities and those who progressively diversified their economic base by investing in the industrial sector. The incipient process of industrialization was also linked to the existence of new small- and medium-sized enterprises and to the growth of the mass of urban workers.² These two social sectors were the main pillars of the governing coalition forged by Peronism³ in the mid-1940s.

¹ For a detailed account of these historical trends, see Randall, 1978; Sabato, 1991; di Tella and Platt (eds.), 1986; Smith, 1991a, Chapter 2; Lewis, 1990, Part I.

² See Murmis and Portantiero, 1987; Torre, 1989.

³ The Peronist party was created by Colonel Juan Domingo Perón, one of the youngest officers of the GOU (Group of United Officers) that carried out a coup in 1943. His charismatic personality amalgamated diverse groups and conflicting interests under what was called a "political movement" (rather than a party) with a nationalistic, populist, and pro-industrial ideology. The Peronists have been elected to office three times: 1946-1955, 1973-1976, and 1989-1995. At the time of writing this thesis, the current Peronist government had been re-elected for a new term (1995-1999).

Indeed, the 1940s witnessed the formation of an alliance between these emerging upper and lower classes that would foster development trends. Within that political process, the state worked as a key policy instrument in the hands of Perón. He used it to tap a constituency that was made up of: the labor forces from the Socialist and Labor parties; the clientelistic network led by provincial conservative *caudillos* (local bosses); the then unincorporated urban working class; and the incipient domestic-oriented industrialists. Under his presidency, the union movement expanded and institutionalized in close relationship with the party and the state.⁴

In that way, Peronism channelled the interests of those social sectors. It embodied these interests in an economic orientation that favored industrial production for the local market and increased the role of the state in economic and social welfare activities. In accordance with the dominant economic ideas of that time, the state became an important economic and political actor that intervened in socio-economic life as a regulator, investor, producer, creditor, and in general terms as an agent to redistribute resources in different social sectors.

As in other Latin American countries, the Argentine state progressively acquired a central role in the economy, largely as a result of private sector demands (for details on this process, see Section V.1.). As Gerchunoff and Torre (1995:292) suggest, this leading role of the state took two main forms: the concentration of a considerable portion of national production and capital formation through public enterprises and the implementation of diverse subsidies (financial, tax, and price subsidies) in favor of some private firms. This form of state interventionism gave rise to what these authors call "assisted capitalism." However, the sum of demands originating in the state's own expansion, protectionism of the private sector, and social welfare commitments placed serious pressure on national accounts. The

⁴ See Collier and Collier, 1991; Gibson, 1996; Halperín Donghi, 1994.

state was progressively unable to finance the expenses of its involvement in economic and social life. As is explained in Section III.4., this situation was the source of a dramatic fiscal crisis.

This state-centered economic model, based on a relatively closed economy and the expansion of local manufacturing production, consolidated throughout the 1950s and 1960s with the solid contribution of foreign capital.⁵ The latter rapidly became the nucleus of the most dynamic industrial sectors (e.g., durable goods, automobile, oil exploitation, chemicals, petrochemicals). It also expanded in other economic activities, finance and services, and integrated the assets in growing conglomerates.⁶ A similar process of diversification, integration, and concentration occurred within the local capital sector, giving way to the development of some large domestic economic groups (see next section).

From the mid-1950s to the early 1980s all of Argentina's civilian and military rulers lived in the shadow of the first Peronist government's legacy. The former tried to rebuild or reformulate the class alliance forged by Perón between workers and local industrialists and the latter tried to destroy it. Nevertheless, labor-capital relationships remained highly conflictive, and civilian and military goals and interests often merged in a very fluid process of shifting political identities and tragic instability.⁷

Despite the political instability that characterized the post-1955 period, economic policies maintained their commitment to the import-

⁵ At that time, U.S. multinational enterprises expanded towards the developing countries. Frondizi's *desarrollista* (developmentalist) administration (1958-1962) created the conditions for their expansion in the Argentine economy. On the proportion and kind of insertion of foreign capital into Argentina's economy over the last decades, see Azpiazu et al., 1986.

⁶ See Kosakoff, 1993; Kosakoff and Bezchinsky, 1993.

⁷ On this period, see Luna, 1972; di Tella and Dornbusch, 1989; Wynia, 1986; Smith, 1991a; Lewis, 1990, Parts III & IV.

substitution strategy. The economic performance, however, was not so stable: within a few decades Argentina rapidly lost its place among the wealthiest nations and fell into recurrent fiscal and commercial deficit crises, hyperinflation, and stagnation.

There is no academic consensus about the causes and consequences of this turmoil, but both economists and political scientists usually phrase it in terms of cycles or spirals with structural causes. The economic explanation suggests an "unbalanced productive structure"⁸ consisting of two sectors with different productivity. First, the primary sector, with a good insertion in international markets, has been the source of foreign currency, but could not increase production and exports as quickly as the industry's potential growth demanded. Second, the industrial sector, working with higher prices than international ones, has undergone a rapid expansion yet has been unable to generate exports. As a result, this disparity between the demand and supply of foreign currency has created bottlenecks in the external sector which has led to repeated economic crises. Changes in economic policy orientation occurred at those moments when balance-of-payments problems forced a departure from nationalistic and populist programs and instigated the adoption of orthodox measures.

By the end of the 1980s, it was evident that an important source of economic problems was the excess of state intervention in and expansion into the economic sphere. Thus, the reversal of the state-centered organization of the economy started to be considered a necessary and desirable change.

On the other hand, the political explanation refers to the social struggles over distributional costs and benefits that those bottlenecks generated and the continued crisis of the state as a system of political

⁸ For a detailed account of this argument, see Marcelo Diamand: "Overcoming Argentina's Stop-and-Go Economic Cycles", in Hartlyn and Morley (eds.), 1986, pp. 129-164.

domination.⁹ This last point deserves careful consideration and I will address it below. Nonetheless, it is important to keep it in mind as the framework of the most recent past.

III. 2.- The Dictatorship's Legacy

The last military government (1976-1983) was one of the bloodiest Latin American dictatorships and probably the most dogmatic neoliberal economic experiment Argentina had ever experienced. Under the auspices of the IMF, it implemented a package of austere monetary and fiscal measures, together with a generalized commercial liberalization and deregulation of the capital market and banking system. However, the program could never eradicate sectoral pressures so that market-oriented liberalization coexisted with anti-labor policies and significant sectoral intervention.¹⁰

Initially, the control over the inflation rate was a short-run priority and, in that sense, salaries were frozen, price controls were eliminated, and the exchange rate was increased. Some measures were later taken both to promote investment (e.g., elimination of norms that limited foreign investors' activities) and to open the economy (e.g., deregulation, elimination of subsidies, and tariff reduction). The 1977 reform of the financial sector, which liberalized interest rates and of

⁹ See, for example, Wynia, 1986, Part V; O'Donnell, 1978 and in Smith et al. (eds.), 1994b, pp. 157-180; Waisman, 1987.

¹⁰ On the details of this period, see Schvarzer, 1983b; for a concise and general account, see Ramos, 1986, and Kaufman, 1988, Ch. 1.

private financial institutions' credit, and relaxed the norms on the credit's expansion, contributed to the enlargement of the financial sector and its becoming a crucial actor in the collection and redistribution of resources.

As a result of the existence of negative indicators --basically, recession, the decreasing level of economic activity, and rising inflation-- new policy instruments were introduced the following year. The most important were the so-called *tablita* (a chart establishing a predetermined devaluation rate) and a program of generalized import tariff reductions. The fluctuation of the exchange rate and the opening of the economy had a differential impact on the business sector. Tariff reductions were accelerated in 1979, while there was a lag in the exchange rate. Those enterprises who were involved in the production of goods did worse than others, such as those in the services sector, construction, and oil and gas-related activities. This situation raised severe criticisms from the Unión Industrial Argentina (Argentine Industrial Union, UIA) and also from the Sociedad Rural Argentina (Argentine Rural Society, SRA).¹¹

From 1981 on (when the composition of the *Junta* changed), some aspects of the orthodoxy were abandoned (e.g., the regulation of markets accentuated) in an attempt to cope with social dissent and economic instability. However, the continuous alteration of the relative price structure implied a significant transfer of resources between economic agents, favoring those who could move their capital rapidly according to the economic situation. It is worth underlining some of the consequences of the general economic policy.

¹¹ UIA is the main institution representing chambers from different manufacturing sectors. It was originally founded by agro-industrialists and incipient manufacturers in 1887. In the postwar period the latter became dominant within this organization. See Acuña, 1988; Lewis, 1990, Chapter 5. SRA is the oldest organization representing the agricultural sector. It was founded in 1866. The largest landowners and agricultural producers from the richest region (the *pampas*), who had also been the historical core of the highest social stratum, were members. On its origins and evolution, see Schvarzer, 1991.

First, market competition led to the reduction and weakening of the traditional manufacturing sector. Some indicators show that the industrial GDP for 1983 was equivalent to 90% of 1973 level; the number of industrial workers diminished by 34.3% during the same period; and the real salary decreased by 17.3%.¹²

However, the impact of the economic policy on the business sector was not homogeneous. The general trend indicates that a concentration of economic power controlled by a small financial-industrial elite was taking place. Economic groups increased their participation in industrial production from 13.4% in 1973 to 16.8% in 1983, and transnational corporations whose activities were integrated and/or diversified increased theirs from 30.5% to 32.9% in the same period. Simultaneously, other enterprises declined: nondiversified transnational firms decreased their participation in industrial production from 20% in 1973 to 13.5% in 1983 while local individual enterprises diminished from 26.9% to 25.3%. These figures do not include data from the small- and medium-sized enterprises, which were most hurt.¹³

In other words, between 1975 and 1981, thirteen of the 100 largest industrial enterprises at the beginning of the period disappeared and thirty-three were affected by mergers, sales, lockouts, and bankruptcies. It is worth noting that the role of foreign capital was significantly inferior to the domestic one in the case of takeovers and mergers. This shows intense restructuring and expansion by some the largest nationally-owned firms.¹⁴

In addition, overvaluation of the currency as a means to control inflation, together with the liberalization of capital movements encouraged capital flight and financial speculation. As Schvarzer (1983a) suggests, the changes introduced in the working mechanisms of

¹² Cf. Azpiazu et al., 1986, pp. 97-103.

¹³ Cf. *Ibidem*, pp. 123-126.

¹⁴ On this point, see Schvarzer, 1983a.

the financial system generated a highly uncertain and risky situation and seriously affected the business sector's strategies in various ways: a) credit in the domestic capital market was available almost exclusively on a short-term basis; b) owing to liberalization, the interest rate varied according to the borrowers' financial credibility (e.g., the largest --and supposedly reliable-- enterprises obtained better rates); c) access to foreign capital markets was facilitated and indebtedness was encouraged with cheap credit.¹⁵ Again, in general terms, the largest firms were favored by this because of their relatively easier access to international capital markets *vis-à-vis* small- and medium-sized ones.

As a result, there was also an important realignment within the industrial sector, as well as internal changes in the distribution of wealth. On the one hand, big domestic firms integrated their diversified production by forming holding companies under which a large number of smaller companies were controlled. On the other, industries with continued high levels of protection or linked to military-sponsored spending (construction, oil and gas, steel) grew, while manufacturers in the labor-intensive import-competing sectors (textiles, metal, machinery) with reduced protection did very poorly.¹⁶

These developments also showed the importance of state activity in orienting the economic policy that favored a small segment of local capital. Besides protection, this fact is clearly reflected in the consequences of industrial promotion,¹⁷ the public acquisitions of industrial goods, the privatization of some state-owned enterprises, and

¹⁵ The private sector accumulated most of its external debt in 1979 and 1980 when international interest rates rose.

¹⁶ See Frieden, 1991, Ch. 6.

¹⁷ On this particular point, see Basualdo and Azpiazu, 1989, Chapter VI.

the granting of concessions of activities previously controlled by the state, and in subsidy policy.¹⁸

Thus, the entire process meant a deep transformation of the productive structure and its working mechanisms. As was mentioned above, it also profoundly affected the development of one of the partners (local inward-oriented industrialists) of the 1946 populist alliance. The powerful local economic groups (e.g., Techint, Pérez Companc, Bunge & Born, Soldati, Astra, Soldati, Garovaglio y Zorraquín, Bidas, Loma Negra) that grew and expanded into many activities in the country and abroad during the last military regime consolidated as a key political actor throughout the 1980s.¹⁹ As analyzed later, these groups had a crucial role in determining the viability of economic reforms. They formed a new economic elite that is currently the main pillar of the Menemist governing coalition (see Section IV.3.3.1.).

Secondly, the other key partner of the old alliance, labor, was in a state of disarray as a political force. It was almost completely demobilized owing to a combination of savage repression, the divide-and-conquer negotiation strategy towards unions, and economic impoverishment. Because of the wage freezes and price liberalization, real wages fell by 50% between 1976 and 1980, which was reflected in the declining participation of labor in the GDP throughout the decade (from 50.6% in 1970 to 39.3% in 1983).²⁰

Some other measures also tended to discipline the lower classes: the prohibition of union activities (including the right to strike) and the dissolution of the Confederación General del Trabajo (General Federation of Labor, CGT), the reform of norms on labor contracts, and

¹⁸ On this point, see Schvarzer, 1981.

¹⁹ See Azpiazu et al., 1986; Ostiguy, 1989; Basualdo and Azpiazu, 1989.

²⁰ See Adriana Marshall: "The Fall of Labor's Share in Income and Consumption: A New 'Growth Model' for Argentina?", p. 51, in Canak (ed.), 1989, pp. 47-68.

the suppression of collective bargaining commissions that dealt with the wage issue. In addition, as labor productivity grew by 37.6% and labor costs decreased by 18.6% between 1974 and 1983, a significant transfer of resources from workers to the capitalist industrial sector took place. The latter increased its profits by 69% in that period.²¹ Some tax reforms and changes in the social security system and state social expenditures also reinforced this income concentration in the top ten percent of the social stratum.

Finally, as part of the generalized indebtedness process in developing countries (triggered by the disequilibrium in the international capital markets following the oil crisis) and largely determined by domestic decisions,²² the Argentine foreign debt grew dramatically (see Table V). By the end of 1975 it had reached nearly US\$ 8 billion, and in 1983 with the restoration of democracy it amounted to US\$ 45 billion.²³ However, Argentina's debt did not translate into higher rates of growth or an improvement in economic efficiency.²⁴

Most of the external debt was in the hands of public enterprises and the ten largest private firms, although it was totally transformed into public debt when private sector foreign debt was nationalized in 1982 by Domingo Cavallo, then Central Bank Director and later Minister of Economy under Menem's administration. As is well known, the problem exploded as the decade advanced when the combination of world recession, the fall in commodity prices, and the end of foreign lending set

²¹ Cf. Azpiazu et al., 1986, p. 115.

²² Both the management of the exchange rate and the liberalization of trade and capital markets contributed to private capital flight. Government intention to compensate for the losses in reserves and military expenditures on arms account for the public debt.

²³ See Frieden, 1991, p. 207.

²⁴ For a detailed analysis of the debt issue, see Basualdo, 1987; also Diamand, Marcelo and Daniel Naszewski: "Argentina's Foreign Debt: Its Origins and Consequences", in Wionczek (ed.), 1985, pp. 231-276.

national finances on the verge of collapse. It is still a serious constraint on economic policy.

III. 3.- The Radical Administration: a Heterodox Attempt

The transition to democracy was marked by a complete discrediting of and massive opposition to the military. They were charged with being inefficient rulers who could not find a way out of the economic crisis and with being an inept Armed Forces who threw the country into an absurd and fruitless war (the Falklands/Malvinas War). The Radical party²⁵ won the elections in 1983 and initiated its mandate in a framework in which important opportunities coexisted with serious constraints. On the one hand, the ample electoral majority gave the Radical party legitimacy and great room for maneuver. On the other, too many expectations and pressures were placed on still weak democratic institutions and practices and on the capacity of a deteriorated economy to recover (see Section IV.2.).

The most ambitious economic program of the Radical government was the Austral Plan, the first of the Latin American heterodox packages. It was designed by a team of well-known Argentine economists seeking an alternative to orthodoxy. They claimed that there was a significant

²⁵ This was the first popular party. It was founded at the end of the last century as an expression of the growing interests of the urban business sector and middle-classes against the exclusionary and fraudulent rule of agro-elites that dominated politics until World War I.

inertial component in inflation, a kind of "memory device", that perpetuated it indefinitely. It could be eradicated by the heterodox shock without the regressive income distribution that characterizes conventional stabilization. The plan included a wage and price freeze, de-indexation of the economy, the creation of a new currency, a tough position *vis-à-vis* foreign creditors, and attempts to keep a realistic exchange rate, to reduce the budget deficit, and to avoid inflationary financing.²⁶

The Austral Plan was quite successful for a year and a half, mainly in bringing inflation down and raising industrial output. However, agricultural producers, manufacturers, and organized labor soon became highly critical once they perceived that their interests were adversely affected (see Section IV.2.). Despite the search for democratic consolidation through a social pact, political legitimacy from mid-1987 proved to be very fragile and strongly dependent upon material payoffs.²⁷

Two facts stand out from that situation: a) the failure of the labor policy, as was evidenced by Congress' inability to pass the new labor legislation. This union reform would have increased the government's control over those organizations. On the contrary, union opposition increased, resulting in a dozen general strikes between 1984 and 1989; b) the persistent resistance of business associations, who felt they were being permanently excluded from the decision-making process, to any concrete measures (price controls, tax increases on exports, etc.).

Subsequently, several redefinitions of the Austral Plan were attempted in a series of "stop-and-go's" that progressively lost

²⁶ See José L. Machinea and José M. Fanelli: "Stopping Hyperinflation: The Case of the Austral Plan in Argentina, 1985-1987", in Bruno et al. (eds.), 1988, pp. 111-152.

²⁷ On the difficulties of engineering a social pact, see William C. Smith: "Heterodox Shocks and the Political Economy of Democratic Transition in Argentina and Brazil", in Canak (ed.), 1989, pp.138-168.

coherence. An initial reform was made in mid-1986, when the price controls system was replaced with a less strict one and the fixed exchange rate policy was modified by periodic devaluations. Minister Sourrouille argued that this was done "to avoid the erosion of the real wage, the appearance of disequilibria in public finances and the loss of competitiveness of Argentina's exports".²⁸ However, throughout that year the budget deficit increased and the trade balance deteriorated while the loosening of controls again accelerated inflation.²⁹ Nonetheless, in spite of tough bureaucratic struggles and social opposition, the Ministry of Economy managed to impose a shift towards a more restrictive monetary policy, the reintroduction of some controls over wages and prices, and a push to the privatization process.

In February 1987, another heterodox shock --the so-called *Australito*-- was implemented, including a new temporary freeze on wages and prices. Nevertheless, it failed to control inflation. The government had already signed a letter of intent with the IMF agreeing to a more stringent structural adjustment that included, among other things, the restructuring and privatization of public enterprises. This meant massive dismissals. It was evident by then that the government's diagnosis of the crisis had changed: opening the economy and state reform were now seen to be absolutely necessary to cut down inflation and solve the fiscal problem.

In July 1987 a fourth shock was administered. This time, however, the new recessionary measures not only met strong labor and entrepreneurial resistance but also paved the way for the increasing loss of credibility in the government. In fact, the resurgent inflation as well as successive military uprisings contributed to molding an image of government inability to manage the socio-economic situation. As a result, the Radicals lost the elections in September that year.

²⁸ Cf. Canavese and Di Tella, 1987, p. 17.

²⁹ For a detailed account of this period, see Smith, 1991a, Chapter 10; and also Kaufman, 1988, Chapter 1.

Peronism, now presenting a renewed leadership in the *Renovación*³⁰ (Renovation) stream, won a majority in Congress and the elections in 16 of the 22 provinces. It then started to exert strong opposition and to demand changes in the economic policy.

In late 1987, after a reshuffling of the Cabinet, a fifth shock was applied: higher taxes and increased public services rates to reduce the budget deficit. These policies accentuated recessionary trends and, together with rising inflation, deteriorated real wages still more. A new letter of intent was signed with the IMF in February 1988 stating strict austere goals. But these measures soon proved to be insufficient as inflation reached an annual rate of nearly 400%.³¹

Finally, in August 1988 the Primavera Plan was presented. It was the product of a negotiated truce with industrialists represented by the UIA and the Cámara Argentina de Comercio (Argentine Chamber of Commerce, CAC) over prices, public tariffs, and a new devaluation. Although inflation initially fell, this temporary agreement, in fact, exacerbated distributional conflicts since the agricultural sector and wage earners were clear losers while a few big industrial firms and the financial sector appeared to be the main beneficiaries.³² Meanwhile, the service on the foreign debt continued to drain the public reserves.

Towards the end of 1988 consumer prices rose again, bringing further pressure on the exchange rate. The Central Bank's attempt to control price increases by selling reserves pushed the interest rate on bank deposits up. In the meantime, large business groups, which had lost confidence in the economic plan, made important profits out of this

³⁰ The Renovation wing emerged within the Peronist leadership after the electoral defeat in 1983 as an attempt to reorganize the party and make it viable as a political alternative. Indeed, the influence of this current contributed to forging an image of stability, internal tolerance and democracy, and a respect for institutional rules (see Section IV.3.).

³¹ Cf. Smith, 1991a, p. 283.

³² See Acuña, M., 1995, Chapter VII.

monetary instability.³³ Moreover, in February 1989 the UIA and the CAC broke the price agreement with the government, and exporters decided not to sell their earnings at the official exchange rate. Two Ministers of Economy followed in a very short period of time, but both were unable to control the situation.

In March, shortly before the May 1989 general elections, inflation rose again. At the same time, the WB announced the suspension of its loans. Speculation on future devaluation increased, the Central Bank could not control the flight to dollars, and the currency fell within a few months by 936%, which implied a dramatic reduction in purchasing power.

Unions had already intensified their opposition in an atmosphere that was rarefied by: the third and most violent military uprising, shortages, lootings, food riots in some cities, and the destabilizing action of powerful economic groups and speculators in the financial market. In May, the Peronist party carried the elections with 47% of the votes. The paralyzed Radical government, unable to halt hyperinflation³⁴ and to build a minimum of political credibility, left office in July 1989, five months before the end of its constitutional term.

³³ *Ibidem.*

³⁴ From August 1988 to July 1989, consumer prices had risen by 3,610% and wholesale prices had increased by 5,062%. Cf. Smith, 1991b, p. 45.

III. 4.- Orthodoxy under a Peronist Government: the Launch of an Economic Adjustment Program

The slogan of the Peronist campaign had been a promise of change in the form of a vaguely worded "productive revolution." Once in office, the economic policy became an instrument of the main political goal: to gain the necessary credibility of the domestic and international business community to implement any measure. Thus, despite the lack of a clear and coherent economic program, several steps were taken to send an unequivocal signal of the government's commitment to the policy shift towards the neoliberal economic orthodoxy.

The first steps taken were to select the Cabinet ministers. Consultations were made with the business sector and other interest groups (e.g., the Armed Forces and the Church). The creation of a network of alliances with key social actors underlay this strategy (see Section IV.3.). Nonetheless, to understand the new economic orientation, it is necessary to comment on the fiscal problem and its constraining impact on economic policy making.

According to Carciofi (1990), by the 1970s the Argentine public sector had accumulated overwhelming demands and structural deficiencies that had impaired the state's possibility of properly performing its functions and delivering goods and services. Those problems cut across different areas and levels of the public structure and involved diverse issues, such as: the decline of revenue collection; generalized tax evasion; increasing public expenses via public sector salaries and social welfare policies (particularly, those related to the heavy burden of an inefficient social security system); the deviation of resources towards subsidies to the private sector (e.g., industrial promotion); the financing of investments of state-owned enterprises; and the

deterioration of the system of revenue redistribution between the central state and the provinces (e.g., *coparticipables* taxes).³⁵ A significant deficit in public finances had become evident, and it increased as a percentage of the GNP throughout that decade.³⁶ Part was covered with foreign indebtedness. However, such borrowing was not a permanent solution and, on the contrary, the combination of economic stagnation, persistent high rates of inflation, and the financial restrictions from the debt crisis seriously worsened the situation in the 1980s. By 1983 the fiscal deficit had reached 15% of the GDP.³⁷ As will be explained in Section IV.2., during the Radical administration, external debt commitments acted as a permanent constraint and economic policy goals were limited to successive stabilization attempts. Although these efforts could sustain the level of expenditures in relation to the GDP, revenues --specially those from tax collection-- decreased sharply, aggravating the fiscal deficit.³⁸ Moreover, the Radical government did not initially make a careful assessment of the magnitude of the public sector problem. It corrected its diagnosis and tried to address structural aspects only towards the end of its term when the credibility gap was too wide. Thus, concrete adjustment measures came too late.

Within this framework, the first economic plan of the Menemist administration --the "BB Plan"³⁹-- tried to cope with this problem. It aimed to drastically reduce the size of the state apparatus and make a general economic deregulation. It attained certain stabilization which only lasted until the end of 1989 when it fell victim to new currency

³⁵ A concise synthesis of the influence of these factors on the fiscal deficit can be found in Heymann and Navajas, 1989.

³⁶ See the figures in Carciofi, 1990, p. 32.

³⁷ Cf. *ibidem*, p. 36.

³⁸ See *ibidem*, pp. 60-65.

³⁹ "BB" refers to Bunge & Born, the most powerful Argentine multinational because of the fact that the first Cabinet of the Peronist administration included key executives from that firm (e.g., the Minister of Economy and some of his staff).

speculation and complaints from organized labor, the industrial sector, agricultural producers, and even from political parties.

However, those first months in office were crucial to the passing of two laws and to the viability of the economic reforms. Through an agreement with the Radical party, Peronism did not face obstacles to its economic program and could pass legislation in the Chamber of Deputies between July and December (the original legal date for the presidential change) as if it had had a majority. In that way the government obtained the fast approval of two essential bills sent by the Executive, the so-called Reform of the State Law (August 1989) and the Economic Emergency Law (September 1989).

The Executive argued that these laws were absolutely necessary because the lack of resources would make it impossible for the government to carry out the inevitable economic and social transformation. It also blamed the state-owned enterprises for their inefficiency and deficits. The first law provided the Executive with the power to intervene, modify, and privatize these public firms. The second gave it the discretionary power to implement the necessary reforms to confront the economic crisis. Among other things, this law also eliminated norms differentiating domestic and foreign capital and giving priority to national providers of public acquisitions (the praxis of *compre nacional*). In other words, these two laws significantly redefined the role of the state in the socio-economic sphere and its relations with key private actors.

Nevertheless, business confidence and political credibility proved difficult to build (see Section IV.3.3.1.). As will be explained below, reforms advanced on a trial and error basis rather than as the implementation of a clear policy design.⁴⁰ For instance, by December 1989 the third Minister of Economy (Antonio Erman González) had been

⁴⁰ On the evolution of the structural reforms implemented, see Gerchunoff and Torre, 1996.

appointed.⁴¹ In January 1990, in the context of rising inflation, renewed financial speculation, and the possibility of a run on the banks, the Bonex Plan was announced, imposing a conversion of time deposits of over one million australes (around US\$ 500) into ten-year dollar-denominated bonds. This sharp reduction in liquidity accentuated the recessionary trend. However, the dollar continued to rise in an incessant race that was fueled by the IMF refusal to release the already agreed upon funds. Inflation hit a new record in early 1990 when the consumer price index for the 12 previous months soared above 20,000%.⁴²

Another package was implemented, this time containing a strong fiscal shock that momentarily controlled hyperinflation and improved public finances. By mid-1990, liberalization measures were pushed further: imports were deregulated; protection to local industry was suppressed; and privatization was accelerated, as well as the negotiations with Brazil, Uruguay, and Paraguay for the formation of MERCOSUR (Southern Cone Common Market). However, the 1990 economic indicators were not very bright: GDP had declined by 2%; *per capita* GDP fell by 3.2%; manufacturing production was 7% less than in 1989; unemployment and underemployment had surpassed 16%.⁴³

The first quarter of 1991 was marked by a renewed uncertainty about the capacity of the government to control the economic variables. The rise of the dollar and an increasing fiscal deficit --which permanently signaled the failure to fulfill the conditions with the

⁴¹ The first was Miguel Roig, who died a week after the Peronist party took office, and the second was Néstor Rapanelli; both were representatives of the Bunge & Born group. Like Menem, Antonio Erman González is a native of La Rioja. He was a member of the Christian Democratic Party and had been Secretary of Economy and Minister of Economy of the Province of La Rioja while Menem was Governor (1987-1989). He became a conspicuous member of the Peronist Cabinet and one of the politicians to hold the greatest number of public positions. He was Vice-President of the Central Bank and Minister of Social Action in 1989, Minister of Economy from 1989 to 1991, Minister of Defense from 1991 to 1993, and was elected National Deputy for the 1993-1997 period.

⁴² The Economist, April 18, 1992, p. 7.

⁴³ Cf. Smith, 1991a, p. 301-302.

IMF-- contributed to that perception. In the political arena, the position of the government was even more ambiguous. On the one hand, charges by the U.S. Ambassador of corruption and discriminatory practices against American companies on the part of the President's close advisors discredited Menem's administration. On the other hand, the solution to the military problem⁴⁴ calmed a very troubling aspect of domestic politics and helped to project the image of a government that was in control of the socio-political situation.

The economy evidenced a turning point in early 1991 with another anti-inflationary shock, the Cavallo Plan (or Convertibility Plan), after the new Minister of Economy (Domingo Cavallo). This plan made the austral freely convertible into dollars at a fixed rate of 10,000 australes (one peso as from January 1992 when four noughts were lopped off the austral and it was renamed the peso). This was accompanied by new legislation suspending wage indexation mechanisms and requiring the Central Bank to sustain the existing ratio between the monetary base and foreign reserves while prohibiting it from printing money to cover budget deficits.

The immediate results were positive: interest rates fell, the value of the dollar remained stable, and inflation dropped. As a result, an unknown wave of monetary stability began to reign, reactivating industrial production⁴⁵ and consumer demand. What was even more surprising in a country accustomed to frequent policy shifts was that

⁴⁴ Despite the fact that the President had conceded a first pardon to the military who were accused of human rights violations and previous uprisings against civilian rule, the government had to face a bloody insurrection in December 1990. However, for the first time the General Staff remained loyal to civil power and the rebels were repressed -- something that Alfonsín could never achieve. In January 1991, despite a generalized social opposition, Menem granted another pardon to the military who were accused of past crimes, but made it clear that present and future rebellions would be severely punished.

⁴⁵ For the second quarter of the year, the rates of industrial activity showed a significant improvement vis-à-vis those of the first quarter: 221% in the electronics sector, 108% in the automobile industry, 97% in metallurgy, 45% in chemicals, 40% in glass, 28% in tractors, and 22.7% in autoparts. Cf. La Nación, 08/15/91, p. 1.

the new economic orientation and its effects were prolonged over time. A year later, the Cavallo team could show important achievements in terms of stabilization and growth: inflation was kept at an annual average of 10%; GDP increased by 5.3% in 1991 and about 8% in 1992; the inflow of capital to the country increased to US\$ 5.7 billion in 1991 and around US\$ 9.3 billion in 1992; the balance-of-payments deficit turned into a surplus of US\$ 2.6 billion in 1991; foreign currency reserves climbed to US\$ 11.2 billion at the end of 1992.⁴⁶

The Convertibility Plan also involved other economic reforms that would alter significant aspects of the Argentine economy, such as the functions and spheres of action of the state, the organization and commercialization of production, and labor relations. Some of these reforms involved: the reduction of the public deficit through administrative and budgetary reform, including massive lay-offs, and the sale of state-owned companies (an issue to be addressed in detail in Chapter 5); the reduction of the external debt (bonds that could be used to buy public enterprises were created and renegotiations with foreign creditors developed while the fulfillment of conditional lending agreements with international financial institutions was set as a main goal); the deregulation of economic activities, which tended to reduce state intervention in the market (e.g., the closure of several control and regulatory national boards); and the reform of the tax system by broadening the tax base, increasing some taxes (particularly, the Value Added Tax and Income Tax), annulling some deductions, improving administrative agencies, and tightening tax regulations as a way to fight evasion.

These measures were complemented with others that mainly affected the production costs, such as the generalized lowering of tariffs. Of major importance regarding costs are also the reforms concerning the labor conditions. They involved: the limitation of the right to strike (see Section IV.3.3.2.); the reduction of labor costs (e.g., the

⁴⁶ Cf. Lengyel, 1993, p. 2.

approval of new legislation to diminish the compensation for accidents and lay-offs and to facilitate temporary hiring); and the revision of norms concerning collective bargaining (e.g., to strengthen the firm's level of negotiations while weakening the role of unions). The new legislation also established wage increase negotiations on the basis of productivity and made possible the transfer of the collection and administration of contributions which financed the workers' social benefits from the unions to the state, thus cutting one of the unions' most important sources of economic power. (On this last point, see Chapter VIII). These measures concerning labor organization and working conditions are usually referred to as part of the so-called *flexibilización laboral* (labor flexibility) policy.⁴⁷

At present, the government still insists on the need to rapidly approve and implement the remaining labor reform bills⁴⁸ which are being presented by the Minister of Economy as the remedy to rising unemployment. These reforms are supposed to reactivate production and the whole economy by lowering costs. The business sector supports this view and continues to ask for a further reduction in labor costs (which have already fallen 16% from 1991 to 1996)⁴⁹ on the grounds that such a reduction will generate more jobs. However, as the experience of

⁴⁷ The term *flexibilización* refers to the relaxing of norms contained in the previous labor contracts, which had been negotiated under the centralized supervision of trade union leaders. These provisions had dealt with wage levels, working hours, and production. The reforms allowed, for instance, for new negotiating mechanisms (e.g., firm-union) as well as hiring (e.g., temporary hiring). In addition, employers faced fewer responsibilities (e.g., ceilings on accident claims). These reforms formed part of a package of recommendations made by the international financial agencies to develop the private business sector.

⁴⁸ Of all the bills on labor affairs sent by the Executive to Congress, very few have been passed. Legislators representing unions have opposed them, specially those that affected their historical dominance over social welfare institutions (e.g., in the health sector). On the details of this issue, see Etchemendy, Sebastián: "¿Límites al decisionismo? El Poder Ejecutivo y la formulación de la legislación laboral (1983-1994)", in Sidicaro and Mayer (comp.), 1995, pp. 27-153; also Palermo, 1995b.

⁴⁹ Cf. Data from FIEL, Clarín, 02/29/96, p. 20.

industrialized countries shows, this *flexibilización* is related to the organization of work within firms (allowing enterprises to adapt labor forces to the polyvalent functioning required by new technologies) but does not have immediate effects on the creation of jobs. Therefore, this relaxation of institutional mechanisms may also generate precarious working conditions if it is used only as a tool to lower labor costs and provide the capitalist sector with higher profits and more decisional autonomy.⁵⁰

Despite parliamentary opposition to the passing of the Executive's new norms, it is interesting to note that the previously approved labor reforms, promoting negotiations at the level of the firms, sanctioned some *ad hoc* negotiations that actually institutionalized the official approach. In other words, they have put into practice what is not yet a law. Recessionary and unemployment trends made it relatively easier for entrepreneurs to obtain union leaders' acquiescence to negotiate specific agreements. The automobile industry, for instance, has led this process.⁵¹ Labor relations are being transformed in practice and those changes have been institutionalized (accepted as ordinary procedures and codified in an agreement) between private agents (entrepreneurs and unions) even though Congress has not yet sanctioned a general legal framework.

In sum, the content and magnitude of these reforms attempted to completely restructure the socio-economic relations. They radically

⁵⁰ See Barbeito, Alberto: "Baja inflación, reactivación y mayor empleo. ¿Paradoja o mala praxis?", in Bustos (comp.), 1995, pp. 217-246.

⁵¹ An agreement between SMATA (the Auto Workers union) and General Motors was reached in July 1994; another between SMATA and Fiat was signed in January 1996; a similar one between the UOM (Metal Workers union) and Sevel was agreed on towards the end of 1995. All of them introduced norms about: modifications in the day's work according to the firms' needs; worker training in diverse functions (that is, enabling them to rotate and perform several functions) and in the so-called "just in time" production; and variation of wages according to productivity. Cf. Clarín, 01/18/96, p. 20. All these changes are clearly in line with the promotion of private business sector development assumed in any structural adjustment program.

changed the state-centered economic orientation of the postwar period -- precisely the one that Peronism had helped to consolidate-- and, consequently, the patterns of interaction between economic agents. The privatization of state-owned enterprises, the policy reform selected to illustrate this study, is a good example of that change in the rules of the game. To mention only another, the tax reform launched in 1991 has produced revolutionary effects in a country where the state could hardly rely on taxation as a source of revenue.⁵² In only a few years tax collection has increased by 200%, which not only implies an important rise in total revenues (to 17.5% of the GDP in 1992, the highest level in ten years)⁵³ but also a notable change in taxpayers' behavior and consciousness about the matter.

Moreover, it is worth noting that all these transformations took place together within a very few years, which notably contrasts with similar experiences in other regions. The best example of this implementation style is probably the liberalization of trade, which was closely linked to the economic integration process in the Latin American Southern Cone countries.

The process of opening the economy and integration had been initiated by the previous government following a selective, gradual, and negotiated approach.⁵⁴ In contrast, the Peronist administration accelerated the process and gave it a generalized and radical character. The common market (MERCOSUR) was established in 1991 with the Tratado de Asunción (Asunción Treaty), aiming to automatically and totally

⁵² This was so because administrative procedures were inefficient and highly corrupt. Enforcement mechanisms were almost null. A generalized evasion was institutionalized not only by avoiding contributions but also by carrying out "double-accounting" (the practice of dividing the administration of business between a "white", legal and taxable part, and a "black", illegal and nontaxable one).

⁵³ Cf. Berensztein, 1995, p. 13.

⁵⁴ See Bouzas, Roberto: "Integración Económica en el Cono Sur: experiencia reciente, desafíos actuales y perspectivas para el futuro", in Bouzas, Roberto and Nora Lustig (eds.), 1992, pp. 165-199.

liberalize trade within the group and fix an external common tariff by 1995. In August 1994 a new agreement that was signed in Buenos Aires confirmed the intention to form a customs union.⁵⁵

Simultaneously, according to the policy recommendations of international financial agencies, Argentina accelerated the opening of its economy, a process that had also been gradually initiated by the two previous governments. Between 1989 and 1991 there were thirteen modifications in tariff levels, leading to a reduction in the average nominal tariff from 28.9% to 18.1%. The changes introduced with the Convertibility Plan implied: a further reduction (to 10%); the decrease of the maximum tariff from 40% to 20%; the diminishment in the number of goods included in this maximum level; and the elimination of nontariff barriers.⁵⁶ For many authors, such an intense and fast process, guided by short-term considerations, worked to the detriment of the industrial base since it generated uncertainty, reduced investment incentives, and did not allow for a proper reallocation of productive factors.⁵⁷

Related to this point is the fact that an important part of foreign investment (US\$ 35 billion between 1991 and 1994) was destined to finance the commercial deficit (US\$ 6 billion in 1994) and financial payments, while only a small part went to productive investments.⁵⁸ In contrast with other countries, like Chile, Argentina implemented unrestrictive deregulation, allowing capital to give priority to speculative investments and to free inward and outward movements. Thus, as the December 1994 Mexican crisis proved, when conditions changed,

⁵⁵ On the details and implications of these agreements, see Chudnovsky, Daniel and Fernando Porta: "Antes y después de la Unión Aduanera del Mercosur. Prioridades de política", in Bustos, Pablo (comp.), 1995, pp. 287-328; also Bouzas, 1996.

⁵⁶ Cf. Azpiazu and Nochteff, 1994, pp. 183-185.

⁵⁷ See, for instance, Azpiazu, Daniel: "La industria argentina ante la privatización, la desregulación y la apertura asimétricas de la economía. La creciente polarización del poder económico", in Azpiazu and Nochteff, 1994, pp. 157-221.

⁵⁸ Cf. Clarín, 02/19/95, p. 27.

foreign capital flew back home and the local economy was subject to a potential crisis.

As time passes, the impact of the Convertibility Plan has also included some other problems and negative socio-economic consequences, the major being:

i) An extremely high unemployment rate. Though the official data situate the peak at 18.4% in May 1995 (See Section III, 5.), some other disaggregated studies indicate that the deterioration is greater if considered across different economic sectors and if the underemployment rate is included.⁵⁹ For instance:

SECTOR	UNEMPLOYMENT RATE (metropolitan area)			
	1989		1995	
	May	October	May	October
Manufacturing	8.5	6.1	19.4	15.6
Construction	12.5	18.4	36.8	32.9
Commerce	6.8	5.6	18.9	16.1
Services	4.6	4.3	18.8	16.0

⁵⁹ The underemployment rate measures the proportion of the population that works fewer than 35 hours a week yet wants to work more. According to the figures provided above, the unemployment and underemployment rates together amounted to almost 30% of the economically active population in 1995, that is, around 4,000,000 persons. On this point, see Beccaria, Luis and Néstor López: "Reconversión productiva y empleo en la Argentina", in Bustos (comp.), 1995, pp. 191-216.

UNEMPLOYMENT AND UNDEREMPLOYMENT RATES
(Capital City and Greater Buenos Aires area)

	1989		1995	
	May	October	May	October
UNEMPLOYMENT	8.4	7.1	18.4	16.4
UNDEREMPLOYMENT	9.3	8.5	11.3	12.6

Source: Indicadores Económicos de la Argentina, NU-CEPAL, Buenos Aires, October-December 1995.

Though Argentina's unemployment rate had somehow diminished (14%) by July 1995, it increased again towards the end of the year (see Table III). It is ranked as the second worst among Latin American countries after Nicaragua (23%). The rate approximately doubled under the Menem administration.⁶⁰

ii) Recessionary impact that fueled the polarization of living standards, the latter being a long-term trend that was accentuated during the current administration.⁶¹ In this respect, World Bank data on Latin America ranks Argentina second after Peru in the degree in salary decline since 1980. Data from FIEL (*Fundación de Investigaciones Económicas Latinoamericanas*, an important local consulting agency) indicates that the Argentine average real salary fell 24.8% between 1989 and 1995.⁶²

After a certain boom in consumption during the first years of the Convertibility Plan, the level of consumption and of industrial manufacturing production has diminished: the manufacturing GDP at market

⁶⁰ cf. Clarín, 07/10/95, pp. 14-15.

⁶¹ The literature on the decline in living standards of the majority of the Argentine population is abundant. See, for instance, Minujin (ed.), 1996; Beccaria and López (comps.), 1996; Minujin (comp.), 1995; Barbeito and Lo Vuolo, 1995.

⁶² cf. Clarín, 07/10/95, p. 14.

prices passed from 11.9% in 1991 to 4.2% in 1994.⁶³ Since the Mexican crisis, industrial production has fallen even more: 9.3% from January 1995 to January 1996. The automobile and construction sectors, those which basically relied on the domestic market, were the most affected: production fell 47.5% for automobiles, 27.1% for steel, 24% for cement in the same period.⁶⁴

Although the sectors relying on exports⁶⁵ and the enterprises responsible for recently privatized public services⁶⁶ are performing extremely well despite the recession, it seems difficult to reach the 1996 level of growth the economic team had forecasted. The last budget (1995) was designed on the basis of a 5% GDP growth, and a goal of fiscal equilibrium has recently been agreed upon with the IMF. However, even the IMF authorities have had their doubts about both prospects (i.e., GDP growth and fiscal equilibrium). A spokesman from that institution's board of directors recently argued: "We will be exacting because we want to avoid sudden surprises in the case of Argentina.

⁶³ Cf. Indicadores macroeconómicos de la Argentina, NU-CEPAL, Buenos Aires, October-December 1995.

⁶⁴ Cf. Clarín, 02/27/96, p. 12.

⁶⁵ For instance, meat exports increased 33% between 1994 and 1995, that is, they reached around US\$ 1 billion in 1995, which almost doubled the 1993 figure (US\$ 550 million). In contrast with decades ago, this higher external demand did not push prices up because it was compensated for by a decline in domestic consumption due, among other things, to the recession. Cf. Clarín, 10/15/95, p. 22.

⁶⁶ YPF (the former national oil company) leads the 1995 ranking in profits with a record US\$ 793 million, that is, 40% more than in 1994. It is followed by the new owners of the telephone service: Telefónica de Argentina (US\$ 456 million) and Telecom (US\$ 300). The rest of the ranking confirms that the enterprises whose production is linked to domestic consumption have lost ground, while those devoted to exports and to the provision of public services continued to improve their return rate. This ranking is designed on the basis of information from firms whose balance sheets are available and are quoted on the stock market. It does not shed light on the small- and medium-sized enterprises, which were seriously affected by recession. See Clarín, Suplemento Económico, 02/25/96, pp. 2-6.

There is willingness to come to an agreement, but on the basis of reliable accounts and goals."⁶⁷

That is why the IMF has been pressing for a quick congressional approval of the delegation of broad decision-making powers to the Executive.⁶⁸ The purpose is to allow the President to carry out the so-called "second state reform," which implies further public expenditure cuts (via the elimination of several public institutions, administrative charges, and personnel lay-offs) and some tax reforms (e.g., elimination of exemptions to the VAT and Income Tax, maintenance of the last 3% increase of the VAT, which was to have been temporary). However, as the estimates for 1996 are not very promising and Congress is reluctant to concede extraordinary powers on tax affairs, external pressure has increased.⁶⁹ Thus, the ongoing negotiations over the release of the next installment of the last IMF loan and the possibilities for a new stand-by agreement are tied to the Executive's promise to achieve an equilibrium in its fiscal accounts.

iii) A persistent fiscal deficit. (This is closely linked to the previous point.) The official data for 1995 does not account for this (see Table X). However, other sources estimated the fiscal deficit at around US\$ 1.4 billion in 1995, although the total budgetary disequilibrium amounted to US\$ 2.5 billion. Taking into account the *Tequila* crisis impact, the IMF authorized further indebtedness (around US\$ 1.4 billion) to compensate for the deficit, and the balance was financed by revenues from privatizations.⁷⁰

⁶⁷ Cf. Clarín, 01/18/96, p. 14.

⁶⁸ *Ibidem*.

⁶⁹ The last IMF mission to Buenos Aires (January 1996) even met with President Menem to treat the issue, something unusual on this kind of supervisory visit. See Clarín, 01/18/96, p. 14; 01/30/96, p. 6.

⁷⁰ Cf. Clarín, 01/18/96, p. 14.

So far, the adjustment in public expenditures that has already been carried out has not sufficed to stop the growth of public deficit. In the last few years, much of it had been compensated for with revenues from privatizations. However, as privatization is almost concluded, not much more revenue can be expected from that source in the future. The economic team seeks to deepen the adjustment even more through the second state reform and the implementation of further transformations in the provincial economies. It also hopes that the reactivation of production will help to diminish evasion and increase tax collection. However, private local and foreign analysts indicate that the already mentioned official estimates of GDP growth (see ii) are excessive --it should probably be half that-- and foresee a fiscal deficit of over \$ 3 billion for 1996 (including revenues from future privatizations).⁷¹

Since recession has translated into lower levels of tax collection, the government has resorted to foreign indebtedness as a way to balance national accounts which has increased public debt. In 1995 new debt was taken for US\$ 15.30 billion (most of it during the last five months), and at the end of the year both the external and the internal debts amounted to US\$ 95.60 billion.⁷² To take only one indicator of the implications of this, ECLAC data show that the external debt service absorbs 23.5% of the revenues from exports --this being the second highest rate in Latin America. The other side of the problem is that the domestic savings rate is still very low (16% of total

⁷¹ Cf. *El Economista*, 02/16/96, p. 3; *Clarín*, 02/12/96, pp. 12-13.

⁷² Of that amount, US\$ 87.58 billion correspond to the external debt in 1995 (Cf. *Clarín*, *Suplemento Económico*, 01/28/96, p. 4). According to another source, the evolution of the external debt was the following: US\$ 65.26 billion in 1989, US\$ 62.23 billion in 1990, US\$ 65.40 billion in 1991, US\$ 67.78 billion in 1992, US\$ 74.47 billion in 1993, and US\$ 82.33 billion in 1994 (Cf.: "Argentina. Programa sectorial de apoyo al ajuste fiscal y reformas sociales", Documento del Banco Interamericano de Desarrollo, AR-0189, p. 5). Note: these figures are much higher than what the official data indicate (see Table V).

production), compared with those of the emerging economies in South East Asia which than doubled that percentage.⁷³

iv) High degrees of corruption at all levels of the state apparatus. Countless denunciations have been made about illegal and corrupt procedures revolving around the implementation of all these reforms --many of them touching the highest level of the decision-making structure. A description would exceed the limits and purpose of this study. Let me add, by way of illustration of the pervasive character of this feature of the Argentine political and economic system, that all public officials, politicians, technocrats, and union leaders who had been interviewed raised this issue as a key factor constraining and/or facilitating the implementation of public policies. A question about corruption was never included in the interviews for this work.

Lastly, the delicate monetary stability achieved by means of keeping a fixed exchange rate casts doubts on its being translated into long-term economic stability and achieving substantial economic growth.⁷⁴ On this point, economists disagree and are reluctant to predict future trends because such a rigid mechanism is very vulnerable to price instability and financial fluctuations, and requires a high degree of credibility in the monetary authorities and control of the fiscal accounts. As was mentioned above, these conditions are by no means being met in Argentina.

Besides, as Gerchunoff (1995) points out, the convertibility system is being implemented in an international context where most countries followed other patterns. That is, it is being practiced by very few countries, which contrasts with other historical experiences when different international conditions prevailed (e.g., under the gold standard system between 1870 and 1914). Cavallo's bet on monetary

⁷³ Cf. Clarín, Suplemento Económico, 01/28/96, p. 4.

⁷⁴ A detailed constructive criticism of the plan's achievements and shortcomings can be found in Gerchunoff, Pablo y José L. Machinea: "Un ensayo sobre la política económica después de la estabilización", in Bustos (comp.), 1995, pp. 39-92.

stabilization has so far resisted the passing of time, specially thanks to his increasing the burden of adjustment on some sectors of the population and several lifesavers from international financial agencies. However, it is not certain whether this can and will be the base of a sustained economic growth.

III. 5.- Some Economic Indicators

TABLE I: Gross Domestic Product

<u>YEAR</u>	<u>GROSS DOMESTIC PRODUCT</u> (percentage annual variation)
1981	-5.7
1982	-3.1
1983	3.7
1984	1.8
1985	-6.6
1986	7.3
1987	2.6
1988	-1.9
1989	-6.2
1990	0.1
1991	8.9
1992	8.7
1993	6.0
1994	7.1
1995	-4.4

Source: Statistical Yearbook Republic of Argentina 1994, 1995, and 1996,
B u e n o s A i r e s : I N D E C .

TABLE II: Prices

<u>YEAR</u>	<u>PRICES</u>	
	CPI ^{a)}	WPI ^{b)}
1980	0.0039453	47.853695
1981	0.008067	100.293208
1982	0.021360	357.276883
1983	0.09480	1,646.792019
1984	0.6889	11,118.5
1985	5.320	84,820.4
1986	10.112	138,990.3
1987	23.39	309,772.8
1988	103.62	1,587,683.2
1989	4,923.6	5,386.4
1990	1,343.9	798.4
1991	84.0	56.7
1992	17.5	3.2
1993	7.4	0.1
1994	3.9	5.8
1995	4.4 ^{c)}	7.7 ^{d)}

Source: Statistical Yearbook Republic of Argentina 1994, Buenos Aires: INDEC (from 1980 to 1988), and Statistical Yearbook Republic of Argentina 1995, Buenos Aires: INDEC (from 1989 to 1995).

a) Consumer Price Index, Base 1988 = 100, at December each year except 1995.

b) Wholesale Price Index, Base 1981 = 100, at December each year except 1995.

c) At March that year.

d) *Idem.*

TABLE III: Unemployment Rate

<u>YEAR</u>	<u>UNEMPLOYMENT RATE^{e)}</u> (total urban centers)
1975	3.7
1976	4.8
1977	3.3
1978	3.3
1979	2.5
1980	2.6
1981	4.8
1982	5.3
1983	4.7
1984	4.6
1985	6.1
1986	5.6
1987	5.9
1988	6.3
1989	8.1
1990	8.6
1991	6.9
1992	6.9
1993	9.9
1994	10.7
1995	18.4 ^{f)}

Source: Statistical Yearbook Republic of Argentina 1995, Buenos Aires: INDEC; Minujin (ed.), 1996, p. 83.

e) From 1975 to 1988: average annual rate. From 1989 to 1994: rate at May each year.

f) This figure climbs to 20.2% in Greater Buenos Aires, where the main industrial district is located.

TABLE IV: Real Wages Variation (1975-1993)

<u>YEAR</u>	<u>WAGES</u>
	(Index Base 1975 = 100)
1975	100.0
1976	66.4
1977	51.3
1978	53.9
1979	57.7
1980	66.3
1981	61.9
1982	53.6
1983	63.6
1984	76.5
1985	68.8
1986	64.1
1987	58.7
1988	59.6
1989	54.5
1990	49.3
1991	46.8
1992	48.7
1993	49.1

Source: Azpiazu and Nochteff, 1995.

TABLE V: External Debt

<u>YEAR</u>	<u>TOTAL DEBT</u>	<u>PUBLIC DEBT</u>	<u>PRIVATE DEBT</u>
	(in millions of dollars at the end of each year)		
1975	7.9	4.0	3.9
1976	8.3	5.2	3.1
1977	9.7	6.0	3.7
1978	12.5	8.4	4.1
1979	19.0	10.0	9.0
1980	27.2	14.5	12.7
1981	35.7	20.0	15.6
1982	43.6	28.6	15.0
1983	45.1	31.7	13.4
1984	46.2	35.5	10.6
1985	49.3	40.9	8.5
1986	52.5	44.4	8.1
1987	58.5	54.3	4.2
1988	58.7	53.2	5.5
1989	65.3	56.0	9.3
1990	62.2	48.8	13.4
1991	65.4	50.6	14.8
1992	68.3	N/A	N/A
1993	70.6	N/A	N/A
1994	79.4	61.3	18.1
1995	89.6	67.0	22.6

Source: "Indicadores Macroeconómicos de la Argentina", Buenos Aires: CEPAL, April-June, 1996.

TABLE VI: *International Reserves*

<u>YEAR</u>	<u>NET INTERNATIONAL RESERVES</u> (in millions of current dollars)
1981	3,165
1982	-3,001
1983	-5,573
1984	-7,322
1985	-7,873
1986	-9,948
1987	-14,048
1988	-15,429
1989	-8,103.0
1990	-5,007.7
1991	-1,481.7
1992	9,074.7
1993	13,207.8
1994	13,119.5
1995	N/A

Source: Statistical Yearbook Republic of Argentina 1994 and 1995, Buenos Aires: INDEC.

TABLE VII: Balance of Trade

<u>YEAR</u>	<u>BALANCE OF TRADE</u>		
	(in millions of current dollars)		
	EXPORTS	IMPORTS	BALANCE
1980	8,021	10,541	-2,520
1981	9,143	9,430	-287
1982	7,625	5,337	2,288
1983	7,836	4,504	3,332
1984	8,107	4,585	3,522
1985	8,396	3,814	4,582
1986	6,852	4,724	2,128
1987	6,360	5,818	542
1988	9,135	5,322	3,813
1989	9,579	4,203	5,376
1990	12,353	4,077	8,276
1991	11,978	8,275	3,703
1992	12,235	14,872	-2,637
1993	13,118	16,784	-3,666
1994	15,839	21,590	-5,751
1995	20,963	20,122	841

Source: Statistical Yearbook Republic of Argentina 1994, 1995, and 1996, Buenos Aires: INDEC.

TABLE VIII: Balance of Trade as Percentage of the GNP

<u>YEAR</u>	<u>BALANCE OF TRADE AS A PERCENTAGE OF THE GNP</u>		
	(in current prices)		
	EXPORTS	IMPORTS	BALANCE
1980	5.1	6.5	-1.4
1981	6.9	7.4	-0.5
1982	9.1	6.5	2.6
1983	9.1	5.8	3.3
1984	7.6	4.8	2.8
1985	11.7	6.3	5.4
1986	8.2	6.3	1.9
1987	7.9	7.6	0.3
1988	9.5	6.2	3.3
1989	13.1	6.6	6.5
1990	10.4	4.6	5.8
1991	7.7	6.1	1.6
1992	6.6	8.1	-1.5
1993	6.3	8.1	-1.8
1994	6.8	9.1	-2.3
1995g)	8.7	8.5	0.2

Source: Statistical Yearbook Republic of Argentina 1994 and 1995, Buenos Aires: INDEC.

g) Estimated.

TABLE IX: Balance of Payments

YEAR	<u>BALANCE OF PAYMENTS</u>			
	(in millions of current dollars)			
	CURRENT ACCOUNT	CAPITAL ACCOUNT	ERRORS AND OMISSIONS	VARIATIONS IN NET INTL RESERVES
1980	-4,769	2,275	N/A	-2,493
1981	-4,714	1,155	N/A	-3,559
1982	-2,357	-3,808	N/A	-6,166
1983	-2,460	-111	N/A	-2,572
1984	-2,392	647	N/A	-1,744
1985	-953	397	N/A	-556
1986	-2,859	784	N/A	-2,075
1987	-4,236	138	N/A	-4,100
1988	-1,569	191	N/A	-1,381
1989	-1,303	-5,439	-45	-6,789
1990	4,810	-4,350	219	679
1991	-259	7,232	-125	-7,616
1992	-6,341	3,006	-57	-3,392
1993	-7,300	17,544	55	10,299
1994	-9,919	11,479	74	1,634
1995	N/A	N/A	N/A	N/A

Source: Statistical Yearbook Republic of Argentina 1994 and 1995, Buenos Aires: INDEC.

TABLE X: National Budget

YEAR	NATIONAL BUDGET ^{h)}		
	(in thousands of millions of Australes and Pesos)		
	TOTAL REVENUES	TOTAL EXPENDITURE	PRIMARY SURPLUS ⁱ⁾
1983	A 134.8	240.0	-67.1
1984	A 1,015.2	1,565.4	-298.0
1985	A 9,670.4	11,814.5	-90.5
1986	A 17,754.0	20,801.6	-327.2
1987	A 39,480.0	50,143.7	-4,754.0
1988	A 160,668.7	229,086.8	-47,014.7
1989	A 4,623,057.7	6,602,701.0	-923,770.7
1990	A 99,373.8	118,581.0	-12,923.1
1991	A 317,082.7	319,870.0	1,075.0
1992	\$ 44,791.4	43,308.9	3,396.4
1993	\$ 48,798.6	48,118.2	734.7
1994	\$ 52,485.7	53,467.8	659.1
1995j)	\$ 55,650.6	55,650.6	1,920.5

Source: Statistical Yearbook Republic of Argentina 1994 and 1995, Buenos Aires: INDEC.

N/A: non-available

h) Actual figures, except for 1995.

i) Balance between revenues and expenditures, excluding capital resources.

j) Budget as approved.

Conclusions

The Argentine economic history of the last five decades shows the emergence, expansion, crisis, and exhaustion of a socio-economic model in which the state played a key role. Public policies mutually reinforced what sociologists call "the state-centered matrix": promotion of industrialization via import substitution, high tariffs and other trade barriers, nationalizations, generalized public regulations and subsidies, redistributive social welfare policies, etc. Moreover, processes and ideological contents from the international system intertwined with domestic ones to produce this evolution of the model.

Now, throughout that "life-cycle" of the state-centered matrix not only have the conditions changed at the macro level but also the actors themselves, and with them, perceptions, goals, and strategies. As a result, the emerging matrix --which I would not yet call "market-centered"-- presents as many continuities as novelties.

First, Peronism's decisive role in history was crucial then and it is now. This is true at present in an apparently paradoxical way. It forged the class alliance that gave rise to and consolidated that state-centered model and it is now channelling the alliance that is throwing the model out. In the next chapter, I will apply a political analysis to explain this striking ability.

Second, the original members of that class alliance, as well as other important economic and social actors, have gone through significant transformative processes, although capitalists and labor have gone in the opposite direction. Big capitalists (the so-called local economic groups) have grown economically in a process that was characterized by horizontal diversification and wealth concentration, have become a more reduced and homogeneous group, and have acquired an almost exclusive veto power on the political system. Workers, in

contrast, have been physically decimated by state terrorism and have become socially and economically impoverished. Their unions have lost ideological and organizational cohesion and have been relegated within the party and government structures.

Third, the country's dependence on foreign economic and political support has deepened over the last decades. The debt crisis simply unveiled the crisis within the state and its inability to deliver material and nonmaterial public goods. Nevertheless, the neoliberal remedy did not solve this problem. The serious vulnerability of the Convertibility Plan (see Section III.4.) has perpetuated the dependence of the economy on the willingness of international actors to support it.

Fourth, the economic changes produced by the structural adjustment program that has been implemented during the last five years are reshaping the patterns under which social and economic relations develop. Some of their implications have already been mentioned in Section III. 4.; others will be explored in detail in Chapter V, taking the privatization policy as a paradigm. Nevertheless, there is no doubt that they are all relevant to the purpose of this study since they are all concerned with the state's relative autonomy and capacity to achieve its economic goals. These changes will also affect the course of any economic policy in the future.

Finally, what can also be derived from this chapter is that Argentine economic instability and decline have not been a purely economic matter but rather an issue embodied in a political and economic setting and, most concretely, in a very conflictive one. Obviously, the economic policies implemented by different governments have been the result of the dynamic processes the political and economic structure has undergone. In other words, the previous "nationalization of the economy" and its current "privatization" are both the result of a socio-political struggle to determine who establishes the rules of the game --a struggle that had both economic and political causes and consequences (see Chapter V). Let me now turn to the analysis of the implications of that dispute for the policy-making process.

Chapter IV

Contrasting Policy-Styles: **Context, Ideas, and Power**

Introduction

The previous chapter summarized the main lines of economic policies in the postwar period, concluding with a detailed examination of the structural adjustment program implemented by the current Argentine government. This chapter will provide the political explanation for the viability of such economic reforms. That is, it will trace the characteristics of the policy-making process that account for the failed Radical attempt to implement them and Peronist success. In other words, it will analyse the conditions under which such reforms could not become viable until the 1990s.

The first section focuses on some general features of the policy-making process in order to underline some particularities of the Argentine political system which help to explain the actors' perceptions and behaviors. The second one relates the experience of the last Radical administration, trying to identify those elements that blocked the implementation of structural reforms, especially towards the end of Alfonsín's mandate. The third section turns to the analysis of the "Menemist" government. This label is not used by chance but rather intends to differentiate the particular style President Menem has imposed upon his government, the factors that still make it possible to identify his administration with the Peronist tradition and, moreover, the new elements that enabled economic adjustment in terms of policy implementation.

In that respect, three elements of analysis are emphasized: one, the socio-economic and political context in which the decision to carry out structural reforms was taken and the policies were implemented; two, the official ideological elaboration of this policy shift, trying to unveil the mechanisms and contents of its political justification; and three, power factors, that is, the economic and political supporting coalition which, in this case, was "channelled" through and led by two

strong figures (President Menem and Minister Cavallo) who brought very personal characteristics to the management of public affairs.

IV. 1.- The Policy-Making Process in a Society in Conflict

As was mentioned in Section III.1., the significant legacy of Peronism (1943-1955) lay in the reshaping of the Argentine political economy in a way that dramatically changed the role of the social classes. The working class was mobilized and its demands were institutionalized through a party-state apparatus that managed labor relations and provided welfare benefits and economic distribution. On the other hand, economic policies accentuated the cleavages within the dominant classes and prompted the growth of an industrial bourgeoisie which thrived on state contracts and trade protection.¹ To a large extent the economic interests and goals of these two sectors (labor and industrial capitalists) served each others' purposes. So these two sectors became the pillars of a multi-class alliance that set the tone of politics in the following decades.

Moreover, this restructuring of power also marked the outset of a major state expansion in the economic sphere --as entrepreneur, producer, and regulator-- and in the political one, not only as a responsive agent to increasing social demands but also as the arena and spoils of conflict. The history of society's struggles was also one of

¹ On these processes, see Murmis and Portantiero, 1987.

extracting important concessions from the state. This fact largely explains why public policies --economic policies, in particular-- were so frequently altered and faced so many implementation problems. In O'Donnell's words: "The state was recurrently razed to the ground by civil society's changing coalitions. At the institutional level, the coalitions were like great tides which momentarily covered everything and which, when they ebbed, washed away entire segments of the state -- segments which would later serve as bastions for the piecing together of a new offensive against the coalition which had forced its opponents into retreat. The result was a state apparatus extensively colonised by civil society ... [which] was extraordinarily fragmented, reproducing in its institutions the complex and rapidly changing relationships of dominant and subordinated classes."²

However, the same fact could also illustrate the difficulties social actors had to become autonomous from state actions. They depended on state granted prerogatives for their survival and political leverage. The state played the role of arbiter in class conflict and at the same time provided the arena for the struggle. (For instance, collective wage bargaining always took place within the framework of state institutions).³ This situation has even led some scholars to argue that Argentina failed to become an industrial democracy because of the unforeseen consequences of the labor and industrial policies that were institutionalized in the 1940s (state corporatism and extreme protectionism). These created the conditions for a permanent stalemate in social struggles.⁴ In fact, according to Waisman, this

² O'Donnell, 1978, p. 25.

³ See Guillermo Flichman: "The State and Capital Accumulation in Argentina", in Anglade and Fortin, 1990, pp. 1-31.

⁴ This is because state corporate strategy created a strong labor movement that could protect its interests and prevent a complete hegemony of the dominant classes, while radical protectionism inefficiently allocated economic and human resources, increased the level of mobilization and organization of labor, and fueled the cleavages within the bourgeois and agrarian elites. See Waisman, 1987, Chap. 4 & 8.

institutionalization was possible because the state had become relatively autonomous at that particular time owing to a combination of external and domestic factors.⁵ Thus, it was able to choose a path that opposed the interests of the upper classes (the agrarian elite in particular, the big manufacturers linked to it, and foreign capital).

Although there were significant changes in the relationship between forces in the post-Peronist period, each actor --and even fractions within these forces-- retained their veto power. For these reasons, it is very difficult to assess conclusively their relative weight in the adoption of economic policies. What seems to be clear is that, in a context of persistent economic crisis and high political instability, the "political game" largely resembled a prisoner's dilemma and defection, rather than collaboration, was preferable. Players perceived the conflict as a zero-sum one and did whatever they could to prevent further losses. Their interactions reinforced the negative conditions and clearly affected the policy-making process.

As O'Donnell accurately puts it: "The primary, basic phenomenon is generalized de-solidarization. Every rational agent acts at the level of disaggregation and with the time horizon deemed more efficacious in his/her defensive moves. To sacrifice short-term gains for the sake of longer-term ones makes no sense when the future situation cannot be predicted with any accuracy and abstaining from maximizing short-term gains may provoke heavy losses. Some agents, difficult to identify precisely from the data available, reap big profits. The ways to achieve success are many but skewed in favor of certain classes. One important way entails the plundering of the state apparatus. For players of this game, broad, long-run economic policies, negotiated and implemented with the participation of highly aggregated interest associations, are not important. Since the government also has to dance to the rhythm of the crisis, its capacity to formulate those policies is very limited, and very often their implementation is cancelled or captured by the

⁵ See Waisman, 1987.

disaggregated strategies just described. The surest way to defend oneself, and to eventually profit from the crisis, is to seek easy and rapid access to the state agencies that can deliver hoped-for resources. This is true basically but not exclusively for capitalists."⁶

This dynamic has traditionally developed into a political system characterized by three main features.⁷ They are:

i) A very low institutionalization of the democratic rules. In that sense, the above persistent political conflict has worked against the establishment of agreed-upon rules on the distribution and exercise of political power and has led to a pattern of permanent de-legitimation by the losers of the electoral results since the beginning of this century. Of course, several *de facto* administrations have heightened the pattern.

ii) An accentuated presidentialism. The constitutional design of a political system takes the figure of the President as the axis. The exercise (and abuse) of this strong presidentialism by diverse regimes exacerbated the trend since it facilitated a high level of personalism, discretionism, and the concentration of power and functions. Thus, the President has always been "the" key actor in the decision-making process.

iii) A weak party system. The creation of the Peronist party in 1945 not only conferred on the system its bipartisan character but also marked the beginning of a new source of instability and conflict that was characterized by the attempt of other forces to either counter-balance the overwhelming presence of Peronism or to merely block it from power. Consequently, nonloyal practices, continuous modifications in

⁶ O'Donnell, Guillermo: "The State, Democratization, and Some Conceptual Problems", in Smith et al. (eds.), 1994b, p. 170.

⁷ On these characteristics, see the historical analysis by De Riz, Liliana y Catalina Smulovitz: "Instituciones y dinámica política. El presidencialismo argentino", in Nohlen and De Riz (comp.), 1991, pp. 121-176.

electoral rules, and military coups --involving the closure and repression of all deliberative institutions-- were frequent mechanisms to achieve that goal.

In addition, during the post-1945 democratic periods the relationship between major social actors and the state was also permeated by the particular internal structures and dynamics of the two main political parties.⁸ Peronism is said to have arisen and developed as a social movement rather than as a party. Radical institutions and behavior, in contrast, have always fit into a more traditional party model. Consequently, the porous and undefined limits of the movement allowed Peronism to amalgamate very different political streams under its structure --often conflicting ones, from the right to the left of the political spectrum. It was crucial that the role of the leader assure a certain cohesion and discipline. Although both parties functioned under vertical and personalistic internal decision-making mechanisms that revolved around charismatic leaders, this is particularly true of Peronism.

Moreover, ideological differences between them generated two political sub-cultures that reflected the way they managed public affairs. As Palermo suggests, the Peronists' concept of democracy focused on its electoral aspect rather than on other formal or institutional rules (e.g., the division of powers, accountability, lawfulness), which, for Peronists, should not "interfere" with the exercise of power. In contrast, Radicalism has placed much more importance on those rules and on the legal side of the exercise of power and has been more tied to all democratic institutional procedures.⁹ Again, the origins of each party, as well as the stamp of their leaders, largely determined this difference.

Indeed, this last distinction also entails a different style of

⁸ For a synthesis of this point, see de Riz, 1986.

⁹ See Palermo, 1995c, p. 7.

political representation. Both parties initially arose to channel middle- and lower-class demands. Their identities were built upon similar elements (e.g., an ideological confrontation of their nationalist tenets with the interests and ideology of the old oligarchy; a close and direct relationship between leader and masses). However, Radicalism progressively changed its populist character to become a middle-class party. It adopted a discourse that centered on the notion of citizenship and on the defense of civil rights. Hence, its representation came to be based mainly upon the protection of liberal democratic values which translated into a kind of a pact between the people and the representatives to defend those rights.

Peronism, on the other hand, built its identity around the figure of its founder, General Juan Domingo Perón, who had the particular abilities to mediate among opposition factions,¹⁰ to use their differences as a means to neutralize conflicts, and to overcome ideological cleavages by calling himself the sole translator of the people's desires, interlocutor of the masses, and final judge of that relationship and its consequences. In other words, the leader's interpretation is the only possible reading of reality and there is no need to incorporate either a "third actor" --i.e., a legal framework of institutions, principles, and rules-- or the notion of a pact.¹¹

¹⁰ In fact, Peronism absorbed many characteristics of its allies and enemies. It took the network of provincial *caudillos* (local bosses) and their clientelistic ties from the conservative sectors and the Radical party, and the organization of the labor force and the already established structure of unionism, which became the basis of its political support, from the Socialist parties.

¹¹ Describing this particular kind of representation, Novaro (1994, pp. 53-54) says: "... the symbolic force [...] is derived from an embodiment that superimposes the distinct terms in the same figure: leader/movement/people. The representation is only possible with the presence of the leader, who embodies the 'Peronist people' in his person, on the other hand synonymous with just the People without additives. [...] The tension that habitually exists in the bonds of democratic representation between the positions of the author, the actor and the interpreter practically disappears in Peronism as each identity comes forth. The political leader fulfills the double role of 'acting for' the masses and interpreting them, of representing them and judging the representation. He is not only the hero, the actor, but also the

As will be analyzed below, these features --partly sustained and partly modified throughout past decades-- help to explain the different policy styles of the two previous democratic governments and, in particular, the current Peronist administration's relatively better performance in implementing economic reforms.

Finally, to fully describe the policy-making process it is necessary to incorporate the relationship between the government and external actors. As in other parts of Latin America since the beginning of the century, the impact of American policies on Argentina has been significant in all issue areas and has been linked to the ups and downs of local political stability. As for the economy, the U.S. government's and the international business community's influence on Argentine policy orientation have been manifested in the last few decades through the policy recommendations of international financial institutions. This has become more relevant since the debt crisis. Conditional lending has operated through many mechanisms, and its incidence has increased since the crisis of the state became more apparent towards the end of the 1980s. Since then, the successive agreements with the IMF have not only shaped the rhythm and content of economic reforms, but have also been crucial to their successful implementation and the continued confidence of external financial agents.

narrator of his achievements. He is even of the same flesh as the author: Perón is 'the first worker' and soldier of the country. The popular mass, the movement, the nation, and the state are all forms of the same body whose head is always Perón."

IV. 2.- The Alfonsín Years: the Subtle Limits between Confrontation and Concertación

In the early 1980s the above elements characterizing Argentine domestic politics were permeated by a particular situation: the debacle of the longest and most repressive military government and the deepening of a long-standing economic crisis. The 1983 electoral success of the Radicals' presidential candidate Raúl Ricardo Alfonsín, took many by surprise. They were habituated to overwhelming Peronist victories. The new government raised numerous expectations about the future and was faced with serious challenges and constraints in both the political and the economic spheres.

Nevertheless, for the Radical administration, the consolidation of democracy was of utmost importance. As Canitrot suggests, the crisis was recognized but its economic content denied.¹² Thus, democratic institution building was the priority and, to a large extent, the economic policy was subordinated to political beliefs, needs, and decisions. Moreover, the early diagnosis of the economic problems was rooted in the conviction that the crisis was manageable and there was still some room for policy design and experimentation with heterodox measures. The temporary success of the Austral Plan (see Section III.3.) also contributed to confirming those assumptions. The sense of urgency and ungovernability emerged as a dramatic constraint only some years later.

To some extent, that early perception determined the government's reluctance to implement the WB's and IMF's policy recommendations regardless of the consequences. Though it was never achieved, the Alfonsín administration even toyed with the idea of joining other Latin

¹² See Canitrot, Adolfo: "Crisis and Transformation of the Argentine State", in Smith et al. (eds.), 1994a, p. 81.

American countries to form a "debtors club" that would force foreign creditors to revise the origins of the debt and accept reductions and better payment conditions.¹³ Even more, the new democratic administration elaborated a political interpretation of the debt crisis, claiming that it was necessary that creditors recognize an "illegitimate" part¹⁴ of the debt that Argentina did not feel obliged to pay. Behind this idea was the assumption that industrialized societies would understand the historical meaning of democratic transition and would not press for a total and quick payment of the debt which would cause new democracies undue stress. However, this position was not reciprocated and commercial banks and the Paris Club, looking for a guarantee on repayment, refused to undertake negotiations without a previous agreement between Argentina and the IMF.

Consequently, after considering that it would be too risky to declare a unilateral moratorium, the Radical government was forced to abandon its confrontation strategy and sign the first letter of intent with the IMF after less than a year in office (September 1984). From then on, successive agreements had to be negotiated with the IMF, as well as other international creditors, since Argentina could not meet the goals set by those institutions as part of the conditions on new lending.¹⁵

¹³ As is well known, in May 1984 the Latin American countries forming the Cartagena Consensus resolved to service their external debts and to negotiate on a country-by-country basis. Basically, Brazil and Mexico (the largest debtors) preferred this option *vis-à-vis* the debtors' club strategy because of their relatively better bargaining position.

¹⁴ Alfonsín defended this position at the Quito Conference (January 1984) saying that "local takers covered their positions by purchasing cheap foreign exchange on the free market while keeping their commitment registered (with the Central Bank), which enabled them to repatriate capital [...] Through this undeclared outflow of foreign exchange they cancelled 40 to 50 percent of the private external debt commitments which the state later assumed as its own [in 1982]". Cf. Latin America Weekly Report, 01/13/84, p. 2.

¹⁵ See Machinea, 1990.

The relationship with local actors¹⁶ was also largely determined by the fact that the Radical government was a "government of the transition," that is, an administration whose political stability was very precarious. A new agreement between key social actors supporting another military takeover was the sword of Damocles under which they governed. Although the facts indicated that this possibility was highly unlikely, at least in the civilians' minds, military behavior was very disturbing and that seems to have been part of policy-makers' considerations.¹⁷ As will be analyzed below, it led the Executive to be extremely cautious and was of great concern when the implementation of structural reforms was to be evaluated.

Within the dimension of the political discourse, during the electoral campaign and once in office, Radicalism confronted simultaneously the unions, the military, and the capitalist sector and blamed all three for representing the corporate interests that had sunk the country into endless struggles over state resources. Moreover, the latter two were also held responsible for the indebtedness process that was now dramatically curtailing Argentina's economic prospects.

As a result, the new administration initiated its term with a confrontation strategy. It tried to avoid the potential negative effects on government capacities of long-standing distributive conflicts by concentrating the decision-making process at the Executive level and isolating it from social pressures. As will be shown below, the Radical government moved progressively towards a consensus-building approach, although this strategy also failed.

Early in office, the government employed two arguments to elude negotiations that would have hampered economic plans. One, its

¹⁶ On this account, I follow different sources: Smith, 1991a, Chapter 10; Acuña, C. (comp.), 1995; Acuña, M., 1995; Nun y Portantiero (comp.), 1987; Damill y Frenkel, 1993; Acuña and Golbert, 1990; Tedesco, 1994; Machinea, 1990; Canitrot, 1991; Gaudio and Thompson, 1990; Carciofi, 1990; Epstein (ed.), 1992.

¹⁷ On this point, see Canitrot, 1991, pp. 127-128.

legitimacy was confirmed by the majority in the electoral results. Two, it needed to resolve the socio-economic crisis. In the words of then Minister of Economy Bernardo Grispun, "the Radicals had been elected to govern, not to bargain."¹⁸ Consequently, as Acuña points out, the crucial aspects of the economic policy were never discussed, although the government promoted the development of some fora for negotiations formed by its own representatives and delegations from the unions and the entrepreneurial sector, such as the Mesa de Concertación (1984), the Conferencia Económico-Social (1985), and the Consejo Agropecuario de Emergencia (1986).¹⁹

Therefore, the sectors that opposed the economic measures taken during the first two years soon began to press for changes and to exert a strong resistance. As was mentioned in Section III.1., the traditional role of unions within the Peronist party would not allow for any collaborative behavior with a Radical government. At the same time, the Radicals' intention to democratize union organizations and limit their political power gave unions good reason to oppose governmental initiatives and increase their hostility.

The government's failure to pass the reform law of the unions strengthened union position --which was supported in Congress by the Peronist legislators. This was only the beginning of a controversial relationship that translated into thirteen general strikes and many sectoral conflicts. Although unions participated in negotiations throughout this period, the most combative wing abandoned the bargaining table several times in an attempt to force outcomes. To some extent, the official initiative prompted a degree of unification among the different labor factions.

It is worth noting that union leadership was divided in 1983 between the more combative group, headed by Saúl Ubaldini from the

¹⁸ Quoted in Epstein (ed.), 1992, p. 131.

¹⁹ See Acuña, C. (comp.), 1995, p. 277.

brewery workers union, and another group, relatively more open to dialogue with the government, led by Jorge Triaca from the plastics sector. During the Radical administration the fragmentation of the Confederación General del Trabajo (General Federation of Workers, CGT) continued and the labor movement divided into several other streams.²⁰ This process was encouraged partly by the government and partly by the internal restructuring of the Peronist party.

In addition, the refusal of Alfonsín's first Cabinets to dialogue led major opponents to attempt a completely new strategy. Some labor and business sectors started to work together and formed what was later known as the "Group of 11." Throughout 1984 they met to discuss a common diagnosis of the situation and the criteria to manage economic variables (e.g., prices and salaries). They shared the perception that the government could not cope with the crisis and called for participation in the elaboration of social and economic policies. This and other signs of sectoral discontent (e.g., from the military and the Church), as well as the IMF demands --made in the midst of the negotiation of a new stand-by loan-- led the Executive to slowly open a *concertación* process²¹ around policy orientation.

In that sense, some members of the Cabinet (e.g., the Minister of

²⁰ On these divisions and subdivisions, see Epstein, Edward C.: "Labor-State Conflict in the New Argentine Democracy: Parties, Union Factions, and Power Maximizing", in Epstein (ed.), 1992, pp. 124-156. On the different aspects of the union-government relationship under Alfonsín, see Gaudio and Thompson, 1990; also Palomino, Héctor: "Los sindicatos bajo el gobierno constitucional: de la confrontación a la alianza", in Nun and Portantiero (comp.), 1987, pp. 175-194.

²¹ The term *concertación* has been ambiguously used by both politicians and scholars. It refers to the interaction process between the government and key social sectors (specially the corporate organizations representing capitalists and workers) that aimed to build a consensus around a policy orientation. It may involve only the exchange of ideas as a way of channelling social claims or it may lead to the institutionalization of dialogue routines and/or of explicit agreements. For a detailed discussion of the concept and practice, see Acuña, M., 1995, Chapter 1; also Portantiero, Juan Carlos: "La concertación que no fue: de la Ley Mucci al Plan Austral", in Nun and Portantiero (comp.), 1987, pp. 139-174.

Domestic Affairs) participated in the union-business meetings, a step which some disagreed with (e.g., the Minister of Economy). Of course, evidence of this dissent within governmental circles undermined the rest of the actors' perception of the government's commitment to the *concertación* process. At the same time, another sector of the Radical party also initiated a series of talks with some of the main representatives of the local bourgeoisie, the so-called María Group or "the Captains of Industry,"²² to gain their political and economic advice and support. As was previously explained, the participation of these groups in economic policy making progressively increased and became crucial after 1985 (when the Austral Plan was launched) and specially towards the end of Alfonsín's term (see Section III.3.).

This plan was designed by a group of well-known economists led by Juan Vital Sourrouille (Secretary of Planning since 1983). Most of the team had an academic profile and were labeled "outsiders" and "technocrats" within political circles.²³ This fact proved to be a source of dispute within the party from the beginning. With Alfonsín's personal support, these economists took special care to isolate themselves from political disputes and concentrated on the elaboration of the plan for several months. Its content was not made public until its official launching, not even the party members had been consulted. Yet, it had already been discussed in the IMF circles.

²² This group represented the bulk of the manufacturing enterprises and was led by the most important local holdings. They had expanded and horizontally integrated their activities in many economic sectors during the last military government, and consolidated their position in the international trade and financial markets. The most outstanding names are: Bunge & Born, Pérez Companc, Techint, Astra, Macri, Bidas, Massuh, Alpargatas. Many participated and won most of the tenders in the privatization of state-owned enterprises. On their origins and development, see Ostiguy, 1989.

²³ Among them were: Adolfo Canitrot (Under-Secretary of Economic Coordination), José Luis Machinea (Under-Secretary of Economic Policy and former president of the Central Bank), and Mario Brodershon (president of the BANADE, the National Bank of Development). As Machinea (1990) himself confirms, due to their lack of previous political militancy, most of them were considered *Alfonsinistas* (Alfonsín's followers) rather than true Radicals.

The Austral Plan implied not only a new economic official approach in terms of its content (see Section III.1.) but also in reference to the relationship between the main social actors. First of all, as part of the usual divide-and-conquer strategy, some talks between the Executive and the conciliatory sectors of the CGT (those led by Triaca) were held during which the latter were informed of the new economic plan. Moreover, the government impulsed further dialogue with labor and business representatives. The Conferencia Económico-Social was created at that time and functioned as a forum for proposals from these two sectors and from the economic team. The government made some concessions in order to gain their support for the plan (e.g., the promise to keep real wages at the 1984 level and productivity bonuses in the case of unions; the possibility of eluding price controls and translating higher costs into price increases in the case of business). Nevertheless, they were not enough to guarantee an agreement.²⁴ The new Minister of Economy, Juan V. Sourrouille, replaced Grispun in February 1985 and the plan was decreed.

During its implementation, the government gave priority to its dialogue with the "Captains" and the interests of capitalists once again began to collide. On the one hand, business representatives other than those from the industrial sector had been excluded (e.g., the agricultural sector), prompting division on that front.²⁵ On the other, the union-business working group formed the year before faced serious internal dissent and was finally dissolved. At that point, unions intensified their opposition.

As was already mentioned, 1986 opened with a partial reform of the Austral Plan and the launching of liberalization, the promotion of

²⁴ For more details, see Damill and Frenkel, 1993, pp. 51-57.

²⁵ Although the most important confrontation was between the industrial and agricultural sectors, divisions also cut across them and showed contradictions between industrialists working for the domestic market and exporters, between national versus regional interests, between small-, medium-, and large-sized enterprises, etc. See Acuña, M., 1995.

exports, and privatization measures. The most powerful industrialists continued to support the economic orientation. Agricultural associations opposed it on the grounds that the new policy discriminated against them and producers had no government support. As a result of their harsh statements, mobilizations, and lock-outs, the government relaxed its position towards the agricultural sector. Demands were channelled through the creation of the Consejo Agropecuario de Emergencia Económica (Agricultural Council for Economic Emergency) and the government accepted some requests, e.g., the inclusion of a representative from this sector in the Cabinet.

That year was also crucial because it tested government capacity to steer the socio-economic process. The failure of negotiations with the metalworkers sector over a wage increase, because of the ceiling the government had established, led to a significant mobilization by the union and a month-long strike in June. As a solution, the government accepted a higher wage increase and the possibility of its being transferred to prices, which worked against one of the main premises of the economic program (i.e., monetary stability). The importance of this fact lay in the leading role the metalworkers union traditionally had, not only in terms of its economic and political power, but also as a parameter or model for other unions who wanted to improve their situation. Therefore, the resolution of the conflict produced various negative effects. It pushed the inflation rate up; it mobilized demands of other unions; and it undermined the business sector's confidence in the government's capacity to sustain its own political and economic decisions. From then on, this lack of confidence and the resulting uncertainty about the policy orientation characterized the government-business relationship until the end of Alfonsín's term in office.

By 1987 the diagnosis of the socio-economic crisis had changed. The exhaustion of the statist and protectionist economic model was evident. The need to attack structural problems became imperative. Thus, the economic orientation endorsed a greater opening of the economy and a broad reform of the state in an attempt to end chronic inflationary deficits and force economic agents to modify their behavior.

Undoubtedly, the requirements of the IMF and other international creditors contributed to shaping this new diagnosis. The concession of wage increases to several sectors (e.g., the military, the teachers, some workers) in order to appease the domestic conflicts not only went against one of the main instruments of the Austral Plan to control inflation (wage freeze), but also diverted the government from the goals set by external agents as part of their lending conditions. As time passed, conditions became even more severe. For instance, after several disbursement cancellations and new renegotiations, another standby agreement was signed with the IMF in July 1987 which implied, among other things, a deep fiscal adjustment, a restrictive monetary policy, a further opening of the economy, and a permanent bi-monthly supervision of these measures by that institution.²⁶ In that way, external pressure increased and domestic policy orientation was more and more orthodox.

On the domestic front, the government intensified the divide-and-conquer strategy towards the unions. It had already negotiated wage increases the year before in return for a commitment not to strike. But it had done so on a sector by sector basis, fixing the level of the increase to each union's relative bargaining power. It now initiated a series of talks with a conciliatory group of unions known as "the 15"²⁷ to appease the confrontation.²⁸ In return, unions expected the passage of a package of long-desired legislation allowing them to control welfare institution funds (the *obras sociales*) and to resume unrestricted wage negotiations (*paritarias libres*²⁹).

²⁶ See Tedesco, 1994, Chapter 6.

²⁷ This group represented the most orthodox Peronist position within the union ranks and probably the most open to dialogue with the government. It was formed by several powerful unions, such as those from the automobile, banking, health, electricity, meat, restaurant, state petroleum, telephone, and textile sectors.

²⁸ It is worth noting that towards the end of 1986 Saúl Ubaldini had become the sole General Secretary of the CGT, a fact that presaged further confrontation.

²⁹ In 1991 labor laws established that wage increases had to be tied to productivity growth and that agreements between employers and

As a result of the agreement, a representative from those unions was appointed Minister of Labor, Carlos Alderete. Although this appointment --apparently contradicting the government's initial intention to hold union power in check-- was a new source of distrust for the entrepreneurial sector, a renewed version of the desired "social pact" was attempted. The major partners would be the government, "the 15" unionists, and an entrepreneurial group formed by the Captains called the Consejo Empresario Asesor (Business Advisory Council). However, negotiations over new labor legislation, the functioning of the social security system, wage policy, etc. advanced very little. The business sector led by the UIA strongly opposed the unions' proposals and objected to the way the government sent the bills to Congress, that is, fast and without consultation. In fact, the capitalists seemed increasingly concerned over growing union power and its future consequences.

On the other hand, the union representative in the Cabinet actually became a source of trouble since he permanently opposed Minister Sourrouille's decisions on wage levels and stabilization measures that might have hindered the interests of the workers. Obviously, these disputes reflected underlying opposition concepts and did not help to forge the image of a government in control.

Faced with a new escalation in inflation and an electoral defeat before Peronism in September that year, the Radical administration became increasingly unable to generate credibility in its own capacity to find a way out of economic decline and political conflict. Concessions to the military who had rebelled against the government during Easter week, concessions to the unions about salaries and in the sphere of the decision-making process, and concessions to the opposition blocks in Congress (Radicalism had lost its majority in the Chamber of Deputies) in order to pass tax reforms in exchange for the resumption of unrestricted collective wage bargaining (*paritarias libres*) eroded its

employees had to be homologated by the government. Unions have been asking for the derogation of these norms.

control of policy instruments and, probably most important, meant a loss of timely opportunities. In other words, the government began to lose direction and its chances of implementing effective measures dwindled.

Then, in 1988, the pessimistic expectations raised by negative economic indicators (e.g., higher fiscal deficit, lower trade surplus, increasing external debt, a drop in real salaries and the employment rate, higher tax contributions) fueled traditional distributive struggles and pushed inflation up again. However, the government managed to obtain crucial political and financial support from the World Bank. This was an unprecedented event because Argentina had not serviced its debt properly in the past. It had not reached a new agreement with the IMF, and the WB was incorporating some macroeconomic conditions into the lending (a function that had usually fallen within the IMF sphere of action). According to some sources, the reason behind this "change of roles" (i.e., the fact that the WB was in charge of fixing the lending conditions) was that the U.S. government feared that the debt problem would explode during the electoral campaign. This concern apparently guided the WB's behavior.³⁰

At this point, the government negotiated an agreement with the main business representatives, basically, the UIA and the Cámara Argentina de Comercio (Argentine Chamber of Commerce, CAC), to gain their support for the new short-lived economic plan, the Primavera Plan. It could not overcome the business sector's lack of confidence and the strong opposition manifested by the actors who were most negatively affected by the economic measures. Such sectors as the agricultural sector and the unions intensified their resistance.³¹ In his letter of resignation, Sourrouille clearly states the Radicals' lack of power and support from society, saying: "... the task of the economic reform and

³⁰ Cf. Financial Times, 09/27/88, p. 4; The Economist, 03/11/89, p. 20.

³¹ On this period, see Acuña, M., 1995, Chapter VII. For a view of the agro-business sector's position, see Palomino, Mirta L. de: "Las entidades agropecuarias", in Nun and Portantiero (comp.), 1987, pp. 195-223.

stabilization was hampered by the absence of a social and political majority who could mobilize enough power to neutralize the resistance of vested interests and provide consistency to the policies of change."³²

In January 1989, the WB cancelled its loan. The economic team was floundering. Two Ministers of Economy succeeded Sourrouille but could do nothing but "administer" the debacle.³³ The history of that "hot" 1989 summer and the final months of Alfonsín in office has already been described in Section III.3. It will be resumed in the next section to help explain the context of the decision to launch structural adjustment reforms.

Finally, some other elements help to explain the Radicals' difficulties to implement such reforms. One has to do with the realm of ideas; another, with the individual characteristics of policy makers, and a third, with timing.

As Palermo suggests, part of the initial refusal of the transition government to apply neoliberal policy recommendations had to do with the conceptual elaboration of the previous experience.³⁴ Political elites identified the authoritarian military regime of the 1970s and early 1980s and the monetarist market-oriented economic policy it had tried to implement as part of the same package, no matter what their relationship had actually been. They thus criticized this ideological affinity and blamed both the military and orthodox technocrats for the legacy they had left to democracy.

This meant that the basic elements of the diagnosis were to be found in past errors and not in structural vulnerabilities of the domestic economy. The discussions revolved around the policy instruments

³² Quoted in Martínez, 1991, p. 27.

³³ Tedesco (1994) points out that the rest of the economic team, though aware of their failure, did not resign before out of loyalty to Alfonsín and because they knew the President would have been unable to replace them.

³⁴ See Palermo, 1995a, p. 44.

(on finding the right ones and using them), not around radical changes in the way the economy was organized. On the other hand, this conception also implied that the transition government's mandate involved correcting those past mistakes,³⁵ that is, implementating sound economic policies that harmonized with democratic values and could foster growth, development, and equity. Therefore, the selection of policy instruments would exclude the recessive and exclusionary measures that usually make up a structural adjustment program.

The second factor to be considered refers to the individual level of analysis. It concerns the President's personal difficulties to assume the costs of certain decisions. Those difficulties did not lie exclusively in his personality but rather in ideological ties with the specific political sub-culture (see Section IV.1.) he was immersed in.

Though it was impossible to speak with him about this, I gathered from several secondary sources that he had become increasingly aware of the real limits he was confronting. As was mentioned at the beginning of this section, the government's political and economic goals were quite clear when they took office (i.e., the former had priority over the latter and major structural reforms were not perceived as absolutely necessary and urgent). Given the peculiar transition circumstances, the debate in the inner circles of decision making revolved around the means to achieve them (e.g., whether or not to follow a *concertación* strategy). Later, when the options taken proved to be insufficient and both the confrontation and the *concertación* strategies had failed, the key question was the extent to which the government was willing to alter

³⁵ It is important to put this idea in a broader framework. The last wave of re-democratization that took place throughout Latin America in the 1980s was perceived by political elites and most social actors not only as a new alternation between military and civilian regimes but as a turning point in the history of political instability, as a change that would definitely "accommodate" social and economic relations. Therefore, all efforts were directed to the consolidation of democratic regimes for good. This was manifested not only in the political discourse but also in concrete actions (e.g., a clause on the defense of democracy was included in the economic integration agreements between Brazil and Argentina as a condition for their progress).

its objectives and carry out a painful economic adjustment.

Apparently, in that respect, Alfonsín was caught both by the vicissitudes of the transition and by the ethical patterns Radicalism imposed on its leaders. In other words, he had to deal with the difficult task of reconciling a divided society and consolidating democratic institutions while responding to the people's demands and build a consensus for the government's initiatives. According to Adolfo Canitrot (one of the main members of the economic team), Alfonsín was seriously concerned with the military problem for which his administration had not found a definite solution. Moreover, the confrontation strategy provoked adverse consequences (resentment within the military ranks). Attempts to ameliorate the situation were regarded as signs of weakness. Consequently, "Aware of that [of the possibility of future difficulties on that front] Alfonsín exercised extreme caution in his management of the situation. He tried to avoid confrontations and withdrew to a strategy of compromises. In his dealings with the trade union leaders, the business sector, and the Church, he never undervalued the danger of a new rapprochement of his interlocutors with the military corporation."³⁶

Regarding the second factor, the President was convinced that a pact existed between the electorate and himself based on the Radicalism's traditional respect for democratic liberal principles and procedures and on their notion of political representation. This pact also implied the commitment to strengthen democratic institutions and improve the living standards of the majority, which required confronting entrenched corporate interests (e.g., those of the unions and the military). Alfonsín was convinced that the legitimacy of a democratic government was based not merely on its political or economic achievements but also on loyalty to certain values. Consequently, he believed that he could not betray this agreement with the people for short-term economic reasons. In his own words, "There were also things

³⁶ Cf. Canitrot, 1991, p. 128.

we did not want to do: we sometimes postponed or simply did not make the adjustments that a bare calculation could have shown to be beneficial -- and they most certainly would have been in the long run. But at that time, they would have given rise to social costs and impossible sacrifices that important sectors of society would have been unable to bear ... That is why I do not think we can speak about mistakes in this case, but rather of situations which forced us, at times, to diminish the speed of our march toward the transformation of structures that the country needs."³⁷

In addition, his own personality was by no means purely impulsive, charismatic, or pragmatic. Though it is difficult to speculate on this point, he transmitted the image of a very rational, moderate, and sober person, constantly concerned with the correct assessment of policy implications. That might have led him to endless consultation that complicated and delayed the policy-making process. No matter how accurate this may be, his personal style undoubtedly contrasted with that of Menem's (see Section IV.3.3.3.). And given the centrality of the President in the decision-making structures, it offers a good point for comparison.

Finally, despite the last desperate efforts to shift the economic orientation, the Radical administration "was too late." As is shown above, it took some time for the Executive to accept the limits of its initial strategy, to elaborate a new diagnosis, and to accept that the remedy was precisely what had been rejected. As usual, ideas, institutions,³⁸ and men resisted change. In the meantime, not only had the real socio-economic conditions deteriorated greatly, but also the opposition party and other key actors had had time to recover and present a strong bargaining position. Thus, the need to implement

³⁷ From Alfonsín's last speech to the Congress (05/01/89). Quoted in Novaro, 1994, p. 60.

³⁸ Note, however, that the Radical party was not fully committed to the application of economic reforms. Although it supported the Executive's initiative, it took some time for the party to adopt the new diagnosis uniformly. See, for instance, Machinea, 1990.

structural reforms was incorporated into the Radical discourse towards the end of Alfonsín's administration. However, by then, the political context did not foster a coalition that would have been able to support such a decision, and the government was too weak, doubtful, and discredited to lead the coalition-building process.

IV. 3. Menemism: Governing by Imposition

"It is good to fish in troubled waters," goes an old popular saying. Carlos Saúl Menem, the Peronist presidential candidate elected in May 1989, seems to have brought to office the personal attributes of being a good fisherman with quick reflexes. He had already proven so when he defeated the *Renovadores* (the Renovation wing)³⁹ in internal party elections in 1987, capitalizing on the reorganization of the party to his own benefit and that of his presidential campaign.

Once elected President, he soon made use of the demands of Alfonsín's opponents and transformed them into discursive and practical instruments of his ideological shift.⁴⁰ He had campaigned using the nationalist and populist party background and had appealed to the movement's historical traditions. Indeed, these elements had been a source of concern to the local capitalist sector and to external

³⁹ The 1983 electoral defeat deepened the disarray that Perón's death had initiated in the Peronist party and, to a large extent, led to a revision of internal party structures and working mechanisms. The democratic election of a presidential candidate in 1987, which was impelled by a fraction called the *Renovadores* (Renovators), gave the party a sense of unity and a leader. On explaining the influence of this stream's development, Palermo ("El Menemismo, ¿perdurará?", in Iturrieta, 1994, pp. 309-346) refers to three main consequences: a) the institutional evolution of Peronism towards a party form opposing the character of social movement that it had had since its origins; b) the changes in the relative positions within the party of union leaders and political cadres, favoring the latter; c) the increasing influence on party affairs of economists through whom business groups found a channel for their demands.

⁴⁰ For instance, just before the election he anticipated some of the first economic measures to be taken, which were basically those that responded to the agricultural and industrial sectors' and the international creditors' demands: the unification of the exchange market, the reduction of export taxes, and the payment of the external debt. Cf. *Ambito Financiero*, 04/04/89, p. 9.

actors.⁴¹ But once in office, Menem tried to rapidly show how disposed he was to carrying out the necessary reforms these sectors and the people at large were expecting.

In that sense, the first years of his mandate were plagued with political and economic measures that did not respond to a coherent and detailed policy design but rather to the need to send clear signals to internal and external actors of the government's commitment to a reformist orthodox approach. Towards the end of Alfonsín's mandate, financial speculation had paralyzed political power. Therefore, Menem's main goal was to create the minimum conditions for credibility and political stability that would allow him to govern. In order to do so he established close links with influential actors who could serve as the basis for a governing coalition.

On the political front, he formed an alliance with the liberal party Unión de Centro Democrático (Union of Democratic Center, UCeDé). Alvaro Alsogaray, the leader of the party (a key figure from the conservative wing, former official during military regimes, and traditional advocator of the liberal dogma) was offered the post of ambassador in Washington, but he turned it down. Afterwards, he became the *ad hoc* economic advisor of the government on the foreign debt issue. His daughter, María Julia Alsogaray, was appointed *Interventora* (head of the enterprise) for the privatization of ENTel (the national telephone company) and subsequently assumed other high posts. Moreover, the UCeDé made a common front with Peronism in various electoral contests and on crucial votes in Congress.

Furthermore, on forming his first Cabinet, President Menem consulted with key social actors (business associations, the Church, the military), giving priority to candidates who had close links with those

⁴¹ As Morales Solá (1990) remarks, during the last months of the presidential contest Domingo Cavallo, National Deputy for the Peronist party and Menem's advisor at that moment, campaigned in the United States to change the candidate's image, trying to convey that his eventual electoral success would not contradict the U.S. government's and commercial banks' interests.

sectors rather than to party politicians.⁴² Most significantly, the key post of the Minister of Economy was offered to a representative of the firm Bunge & Born (the most powerful Argentine multinational and historical adversary of Peronism), Miguel Roig, and afterwards Néstor Rapanelli.⁴³

These first steps took many by surprise and created several conflicts, even within the Peronist party, and even more so when the content of economic measures corresponded to an orthodox program of structural adjustment, as explained in Section III.4. Old friends of Menem's, opponents, and even newcomers, all had to quickly decide whether to align themselves behind the leader or be out of the official project. The President's gamble was to implement a radically different socio-economic model from that of the past five decades, using a style of government that showed both striking differences from and continuities with that of his predecessor and with that of previous Peronist governments. The following sections sketch the principal characteristics of this style.

IV. 3. 1.- The Importance of a Context of Crisis

Just as the Alfonsín's administration had been seriously conditioned by the political context generated by the democratic transition, Menem's government was marked by the dual legacy of hyperinflation and economic emergency. It was dual in the sense that the situation, like any crisis, implied both a serious constraint and an

⁴² He later incorporated professionals with a technocratic profile, although they were not party members (e.g., Domingo Cavallo, Rodolfo Díaz, Guido Di Tella).

⁴³ Miguel Roig suddenly died a few days after Menem took office.

opportunity. On the one hand, something had to be done and there was no room for failure. No government could have withstood the repetition of hyperinflationary episodes and their disruptive consequences. On the other, that same latent threat allowed for a greater room for manoeuvre. It justified the concentration of power, the use of extraordinary policy-making mechanisms and even the construction of a special political discourse that explained that behavior⁴⁴ (see the next section). Hence, the limitations imposed by a context of crisis can also be seen as a policy instrument.

Indeed, the Peronist government made use (and abuse) of this instrument. Nevertheless, as was argued in Chapter II, the policy-making process is always the result of a particular relationship between the state and society. In democratic societies, the possibility of implementing certain economic policies is, to a certain extent, a function of society's willingness to bear the costs of such measures. In the Argentine case, although Menem's economic program was exactly the opposite of his electoral propaganda and it implied important social costs, he faced neither serious public opposition nor organized resistance. Thus, in explaining this apparent paradox, the context of crisis is particularly relevant.

There is unanimous political and academic consensus that hyperinflation was the last straw. After decades of chronic economic crisis and the deterioration of living standards and, particularly, after the disenchantment and incredulity provoked by the restored democracy's inability to fulfill political and economic expectations, there existed a certain "demand" for order and drastic changes.⁴⁵ This

⁴⁴ On the differences between "crisis-driven policies" and policies that arise in times of "politics-as-usual", see Grindle and Thomas, 1991, Chapter 4; also Horowitz, 1989. For a comprehensive account of the implications of different policy-making contexts and the short- and long-term determinants of the Argentine context of crisis, see Palermo 1995a, Chapters 1-3.

⁴⁵ For some authors this circumstance also coincides with a crisis of representation that affects all political parties and the emergence of a peculiar kind of leadership of which Menem is a perfect example.

situation usually favors the almost complete delegation of powers to the people's representatives, a process that fits the Caesaristic orientation of the Executive in Latin American countries perfectly.⁴⁶

However, it is important to underline one distinction. For most authors (specially, for economists), the hyperinflationary episodes account for everything that followed. In my opinion, these episodes were the most evident manifestation of the failure of past policy choices and of the exhaustion of the previous socio-economic model. They were catalysts that marked the climax of that model's crisis and, as such, colored the context of crisis with a pressing sense of urgency. However, the decline and virtual collapse of old patterns of politico-economic relations were the crucial element that opened the door to new arrangements and that prevented the formation of opposition coalitions. As will be analyzed in the next section, hyperinflation weighed more as an argument for an intimidating discourse to be used to build consensus and neutralize opposition than as a determinant of policy outcomes.

So, the combination of an apathetic and demobilized society and Peronist underestimation of formal democratic mechanisms facilitated the rapid implementation of broad and deep reforms. Firstly, the social mood expressed a fear of returning to a very unpleasant past, which may have raised the tolerance threshold of many sectors in society. At the same time, the costs were already so painful that further pain would not have been felt.⁴⁷ This absence of generalized social opposition encouraged

See Novaro, 1994; also Portantiero, 1995.

⁴⁶ On these trends, see O'Donnell, 1992.

⁴⁷ In what constitutes an interesting reformulation of the first thesis, Palermo and Torre (1992) redefined Przeworski's argument (1991) and elaborated the second: the idea of a "consensus of escaping into the future." Once people have experienced a serious decline in their living standards and high costs are already being paid, they may tolerate reforms and even prefer drastic alternatives which promise a quick and definite way out of the situation of crisis. The public mood may thus manifest that "consensus of escaping into the future" not only because a promise exists of a better future but because of a dramatic urgency to escape from an unbearable present or a profound fear of returning to a

discretionary government action. Secondly, Peronism resorted to its pragmatic tradition as a way to provide a solution to the emergency, implementing an economic program that would help to build government credibility and legitimacy in the domestic and international spheres.

In that sense, Menem's administration continued and exacerbated the historical trend of concentrating the decision-making processes at the level of the Presidency and Ministers of the Executive power. The list of examples starts with Congress's broad delegation of decisional powers to the Executive through the already-mentioned laws of the Reform of the State and Economic Emergency (see Section III.4.). It also includes: the changes in the composition of the Supreme Court of Justice (i.e., the increase of the number of members and the appointment of like-minded judges), guaranteeing support for the Executive's measures; the replacement of critical top officials who might have had some veto power (e.g., at the National Prosecuting Attorney's Office for Administrative Investigation and the Auditing Board); administrative and functional changes within the state structures that concentrated economic decision making (e.g., the suppression of several Secretariats and Under-Secretariats and the creation of new ones in the sphere of the Presidency and the Ministry of Economy, and the absorption by the latter of the Ministry of Public Works); and the extremely frequent use of presidential decrees and veto faculties⁴⁸ (e.g., when Congress was reluctant to support the Executive's initiatives or when they attempted to introduce modifications).

In other words, before a "window of opportunity" created by the context of crisis and emergency, the Executive institutionalized the discretionary use of the decision-making power already conferred on it by the Constitution and the extra-decision faculties the government

painful past. For a thorough survey of approaches explaining social tolerance to reforms, see Navarro, 1995.

⁴⁸ For a detailed analysis of the use of presidential decrees, see Ferreira Rubio and Goretti, 1996; on the use of the veto power, see Mustapic and Ferreti, 1995.

urged Congress to delegate.

It is this concentration that paved the way for personalistic and discretionary mechanisms of policy making, not only at the level of state power but also within lower state structures and at the sub-level or micro-level of decision-making structures. For instance, the internal dynamic of the economic team, which shows many traces of verticalism and personalism,⁴⁹ is a good illustration of that feature, as well as the kinds of policy networks that were created around the design and implementation of concrete reforms. These networks were small and highly concentrated around few nuclei; their dynamic basically relied on key individuals' interests, resources, and decisions. (See Chapters VI, VII, and VIII.)

Nevertheless, at the macro-level of analysis it is worth noting that the prevalence of the above mechanisms implied a lack of respect for the division and independence of powers (especially, that of the Legislature and the Judiciary from the Executive) and an underestimation of deliberative mechanisms (considered to unnecessarily delay and obstruct decisions) that worked against the consolidation of democratic institutions. Thus, the political system showed an overwhelming presence of the Executive that contrasts with the subordination of the Judicial Power (via cooption, political pressures, and corrupt procedures) and the relegation of the Legislative Power to a secondary role (by taking over some of its faculties, concentrating the power to initiate legislation, and modifying or annulling its bills). Regarding the economic reforms, this concentration of power facilitated the acceleration of the process and removed obstacles to policy implementation since it closed spheres of debate and the possibilities

⁴⁹ For instance, Santoro (1994) points out that Cavallo usually assigns a particular task or theme to each team member. Each knows that aspect perfectly but neither the others' work nor the details of the whole issue. Consequently, the minister is the only one who can put all the pieces together or, so to speak, "solve the puzzle." Also, he always has the last word in any dispute, is the main source of policy initiatives, and has imposed upon the team his own accelerated and hard rhythm of work.

of voicing opposition. In that way, it also allowed the Executive to maintain an impermeable and inflexible position *vis-à-vis* social demands.

In sum, the context of crisis and economic emergency limited the policy options but, at the same time, provided the elements to convert the demobilization of society and the use of extraordinary policy-making mechanisms into a successful political formula to implement economic reforms.

IV. 3. 2.- Constructing the Political Discourse

If context is an important variable in determining policy viability it is because context is interpreted by individuals as part of an endless cyclical process. The objective conditions urge some conceptual forms of understanding and resolution. Then, their effects acquire meaning through individuals' perceptions and definitions of the situation and, at the same time, these abstractions mold the social action that operates and modifies that context. At that point the entire cycle begins again. One of the basic links representing this relationship between agents and structure is language. The construction of the political discourse that "interprets" a certain policy shift give us some clues as to how the real context affects behavior and vice versa.

The adoption of a neoliberal economic approach clearly went against the most important Peronist tenets. An explanation was necessary to clarify this ideological U-turn. As was mentioned in the previous section, the context of economic crisis and emergency --particularly, the hyperinflationary episodes-- provided the concrete elements for that explanation. First of all, the exhaustion of the state-centered socio-economic model set the basis for extreme arguments like "there is no

alternative", which emphasized the past failures, rejected heterodoxy or any other options, and postulated the inevitability of implementing an orthodox economic plan.

In elaborating these arguments, Peronism had an advantage over Radicalism. As was mentioned in Section IV.1., the particular ties between leader and constituencies allowed the former greater room for maneuver. He was the only one who could "interpret" reality and give content to political representation. Besides, the traditional Peronist pragmatic approach to politics gave priority to ends over means, action over values, policy impact over policy design, and the maximization of benefits over ideological commitments. Thus, Menem found it relatively easy to phrase his change in terms of a pragmatic adaptation to a new and demanding international context and dramatic domestic circumstances.

For instance, he argued that in the current era "the end of ideologies" called for the rupture of dogmatic straitjackets and the adoption of a new attitude (of a clear political and economic alignment) towards the international centers of power. As for the domestic aspects of the economic policy, the references to "emergency", "the worst crisis in Argentine history", "major surgery", "all or nothing gamble", and "a risky flight in a plane without parachutes" have been very frequent. They all reinforced the idea that economic matters were the most important issue, and conveyed a sense of urgency and emergency, which made drastic changes necessary and inevitable.

These expressions were also framed in the traditional pragmatic approach adopted by Perón, who used to say that "the only truth is reality." Indeed, this use of political discourse marked a continuity between Peronism and Menemism. Menem also maintained the same link that had characterized internal party relationships. The leader --free from the ties of an implicit pact between the people and their representatives-- determines the path; he is the only one that can correctly interpret the people's feelings and needs. Menem thoroughly embodied this type of mandate. During the first years of his

administration, he affirmed that "... on reviewing Perón's books, I am convinced that I have taken the correct path."⁵⁰ And the same kind of argument served to neutralize criticisms. For instance, as the Minister of Labor at that time said, "The trade union leaders are not the owners of the truth; they cannot question a legitimate aspiration of Menem's, who only responds to the will of the people."⁵¹

In that way, doctrinal contradictions were eliminated. Moreover, this interpretation also marked an exclusionary way of defining reality and policy options. Menemism was not only changing the traditional Peronist assumptions (e.g., state protectionism, defense of workers' rights) but also pointing out that the source of present troubles lay in the socio-economic order established by Peronism itself in the 1940s (e.g., state expansion, protectionism, increasing public deficit). Therefore, no options remained but to "undo" this order, privatize and deregulate the whole economy following world trends. That being the new credo, the official rhetoric clearly determined the limits of dissent. It portrayed the ongoing situation as a struggle between two models or national projects: one, seeking progress and growth, represented by the government and its followers; the other, embodied by the opposition, choosing to stay backward and marginalized. Thus, those who still advocated social welfare policies or any kind of state intervention were said to be "on the opposite side of the street." Those criticisms coming from government officials or party members (including union leaders) who were pejoratively labelled "*nostálgicos del 45*" (nostalgic characters who still lived in 1945) were regarded as attempts to abandon the boat --a definition that demanded they either align or resign.

Furthermore, Menem added a particular element of mysticism to his role. It presented him as the sole holder of "the truth" and portrayed his action as a crusade, a question of faith more than as a republican mandate. For example, on launching the presidential campaign he

⁵⁰ Cf. *El Cronista Comercial*, 07/12/89, p. 5.

⁵¹ By Jorge Triaca. Cf. *La Nación*, 06/25/89, p. 8.

declared, "... for the poor children who are hungry, for the wealthy children who are sad, for the brothers without work, for the families without a roof, and for the bread that is missing on the tables of so many Argentines: follow me, I will not let you down!"⁵² This last phrase, together with the expression "to change history" became the campaign slogans. They transmitted the idea that he had reached the center of the political scene with a transcendent mission and was asking voters to believe in his program as a matter of faith. Even later on, talking of the reforms that had been introduced, he said: "Argentina was a true machine for impeding. We are trying to transform it with many problems and inconveniences; but, everything can be overcome when there is faith."⁵³

In general terms, the use of this religious terminology has become part of the President's daily language. For example, at the beginning of his speeches he usually refers to citizens as "sisters and brothers," and he explained his reelection (on May 14, 1995) in terms of the people's bestowal of "a positive verdict" on his administration, considering that "the people's voice is God's voice."⁵⁴ Undoubtedly, this kind of rhetoric appealed to people's feelings and wishes more than to deep ideological commitments, trying to exploit simultaneously old identities and present despair. The way these ideas were communicated also revealed continuities and ruptures with the old style. The leader addressed the people in a simple and emotional way that was reminiscent of Perón; at the same time, this relationship focused more on personal contacts and mass-media propaganda than on the traditional popular street mobilizations and harangues to the masses.⁵⁵

⁵² Quoted in AA.VV., 1991, p. 25.

⁵³ Cf. Clarín, 11/19/95, p. 3.

⁵⁴ Cf. Clarín, 11/21/95, p. 3.

⁵⁵ A detailed analysis of the role of the media and changes in the style of political representation is beyond this study. See, for example, Novaro (1994); also Nun, 1995.

In this way, under a mix of post-modern, pragmatic, and mystic labels, sudden changes in the content of political discourse, like Menem's on taking office, were seen as an obvious correlation of new realities and social needs. The President --who is the main actor in the policy-making process-- presented those changes as the manifestation of the irrational, infinitely "creative" elements of political action, unlike the rational probabilistic and supposedly impotent arguments of other politicians. The context of dramatic crisis so expressed on launching the reforms became a great opportunity and help to convince the people that bearing the costs of transition for a better future was worth it. As time passed, however, the permanent resort to the emergency argument proved to be linked to a particular policy-style (see next section) that called for this kind of discourse to justify the use of mechanisms that did not contribute to the consolidation of either the reforms or a democratic regime.

IV. 3. 3.- On Individual and Collective Resources of Power

IV.3.3.1.- BRINGING THE BUSINESS SECTOR IN

As was mentioned above, the government's alliance with the business sector was absolutely explicit and went much further than the *concertación* attempts made by Alfonsín. The words of the first Minister of Labor clearly revealed the attempt to build a new governing coalition: "... nothing of what is coming in Argentina can be understood unless we realize that a new bloc of social, political, economic and perhaps military power is being born ..."⁵⁶

⁵⁶ Jorge Triaca. Quoted in Smith, 1991b, p. 52.

The relationship with Bunge & Born and other economic groups began soon after Menem had won the Peronist internal elections. Many of the powerful Argentine conglomerates had even financially contributed to his presidential campaign⁵⁷ and the rapprochement intensified when Menem was elected in May 1989 and he showed he was willing to fulfill obligations with external creditors and give incentives to the development of the domestic business sector.⁵⁸

It was reasonable, then, to expect that entrepreneurs would play a more supportive role than they had under Alfonsín. As Palermo remarks, "Together with a 'historical' ideologically pro-market nucleus, a critical mass was formed by the economic and financial diversification of the most dynamic and concentrated sectors, the breakdown of corporate organizations that represented the interests of the 'domestic bourgeoisie', and finally, the generalized unrest that peaked under the effects of the Primavera Plan. Before this, without a doubt, the likelihood was remote that an opposition business sector bloc with the capacity to hinder the reforms could take shape."⁵⁹

However, it took the government some time to gain the confidence and political support of the business sector. On the one hand, as was analyzed in Section III.4., during the first two years in office Peronism applied several economic plans and replaced the Minister of Economy four times. On the other, the privileged position acquired by the B&B holding fueled inter-entrepreneurial jealousies and disputes. Most important, business sector reaction to these trial-and-error

⁵⁷ Indeed, Roig's appointment was linked to a "lifesaver" loan for US\$ 2.5 billion to be conceded by some firms to the Central Bank. See Martínez, 1991, pp. 28-31; also Peralta Ramos, Mónica: "Economic Policy and Distributional Conflict among Business Groups in Argentina: from Alfonsín to Menem (1983-1990)", in Epstein (ed.), 1992, pp. 97-123.

⁵⁸ Before Menem took office, Domingo Cavallo was in charge of a mission to the United States to transmit to commercial banks, the IMF and the World Bank the government's intention to apply an orthodox economic program. Cf. Martínez, 1991, pp. 38-39.

⁵⁹ Palermo, 1995a, p. 143.

experiences varied according to how the concrete measures affected their interests. This was largely determined by the internal heterogeneity that historically characterized the sector which, at the same time, correlated with different ideological positions.⁶⁰ As Sidicaro points out, "For many years the business sector had shared liberal ideas as a diffuse but useful ideology in order to criticize those aspects of state action that did not favor them. However, in fact, they were not always speaking about the same problem when they objected to the state's action. The liberalism of businessmen was an ideological position of circumstantial and defensive convergence and not an effective unity of criteria and interests."⁶¹

Although the official turn towards the neoliberal credo coincided with the traditional demands of businessmen, once again their liberal preferences did not reflect strong ideological commitments and only translated into general and diffuse support. Whenever government action had a differential impact on business interests because of the different endowment of economic and political resources among sectors and firms, the heterogeneity of their positions became more apparent. For instance, just as some sectors had opposed the restructuring of industry and the opening of the economy proposed by the Radical government, they also resisted the initial Peronist attempt to pass the Economic Emergency Law and the Reform of the State Law given that these bills would implement a broad deregulation, privatization, and the elimination of subsidies. As a result of business lobbying (specially, from traditional state contractors and clients), such norms underwent some modifications. The Emergency Law suspended only 50% of the subsidies derived from industrial promotion and for a period of only 180 days (instead of all subsidies for an indefinite period). The Reform of the State Law gave preference to public enterprises' providers and contractors in the privatization process and made the state assume those

⁶⁰ On the historical behavior and organizational trends of this sector, see Acuña, 1988.

⁶¹ Sidicaro, 1995, p. 133.

firms' debts.⁶²

Pressure through financial speculation, which was the main threat to government stability, was also applied when concrete measures affected other interests. For instance, in December 1989 the government announced an increase in the agricultural export taxes and a postponement of the payment on maturing domestic debt. As a result, those who were affected, mainly the agricultural sector and foreign banks, moved their funds towards exchange speculation, which raised interest rates. Confronted with a new dollar/price spiral, Minister Rapanelli resigned. Faced with these pressures, the new Minister Antonio Erman González annulled the increase in export taxes, promised to take care of the internal debt bonds, and established a free exchange market. In other words, although the Bunge & Born group had lost its central role, the influence of the business sector --at least, of the export sub-sector-- on economic policy making was still very important. In fact, the same kind of speculative movements continued throughout González's term.

Hence, what the government did was to change the set of material incentives entrepreneurs faced, thus promoting the emergence of a group of beneficiaries. The instrument was accelerated implementation of concrete reforms. Throughout 1990, deregulation and privatization processes advanced significantly, and the kind of economic insertion the few local holdings attained through privatization helped to consolidate their role as economic and political actors (see Chapter V). The so-called "Captains" actually became the main interlocutors of the government in the economic policy-making process.⁶³ In the same way,

⁶² See Peralta Ramos, *op.cit.*, p. 110.

⁶³ For example, in the recently created *Consejo Nacional del Trabajo y el Empleo* (National Council of Work and Employment) delegates from the government, the unions, and the business sector met to find solutions to the unemployment issue. The group known as "the 8" (constituted by the most important firms from the industrial, construction, banking, commerce, and agricultural sectors) was the sole representative of entrepreneurs. Cf. Clarín, 03/22/96, pp.2-3.

coinciding with capitalists' growing influence on this process,⁶⁴ the support from international actors (e.g., the U.S. government, IMF, WB, private creditors, etc.) increased as the government's decisions satisfied their demands.⁶⁵ In that sense, Cavallo's appointment as Minister of Economy sent indisputable signals to the foreign and domestic business sectors, now united both economically and politically in the investment opportunities of privatization, that there would be no reversal in the economic policy.

Thus, their participation in the economic policy-making process as a power block became even clearer and, for them, the government's political credibility continued to be tied to the leading role of the Menem-Cavallo tandem (see next section).⁶⁶ As for the institutional form this participation in the policy-making process took, it is possible to identify the exacerbation of a trend initiated under Alfonsín's government: the shift from the traditional relationship between the state and organized business associations towards the direct interaction between policy makers and large business conglomerates.

In sum, the bulk of the economic reforms meant good business for local capital and external creditors. The big economic groups completed

⁶⁴ Interview with Antonio Erman González, Buenos Aires, 02/27/96.

⁶⁵ See Smith, 1991b, pp. 57-62.

⁶⁶ The public statements of senior foreign officials on this point have been numerous, specially in critical instances. For instance, the former US Secretary of the Federal Reserve, Paul Volcker stated: "I believe that Cavallo's presence, strength and personality are important. But so is Menem. Because Cavallo would never have been able to do what he did without the President's support. This combination of persons is what gives Argentina a different opportunity. The continuation of them both generates credibility abroad" (cf. Clarín, 11/22/95, p. 21, my own emphasis). More recently, on the eve of a renewed dispute between the President and the Minister and amidst insistent rumours about the latter's dismissal, the U.S. Secretary of State Warren Christopher, qualified Cavallo as a "hero" for his role in what he considered to be "one of the greatest economic successes of this century" (cf. Clarín, 03/01/96, pp. 2-3). The same kind of praise from the financial world for both Menem and Cavallo was frequently expressed during the last annual assembly of the Interamerican Development Bank, recently held in Buenos Aires (cf. La Nación, 03/24/96, pp. 1,16-17).

and consolidated the diversification, integration, and internationalization of their economic activities process that had initiated two decades before. It was particularly through privatizations that they became owners and/or managers of former public monopolies that guaranteed an almost risk-free high rate of return, and a new redistribution of power between rival business groups emerged. Partly because of that internal alignment has business commitment to the new economic orientation proved to be quite solid. Although business often criticized concrete measures,⁶⁷ the big holdings continued to support Minister Cavallo each time political disputes within the governmental circles threatened to oust him from the Cabinet; and they defended the general economic orientation during critical circumstances.⁶⁸

Finally, to a large extent this governing coalition Menemism forged in the 1990s with the business sector redefined the party's traditional power base. As Acuña points out, the capitalist sector had participated in previous Peronist administrations through the organizations representing entrepreneurs and workers from small- and medium-sized firms (Confederación General Económica, CGE; Confederación General de la Industria, CGI). These organizations had ordinarily opposed the big economic groups and their associations (UIA, SRA).⁶⁹ Since they were the arena for interactions between coalition partners, they had also worked as the main nexus between the state and the sectors supporting the previous Peronist governments.

In the 1990s, however, the restructuring of the populist coalition

⁶⁷ See Clarín, Suplemento Económico: "¿De qué se quejan los industriales?", 07/24/94, pp. 6-11.

⁶⁸ For instance, when the *Tequila* crisis hit Argentina, political credibility was again at stake and foreign banks threatened to withdraw their financial support. The Group of "the 8" urged Cavallo to accept IMF demands and, together with the Consejo Empresario Argentino (Argentine Entrepreneurial Council, an institution formed by big local bankers and industrialists), led private firms to issue a US\$ 1 billion bond to finance the government's needs. Cf. Clarín, 03/19/95, p. 21.

⁶⁹ See Acuña, C. (comp.), 1995, pp. 235-237.

that had been forged in the 1940s required the establishment of close ties with the beneficiaries of the neoliberal reforms (i.e., the most concentrated, diversified, and internationally competitive groups within the capitalist sector and the unions linked to them). This was a turnabout in old commitments with the domestically-oriented industrialists (usually, nondiversified single firms) and the labor movement.⁷⁰ Thus, Menem's alliance with the new hegemonic business sector is one of the manifestations of the end of that old corporate equilibrium and the beginning of the construction of a new power base, one that accurately represents, in neo-Marxist terminology, the new regime of capital accumulation (i.e., the socio-economic conditions and class structure within which capital is created, appropriated, and accumulated).

IV.3.3.2.- PROMOTING UNION DEMOBILIZATION

Unlike what had happened to Radicalism, Menem could rely on the almost unconditional loyalty of unions to any Peronist government. From the very beginning, in the midst of a serious socio-economic crisis, the CGT endorsed the anticipated transfer of power and agreed not to strike. Nevertheless, the government's policy towards this sector included both the typical carrot-and-stick and divide-and-conquer strategies.

Menem ambiguously used his close ties with some union leaders. In some cases, those ties were derived from a personal friendship developed over years of political militancy in the Peronist party and, in others, during the years they shared in prison under the military rule. This is no minor detail in a policy-making process in which, as was referred to in Chapter II, informal mechanisms of interaction often prevailed over institutionalized structures. In the opinion of a top party member, these close relationships allowed Menem to know the intricate and obscure side of union leaders' power (e.g., their *negociados*, that is,

⁷⁰ On the restructuring of policy and electoral coalitions supporting Peronism, see the thorough analysis by Gibson, 1996.

the illegal deals, many of which were institutionalized through the many prerogatives union organizations extracted from the state) and to use that information as a bargaining tool.⁷¹

Besides, by relying on these ties, union leaders sought Menem's direct intervention in their favor in several conflicts. These expectations were in vain. The President always gave priority to the achievement of reformist goals and was inflexible in the face of resistance. According to the leader of the bank workers union: "All we got was that he would receive us in Olivos [the presidential residency] from time to time, but just to give us a pat on the back."⁷²

Reactions to the policy shift were not homogeneous. When Menem had to decide whether to accept the anticipated transfer of power or not, he called a meeting with his inner circle of advisors and friends, among whom were some union leaders from the main state-owned enterprises. Menem expected the strongest resistance from that sector. He also had private talks with some of them.⁷³ He confronted those leaders with the fact that the Central Bank had run out of reserves, implying that the country was bankrupt and that "major surgery" was inevitable. In other words, Peronism had the opportunity to demonstrate it could prevent the economic and political debacle but there was no alternative to structural reforms. Those who agreed justified the costs in terms of doing anything to "save democracy."⁷⁴

That situation was a watershed within the labor movement. Previous factions --the "62", the "15", the "25"-- again split between those *Menemistas* who aligned themselves behind the official position and the critical wing led by Saúl Ubaldini (General Secretary of the CGT), who

⁷¹ Interview with Antonio Erman González, Buenos Aires, 02/27/96.

⁷² Juan José Zanola. Cf. *Prensa Confidencial*, Edición # 85, V Epoca, Año XX, 07/20/95, p. 8.

⁷³ Interview with Julio Guillán, Buenos Aires, 03/08/96.

⁷⁴ Interview with Antonio Cassia, Buenos Aires, 01/31/96.

had become the main representative of the unions' combative opposition to Alfonsín. The former were offered several posts in the Ministry of Labor, to which Jorge Triaca was appointed minister, and in other national agencies.

In October 1989 that split was institutionalized when discrepancies at the CGT Congress gave way to the creation of two separate bodies: the CGT Azopardo (loyal to Ubaldini) and the CGT San Martín (the pro-government wing led by Güerino Andreoni from the commerce union). At that time, having made several fruitless attempts to force Ubaldini's resignation, the government tried to replace him.⁷⁵ The congress's inability to reach an agreement on the list of candidates and the abstention of some key unions enabled the official stream to win. However, the Ubaldini sector did not accept the outcome and the schism was unavoidable.⁷⁶ From then on, the dissident stream lost strength and representation since several unions, stimulated by the government, withdrew their support (especially Lorenzo Miguel's followers).

Additionally, during the first months of 1990 the Executive sent a bill to Congress modifying labor laws (see Section III.4.) in a way that would limit the right to strike and "relax" the working conditions. In the first case, the project aimed to avoid potential resistance from the public sector unions (loyal to Ubaldini), where the costs of the first adjustment measures in terms of salary decline and massive dismissals were more visible. However, congressional resistance and a delay in passing the bill led the President to impose it by decree (# 2184/90) in October that year. Second, the Employment Law aimed to reduce labor costs and prevent social unrest by giving employers incentives to regularize the situation of illegal workers, legalize different types of

⁷⁵ Top officials publicly questioned his competence and legitimacy for that post, and President Menem offered him a diplomatic post in Spain.

⁷⁶ See Epstein, 1992, *op.cit.*, pp. 142-145.

temporary hiring, and create an unemployment fund.⁷⁷ This proposal was also controversial. It faced opposition from all other parties in Congress and underwent some modifications, but was finally passed towards the end of 1991.

In that battle, the government's policy of punishing opponents and rewarding compliance was fruitful. Of course, given the already deteriorated economic conditions and the advance of reforms, dissidents had little to win and all to lose if they persisted in their totally combative attitude. This helps to explain why the bulk of the unions progressively turned to a more or less "tolerant" approach towards official initiatives.⁷⁸ Although the CGT unified again in 1992, after some years it was possible to identify three main positions: a) a majority of union leaders that not only supported the government's economic orientation but also actively participated in the implementation of changes, for instance, by becoming public officials or managers of the Programas de Propiedad Participada (Participatory Property Programs); they were all members of the CGT; b) those representing unions that did not compromise with the government but did not cut ties with the party apparatus; they created the so-called Movimiento de los Trabajadores Argentinos (Argentine Workers Movement, MTA); c) those who opposed the socio-economic neoliberal model that had been implemented, declared themselves independent of party affiliations --though they appeared to be closer to center-left political parties-- and organized union activities in a new fashion. They joined under the Congreso de Trabajadores de la Argentina (Workers Congress of Argentina, CTA).⁷⁹

⁷⁷ See *La Nación*, 02/03/90, p. 3.

⁷⁸ See *Clarín*, Suplemento Especial: "Los sindicatos en el ojo de la tormenta", 07/30/95, pp. 2-7.

⁷⁹ On these divisions, see Palomino, Héctor: "Quiebres y rupturas de la acción sindical: un panorama desde el presente sobre la evolución del movimiento sindical en Argentina", in Acuña (comp.), 1995, pp. 203-230; also Murillo, 1994.

Consequently, the bulk of the unions remained either loyal to the official orientation or negotiated with the government. As Acuña points out: "While union leaders who either supported the project nor clearly opposed it dominated the public spotlight, the 'tolerant' leaders, critical of the direction taken by the government but not willing to confront 'until conditions improve', have been the key to the government's success in confronting conflicts with unions. Their repeated lack of participation in anti-governmental movements on grounds of short-term arguments, systematically jeopardized the constitution of a majoritarian union opposition front."⁸⁰

Thus, two factors for which the government is partly responsible account for the low mobilization of union opposition under the current administration: the already mentioned divisions within union ranks and the persistent deterioration of general socio-economic conditions, which made combative measures highly risky and ineffective.

IV.3.3.3. - MENEM-CAVALLO: A MARRIAGE OF CONVENIENCE

Deep socio-economic reforms like those being considered here are usually linked to the names of the leaders who carry them out. President Menem and Minister Cavallo are cases in point. They brought to the government different attributes and sources of support.

Carlos Saúl Menem holds a degree in law. His incorporation into the Peronist party dates from 1958. He was elected governor of his native province (La Rioja) in 1973, ousted and imprisoned in 1976 by the military government for five years, and re-elected governor in 1983 and 1987. He won internal Peronist party elections over Antonio Cafiero in 1988 and the national presidency in 1989. During his presidential campaign he made use not only of the traditional Peronist elements and

⁸⁰ Acuña, Carlos H: "Politics and Economics in the Argentina in the Nineties (Or, Why the Future No Longer is What It Used to Be)", in Smith et al. (eds.), 1994a, p. 28.

mechanisms of relationship between leader and bases, but also added to them new traces and his personal style. At that time, he had constructed his own circle of followers by somehow differentiating this group from the party structures and also from the prevalent political style of most Peronist and non-Peronist politicians.⁸¹

On the construction of that inner circle, two trends can be identified. One has to do with who was included. The other refers to the kinds of links those persons established. The President has always been surrounded by close relatives and personal friends or acquaintances. This situation is something like a clan moving around one chief and reproducing the nepotist and clientelistic ties so typical of the most culturally and economically underdeveloped provinces. This environment favored the development of informal contacts, the exchange of favors, personalisms, high discretion, and authoritarianism.⁸² All these features were present in the policy networks arising around the design and implementation of economic reforms.

As for the relationship with the people, during the campaign Menem developed a particular kind of leadership that "fit" popular needs and expectations in the late 1980s. He resorted to the old populist and nationalist contents of the Peronist doctrine and to the kinds of mechanisms that characterized the Peronist style of political representation (see Sections IV.1. and IV.3.2.). Even his personal physical appearance corresponded to that of a telluric *caudillo* who travelled all around the country talking to people in simple and emotional language. Moreover, in contrast with traditional politicians and their rational discourse, Menem appealed to people's disenchantment

⁸¹ On this point, Sidicaro (1995, pp. 126-129) talks of the construction of a "counter-elite". The term helps to explain the innovating, disrupting, and autonomous character of the group.

⁸² Moreover, the first two years of Menem's administration were plagued with scandals of corruption that involved several of his closest advisors and relatives of his own and his wife's. In fact, these are families of Arab descent with important commercial interests in La Rioja, whose internal dynamics (known precisely because of these public scandals) seems to fit the clan pattern. See Cerruti, 1993.

with the previous failures and tried to raise their hopes by resorting to vague promises of a splendid future.

Unlike Alfonsín's sober and thoughtful image, Menem cultivated the image of a successful man, able to perform well in any activity; a "man of action", willing to act as a "mobilizing leader"⁸³ rather than one who waited for the circumstances to mark the way. In Menem's own words: "The three golden rules of leadership are: 1) to be perfectly informed; 2) to keep the information secret; 3) to take by surprise. That is what I did all my life..."⁸⁴ And he went on giving examples of the application of these rules during his electoral campaign and of their usefulness when he later turned to orthodoxy immediately after taking office.

Even more, as Nun suggests, the President's popularity increased as he appeared in the media as a frequent participant in the local jet-set's parties, sharing the spotlight with eccentric businessmen, artists, and sportsmen. In fact, this practice has also been very common among other members of the government. The highest echelon of the administration --if one can use the term "administration" in talking of this aspect-- has far from respected public accountability and has been rather ostentatious of the pleasures, luxuries, and impunity conferred on them by power.⁸⁵ In short, this presidential image conveyed a sense of success that easily raised people's sympathy and approval.

⁸³ I am taking this term from Kavanagh's work on Thatcherism. This author distinguishes two kinds of leadership, which helps to describe the differences between Menem and Alfonsín. He argues: "The mobilizer emphasized taking decisions, task performance, and changing the status quo, whereas the reconciler is more concerned to maintain the consensus and cohesion of a group. The former is mainly concerned with the achievement of goals, not overly concerned about opposition and the costs of disturbance; the latter is more concerned to represent and respond to diverse interests and is willing to arrive to compromises, if necessary sacrificing policy goals." See Kavanagh, 1987, pp. 246-247.

⁸⁴ Quoted in Nun, 1995, p. 87.

⁸⁵ On this point, see Walger, 1994. It is a journalistic work, though very well documented.

In the political realm, Menem has always been a very astute and transgressive politician who glories in his courage to embody vanguardist ideas and firmly confront opposition. As for the latter point, he even plays the so-called game of "chicken". When he is faced with resistance to his ideas and decisions, he sticks to them no matter what the consequences are and challenges his opponents. That was quite clear in his relationship with combative union leaders and it proved to be a successful formula. His charismatic leadership and his capacity to discipline political forces have been crucial to the advancement of economic reforms.

On the other hand, the other major figure of this story is Domingo Cavallo, an economist from the province of Córdoba, who had long been working on his own politico-economic project. His short term as president of the Central Bank during the last military government is usually remembered for his nationalizing the private firms' external debt. He later proposed his own economic plan to President Alfonsín, who turned it down. With the support of an important Peronist leader from his province, José Manuel de la Sota, he was elected national deputy for the 1985-1989 term. During the first two years of Menem's administration, he was Minister of Foreign Affairs.

His arrival at the Ministry of Economy in January 1991 also meant the "landing" of an important group of economists and other professionals (around 200 in total) who had previously worked at or were linked to Cavallo's own research and consulting agency: the Córdoba based Fundación Mediterránea. This foundation was created in 1977 by important local industrialists who promoted a developmentalist, pro-industrial, and federalist view of economic growth. They saw an opportunity to foster their own interests in Cavallo's projection at the national political level. To some extent, their strategy was complementary to Cavallo's personal ambition.⁸⁶

⁸⁶ For a detailed account of Fundación Mediterránea's origins and evolution, see N'haux, 1993. Also Mercado Córdoba, Informe Especial: ¿Adónde va la Fundación Mediterránea?, # 12, January 1995, pp. 45-51. For a general analysis of the role of technicians in the history of

Cavallo's team included not only some of his colleagues from the foundation,⁸⁷ but also old friends⁸⁸ and free-lance technicians who had eventually been hired by Fundación Mediterránea and/or had previous political militancy.⁸⁹ They all shared a technocratic profile in the sense that they showed some expertise and professional training in their areas. Some of them also have academic experience and/or have obtained degrees at foreign universities.⁹⁰ They showed a certain ideological homogeneity which, together with good team dynamic and complete loyalty

Argentine public administration, see Iazzeta, 1996.

⁸⁷ For example, Carlos Sánchez (Vice-Minister of Economy), Aldo Dadone (president of Banco Nación), Felipe Murolo (vice-president of the Central Bank), and Edmundo Soria (Secretary of Transports).

⁸⁸ That was the case, for instance, of Luis Murina (Under-Secretary of Administrative Coordination), Juan Carlos Bongiovanni (Under-Secretary of Trade), both old classmates of Cavallo's. To some extent, this group could also include Ricardo Gutiérrez (Secretary of Finance), who brought Cavallo to the Under-Secretariat of Development (Córdoba) in the 1960s; Roque Fernández (president of the Central Bank), and Horacio Tomás Liendo (Secretary of Coordination).

The latter is perhaps a key member of the team since he has been in charge of giving legal format and channeling to most of Cavallo's initiatives. He is the son of General Horacio Tomás Liendo, Minister of Domestic Affairs during the military government, also from Córdoba, who brought Cavallo to his ministry as technical secretary. Liendo, Jr. and Cavallo first met there and established a personal relationship. The former is a lawyer, a specialist in Administrative Law, who initially worked for the current administration at the Central Bank, then as part of the team in charge of renegotiating the external debt, and currently as Secretary of Legal, Technical, and Administrative Coordination. He defined himself ideologically as "non-affiliated to Peronism yet, not from the liberal wing but from developmentalist groups, not completely opposed to state action in certain areas." Interview, Buenos Aires, 01/26/96.

⁸⁹ For instance, Walter Schulthess (Secretary of Social Security) and Carlos Tacchi (Secretary of Public Finances), both clear examples of appointees because of their particular expertise; Juan Schiaretta (Secretary of Industry); Guillermo J. Seita (Secretary of Institutional Relations), a Peronist leader who became Cavallo's political "operator", basically vis-à-vis the party and the union leaders; Juan José Llach (Secretary of Economic Program), who worked for Fundación Mediterránea from 1982 to 1985 and also comes from the Peronist ranks and has been linked to Catholic Church groups.

⁹⁰ Cavallo himself is a graduate of Harvard University; both Aldo Dadone and Roque Fernández have PhDs from Chicago University; Juan J.

to the Minister, gave the entire group a relatively high level of cohesion and executive ability. This proved to be an advantage during the "epic years"⁹¹ (when most of the reforms were implemented) because the lack of power struggles within the economic team facilitated its efficient performance.

On the personal side, Cavallo is reputed to be vehement, obstinant, tenacious and have inexhaustible energy to work. Even his closest advisors manifested surprise at the Minister's perseverance in his objectives, despite any obstacles, and pointed out these personality factors as decisive to the plan's implementation.⁹² He also stands out from the rest of the team because he is the only one that shows a definite political vocation and personal political goals --apparently, he aspires to the presidency.⁹³ What is clear is that he came to office not only with a long-term view of the changes he wanted to implement, but also with the conviction of the permanent character he wanted to apply to those changes.⁹⁴

As was already mentioned, Cavallo joined the technical teams to work on Menem's presidential campaign and was particularly responsible for promoting the candidate's image abroad. At that time, part of his own team, Horacio Liendo, Juan Llach, Luis Sanguinetti, Aldo Dadone, Felipe Murolo, had already been working on what would later be known as

Llach is a professor at a private university and has undertaken some graduate studies in the United States; Walter Shulthess has been advisor at many international institutions (World Bank, IDB, Harvard University) and professor of public finance and microeconomics in Córdoba.

⁹¹ The expression corresponds to Horacio Liendo, who remarked on the low level of dissent, the division of labor, and the group mechanisms operating among the economic team members. Interview, Buenos Aires, 01/26/96.

⁹² Interview with Juan J. Llach, Buenos Aires, 02/13/96.

⁹³ On details of Cavallo's political relationships and aspirations, see Santoro, 1994.

⁹⁴ Interview with Horacio Liendo, Buenos Aires, 01/26/96.

the Convertibility Plan. On this point, a parallel may be established with the Sourrouille experience: an isolated think-tank working on the economic program, though this time the measures were not discussed with any other actors and the policy-design process took less time.⁹⁵

Nevertheless, it was the erratic economic performance at that time (1990) and Cavallo's fluid relationship with the local and foreign business sector and the financial world that determined his taking over after Antonio Erman González left. In particular, Cavallo came to provide Menem's administration with the element of credibility it had been seeking for so long. For external creditors and investors, as well as for local entrepreneurs, the new Minister's appointment represented a guarantee of the government's commitment to reforms and to a negotiation approach that would have due regard for those actors' interests (see Section IV.3.3.1.).

For Cavallo himself, this particular "asset" (his own reputation within business circles) meant some degree of autonomy from political power. At least initially, he could impose his orientation on the economic policy without interferences. The relationship between the President and his Minister of Economy worked quite well during the first few years, especially since monetary stability translated into electoral triumphs for Peronism. However, this has never ameliorated an underlying tension between them. They are not the kind to easily accept that anyone else can acquire a high political profile and become a rival. At the same time, they need each other for their mutual success.

Thus, they have disputed the role of protagonist and the "parenthood" of economic success, and have been on the verge of "divorce" several times. Cavallo has seen his sphere of action permanently curtailed by the party, Congress, and the Executive, especially since 1995, when the economic model clearly showed its costly side, e.g., increased unemployment, recession, and external

⁹⁵ Interviews with Horacio Liendo and Juan Llach. According to them, even the IMF was surprised at the kind of mechanism proposed (the fixed exchange rate) and was unsure about supporting it.

vulnerability. (On this point see, for instance, the development of the reform of the national system of social security described in Chapter VIII.)

To date, Menem and Cavallo have managed to control this controversial relationship because they are aware that they need each other to maintain both the political and economic support to govern. However, they have exacerbated the personalistic tendencies of the policy-making process so as to inextricably tie government capacities -- basically, political credibility-- to their presence more than to institutions or new agreed-upon rules of the game. Personalism (and the power concentration and discretionary faculties it involves) has been an effective mechanism on launching the reforms but may prove to be a weakness during the consolidation stage.

Conclusions

The analysis of the last two Argentine democratic governments sheds some light not only on contrasting differences between economic policy-making styles but also on common elements and continuities in the management of public affairs. From the point of view of a policy-making analysis, the articulation of context, ideas, and power resources determined the viability of economic reforms in both cases.

During Alfonsín's mandate, a structural adjustment program could not be applied: it took some time --too much-- for institutions and men to incorporate it on the government agenda. It never crystallized as the main goal, and thus did not generate the necessary political will and capacity to build a supporting coalition and to risk facing the costs of potential opposition.

The factors explaining the government's failure to adopt economic reforms lay in the particular constraints posed by a context of democratic transition and a deep economic crisis, in party and personal ideological commitments, and in the lack of power resources. These were: the priority conferred to the consolidation of democratic institutions *vis-à-vis* economic affairs; an isolated economic team with almost no roots in the business community, who was not strongly attached to neoliberal principles and was supported only by a weak and hesitant leader (the President); a strong opposition from political forces in Congress and from unions; and an ambiguous relationship with the business sector that never crossed the threshold of distrust. All these factors sealed the fate of the Radicals' tepid attempt to carry out profound economic reforms.

However, that failed attempt paved the way for the orthodox program that was implemented by the Peronist government. The latter came to office with a fresh endowment of political resources and made use of

different mechanisms to govern. By then, the crisis had worsened and political pressure from the international financial agencies had increased, thus reducing the range of policy options.

At the same time, the dramatic situation itself allowed for a justificatory political discourse that focused on the emergency and for the use of extraordinary policy-making instruments --those that could overcome opposition more easily. Menemism found in the Peronist political culture the best elements to present a policy shift as part of a pragmatic adaptation to new circumstances, and in the Menem-Cavallo tandem the politico-economic formula to carry out the reforms.

President Menem showed a certain disregard for *concertación* experiments and no reluctance to by-pass democratic deliberative mechanisms in order to discipline social forces and his own political party. His particular type of leadership facilitated the task. Minister Cavallo has been the visible head of a technocratic team, which in this case was fully devoted to neoliberal fundamentals and had an efficient internal dynamic and high level of executive ability. Although disputes with the political wing of the government had been very frequent, his contribution in terms of building credibility within the domestic and international business community is beyond question.

Chapter V

The Privatization Policy

Introduction

This chapter concentrates on a particular measure within the economic adjustment reforms implemented by the Menemist government: the privatization program. The purpose is twofold: a) to explain the policy and its development from the macro-structural level of adoption to the micro level of implementation, and b) to illustrate and support the arguments made so far about the policy-making process and the construction of economic policy viability.

The first section presents a brief historical account of state involvement in the economy since the 1880s highlighting i) the impact of this involvement on the development of a specific economic structure, ii) the complex network of public and private interests that developed around state intervention, which to a large extent determined iii) the successive waves of nationalizations and privatizations that marked the country's economic history.

The second section turns to the analysis of the privatization program implemented in the 1990s, with particular emphasis on its explicit and implicit objectives, on the means selected to achieve them, and on the underlying rationale of the policy. Undoubtedly, all three of these elements are closely linked to a deep state crisis that was most clearly manifested in the fiscal imbalance. Some general characteristics and the stages of the Peronist government's privatization program carried out are also explained there.

The third section complements the second: it provides details on the process of policy formation and characteristics. The interactions between actors and the development of a policy network around the privatization issue are described.

The fourth section addresses the focus of this study, that is, the construction of political, technical, and economic viability for a

particular measure of the structural adjustment package: privatization. To that end, the analytical categories sketched in Section II.2. are applied to the explanation of the mechanisms by which privatizations could be carried out and the kind of policy networks that developed around the issue.

Drawing on this analysis, I argue that privatizations in Argentina were the result of an initiative by the government elite and were mainly characterized by an integral and nongradual approach that differentiates the process from other countries' experiences. In addition, taking into account the historical account presented in the first section, it is plausible to argue that the construction of the political and economic viability of privatizations in the 1990s was guided by a new convergence of public and private interests in the distribution of costs and benefits, which implies a new form of state protection in the interests of the hegemonic social stratum. The state was, once again, the agent and the object of such a distribution.

Finally, the last section gathers the scant information available about the economic, social, and political impact of privatizations. Given the fact that they have only recently concluded, this is perhaps one of the most controversial parts of this work, one that will remain open to debate for a long time. However, there is some sense in making a preliminary assessment of policy results in order to grasp an entire historical process of state-market-society relationships that goes far beyond its manifestations in the 1990s. In that way, it helps to support the thesis advanced in Section II.3.

V. 1.- Historical Account of the Public-Private Balance

As Schvarzer argues, state involvement in the Argentine economy goes back at least one century and has increased steadily no matter what the political and economic ideologies of the successive governments have been.¹ Indeed, owing to the lack of domestic capital and foreign interest in investment, the state built a vast railroad network to connect the *pampas* (i.e., the agricultural sector) with the Buenos Aires port during the second half of the XIXth century. This incipient fan-shaped transport system economically integrated the region, pushed a revaluation of adjacent lands, and fostered the expansion of economic agents associated with their ownership and exploitation. Actually, once the complete endeavor had proven to be profitable, private interests exerted pressure on the state to transfer the railways, which were finally acquired by British companies.

Likewise, in the early 1910s economic and strategic concerns guided the attempt to put recently discovered and future oil reserves under public control. This later determined the creation of YPF (the national oil company). It is worth noting that world confrontations (World War I and World War II), and the ideological mood and doctrines they propagated, gave impulse to another wave of state intervention, long before Keynesian ideas had an impact on economic policies. In Argentina the military had played a key role since its Independence. They came to the center of the political scene just before the World War

¹ Noted elsewhere, the historical account follows Schvarzer's analysis (1979, 1981, 1982, 1993), since he is one of the few authors to provide an integrated socio-economic-political approach to state development in Argentina. I am grateful to him for his insights into and comments on this work.

II and the development of an industrial complex was linked to military needs and interests.²

Indeed, the creation of YPF in the 1920s, some military factories (e.g., planes, special steel, iron, arms, chemicals), and SOMISA (Argentine Steel Mixed Society), all had to do with those defense considerations. As a consequence of World War II, the impossibility of acquiring inputs and other consumer goods stimulated further expansion and integration of manufacturing activities as part of an industrialization model via import substitution. Many of these industries came to be controlled by public enterprises or mixed companies in which private capital had a relatively small participation.

Throughout the 1930s and 1940s several state-owned firms and organizations were created (e.g., Corporación Argentina de Productores de Carnes, Junta Nacional de Granos, de Carnes, de Algodón, Comisión Reguladora de la Yerba Mate), expanding state control and intervention to almost all economic sectors and favoring a new wave of statist measures in the mid-1940s. In fact, as had happened in other socio-economic aspects, Peronism gathered national and international trends (e.g., the expansion of the state apparatus, union development, the incorporation of the masses into the political system, Keynesian management of the economy) and institutionalized the developing conditions and demands. Nationalizations --particularly, that of the railways in 1947-- should be understood in this framework.³

By the 1950s this network of public enterprises was showing some signs of inefficiency, deficitary balance-sheets, and declining productivity, negatively affecting the public finances and impairing the possibilities of national economic growth. This triggered a certain re-

² On the creation and evolution of that military-industrial complex, see Pérez Esquivel, 1995.

³ As had happened some decades before, British companies had presented successive nationalization plans and pressed for the transfer of railways, this time to the state sphere. See Schvarzer, 1979, pp. 54-55.

arrangement of public-private forces in the economy. During this decade nationalizations (the state expanded to the public services, the communications, and the transport sectors) and "re-privatizations" (e.g., previously nationalized German firms which were returned to their original owners) were parallel trends. However, it was once again the state that led the process of incorporating fresh private capital: state incentives and financial support were the base for the development of new manufacturing industries (for instance, through mixed associations in the automobile sector).

The most outstanding fact of the 1960s was the modification of the legal framework within which state-owned enterprises operated. They thus became less affected by political ups and downs and acquired greater autonomy from the governmental structures. To that end, some were transformed into stock companies or "state companies," a label that synthesized this new autonomy. To some extent, this was a response to the increasingly complex realities of both public and mixed enterprises.

During the first half of the 1970s the state again intensified its presence in the economy. It carried out new investments in the oil sector. (Two petrochemical companies, Petroquímica General Mosconi and Bahía Blanca, were created). It also took over some private sector firms that had gone bankrupt. Since 1976 the military government, resorting to the "subsidiary principle,"⁴ sought broad privatization objectives, although this attempt did not produce a significant reduction of the state apparatus (see below).

In terms of economic sectors, this historical process meant that the state came to control the full production and distribution of electricity and gas, around two thirds of the oil production and 80% of its refining, almost the complete communications infrastructure (mail and phone services, telex and satellite connections), all port services,

⁴ The principle of subsidiary refers to the need to counterbalance and reduce to a minimum interventionist and expansionist trends within the state that may curtail, condition, or limit social actors' initiatives and possibilities of development.

the total railways system and around half of the air and sea transport. The state also led steel production and the development of several industries, such as the chemical, mechanical, military vehicles and planes, and related activities. In addition, public enterprises included some banks, financial institutions, and insurance companies.⁵ In short, state action not only determined the nature of the development model and pushed economic growth but also shaped the productive profile of the economy.

The economic dynamic itself determined that this horizontal insertion of the state across economic sectors simultaneously fostered the development of public and private economic activities revolving around the state-centered structure. Those activities were closely related to the satisfaction of the public enterprises' increasing demand for all kinds of inputs and services. On the one hand, this meant a further expansion of the state role in the economy. (For example, faced with the private sector's lack of interest, the state itself assumed the risk of investing in those related industries and services.) On the other, this process also favored the emergence and growth of a local *bourgeoisie* (basically, state providers), whose wealth and expansion actually depended on the state's own expansion. Local capitalists were overly adverse to risk taking and welcomed state's intervention in the form of subsidies and other incentives.⁶

As a consequence, a complex network of public-private economic relations cutting across different economic sectors developed and were channelled through the kind of clientelistic and prebendary ties that so typified the political systems of less developed countries. Therefore, it is plausible that state intervention in the form of protection, subsidies, and other prerogatives was not only the direct result of governmental elites' preferences for a certain economic orientation but

⁵ See Ministerio de Economía, 1974; also Elizagaray, 1980.

⁶ An analysis of Argentine capitalists' attitudes and their impact on economic development and democratic stability over the last decades can be found in Acuña, C., 1991.

also a consequence of some private interests, economic strategies, and demands. In other words, there was a point where public and private interests and objectives crossed, creating an interdependence. It is important to understand how this network was redefined rather than dismantled in the 1990s through privatizations, thereby giving rise to a new balance between state and market. I will return to this idea in the following sections.

Nevertheless, in order to explain both the political and economic dimensions of policy implementation, another element is also relevant: the high centralization of the public sector. Its axis had always been the Executive, upon which all public enterprises depended. The Executive was the one to define their functioning patterns through a very thick web of numerous bureaucratic agencies. (In 1988 around 191 state organizations ran different aspects of state-owned management.)⁷ This arrangement favored the intertwining of interests and provided new sources of inefficiency. The juxtaposition of functions and spheres of action, the proliferation of controls --and of disputes over who-controlled-what-- and the lack of coordination between economic objectives and strategies within and across agencies impaired the public enterprises' performance in the long run.

In the early 1980s there existed between 900 and 1000 enterprises in which the state had partial or total ownership. Of that group only 14 (among them, YPF, Segba, Gas del Estado, and Aerolíneas Argentinas) represented between two-thirds and three-quarters of the total economic activity of state-owned enterprises. Their relative importance was decisive no matter what indicator one takes.⁸ However, their poor performance aroused serious criticisms and largely contributed to the decline of the general consensus supporting state intervention in the economy in the late 1980s.

⁷ See Bour, Enrique A.: "El programa argentino de desregulación y privatización", in de la Balze, Felipe A.M. (comp.), 1993, p. 226.

⁸ See Schvarzer, 1982, p. 73.

As Gerchunoff and Cánovas suggest, state-owned enterprises were progressively abandoning the social welfare purpose that had guided their creation. On the contrary, the quality of their services was increasingly poor; their productivity declined; the rate of return on their investments was very low; the rates of their services deteriorated; and their indebtedness increased notably.⁹ In addition, an important part of the public deficit was linked to the functioning of public enterprises because they worked within a structure of prices that generated deficit. Over the last decades, the inflationary problem led governments to use public services rates as an instrument to fight inflation by creating a lag between those rates and the rest of the prices of the economy.¹⁰ The Executive had thus been setting their rates at such a level (a lower level than what market competition would indicate) that firms could not cover costs. YPF is probably the best example of this point (see Section VII.1.). Rates were, in fact, one of the ways the state subsidized some economic activities.¹¹ According to Gerchunoff and Visintini, "... the double objective of the government's strategy was to sustain the private investment rate above what spontaneously arose in the market and maintain a prolonged system of social protection. However, this was done at the cost of an extremely high fiscal deficit."¹²

The implications of this situation are greater if one considers the outflow of funds public enterprises required from the national treasury. The current expenses of these firms in 1985 represented 16.6% of the GNP. If capital expenses are added, the figure mounted to 20% of the GNP. Revenues did not often suffice to cover total expenses so

⁹ See Gerchunoff and Cánovas, 1995.

¹⁰ See Quarracino, 1986; also Miñana and Porto, 1976.

¹¹ This practice, together with tax subsidies and other forms of protection, led scholars to talk of the existence of an "assisted capitalism" in the postwar period.

¹² See Gerchunoff, Pablo and Alfredo Visintini: "Privatizaciones en un contexto de inflación e incertidumbre", in Porto (ed.), 1990, p. 173.

public enterprises received funds from the national treasury. These funds amounted to between 1.5% and 3.5% of the GNP. They also received credit to the equivalent of 0.63% and 2.58% of the GNP.¹³

Moreover, as was already mentioned, state-owned enterprises had become the hunting ground of bureaucratic agencies and a source of prebends for unions and private sector providers of goods and services to the state. Consequently, the whole formal and informal functioning of the public administration acquired very slow and complex dynamics, often marked by the entrenched interests' intention to block any changes that would shake them up. Public officials' knowledge of the internal functioning of organizations and of the information circulating within these structures allowed them to actually control the bureaucratic procedures. So if they wished to, they could endlessly delay administrative procedures or changes. In addition, the successive "rationalizations" (internal changes) of public administration, highly politicized management of procedures, employees' incompetence, and corruption contributed to the degradation of the public sector performance.

Another illustration of this chaotic situation within the public sector is the following. Soon after taking office in 1989, the Minister of Public Works, José Roberto Dromi, characterized the whole structure of public administration as "... a mess, incomprehensible, where science doesn't even attempt to set foot because it would be beaten by ignorance." He also gave a clear indication that the rationale for reforms in this public sector might have had nothing to do with organizational patterns but rather with the legacy of a particular institutional context. He said, "There are so many laws and so many regulations that I think the computer doesn't even know there are so many. That's what we saw when we sent the project for the Economic

¹³ See Cortés Conde, Roberto: "Crecimiento y estancamiento en Argentina", in Teitel (comp.), 1995, pp. 384-385.

Emergency Law and we decided to eliminate all the subsidies because there was no way to identify them."¹⁴

Therefore, it is not surprising that previous attempts to reverse this situation have proved unsuccessful. A brief reference to the two main antecedents of privatizations is pertinent here.

The privatization program implemented during the last military government focused on a number of relatively small firms that were in the hands of the national state, the provinces, and some city hall governments. Schvarzer points out that there was little interest in those small firms and that the sale price did not match the amount of money the state actually received at the time of transfer because it was to have been paid in installments over several years.¹⁵ As for the large public firms, there were a few attempts to carry out only a "peripheral" privatization policy during that period, that is, the transfer to private hands or subcontracting of some secondary activities of state-owned enterprises. This mechanism --also used by the Radical government-- did not imply a transformation of either the structure or the range of the intervention of the state apparatus.

Therefore, on the whole, this privatization experience did not have a significant impact either on public accounts or on the functioning of the public sector. However, it did bring the issue to the public debate: the economic team postulated the subsidiary character of the state as a main goal and the need to role back state involvement in the economic sphere. This paved the way for arguments for broader privatizations.

The same kind of effect occurred with the Radical administration's attempts to privatize. Although the issue had not formed part of the Radicals' electoral platform in 1983, it was during Alfonsín's years -- with the debt crisis in between-- that the reduction of state size and

¹⁴ Cf. Interview, Somos, 10/18/89, p. 16.

¹⁵ See Schvarzer, 1982.

the need to privatize public enterprises became problematic, subject to public debate, and was included on the government's agenda.

Indeed, the Radical government's privatizing efforts began in 1984. Decree # 414 created a commission to determine which enterprises would be privatized. However, the privatizations effectively carried out included only SIAM (a firm producing home appliances and industrial machinery), Opalinas Hurlingham (ceramics), and Sol Jet (a travel agency). The transfer of Las Palmas del Chaco Austral (an agro-industrial complex under a sugar company) and Austral Líneas Aéreas (a domestic airline) was not concluded. In 1986 the government tried to deepen the privatization process as a way to cope with a serious fiscal disequilibrium: enterprises belonging to the defense sphere were targeted, as well as petrochemical areas, which aroused strong opposition.¹⁶ Some studies about the restructuring of railways were also carried out.

This impulse was pushed further after September 1987 under the new Minister of Public Works. Rodolfo Terragno, a journalist with a technocratic profile, was not a party member and his appointment raised much criticism within Radicalism. He launched a proposal to privatize ENTel (the national telephone company), Aerolíneas Argentinas (the national airline), and to deepen the process of incorporating private capital into oil exploration and exploitation, which had begun in 1985 with the Houston Plan (see Section VII.1.). Not surprisingly, this push coincided with the decline of the Austral Plan. And the IMF and WB were increasing their pressure for the initiation of vast reforms (see Section III.3.).¹⁷

It is worth noting that Terragno's ideas and privatization projects generated serious criticisms and resistance from the unions,

¹⁶ On the details, see Arango de Maglio, 1990.

¹⁷ The agreements reached with those institutions at that time included a clause about Argentina's commitment to initiate privatizations. See Twaites-Rey, 1993b, p. 5.

the Peronist party, left-wing parties, the Armed Forces, and even from some sectors of the Radical party.¹⁸ Indeed, he himself summarized the sources of government troubles on this matter as coming from "... the anguishing scarcity of resources, the parliamentary blockade to any transformation initiative, paralyzing practices by the union corporation, and the dilatory action of bureaucracy."¹⁹

In addition, several authors²⁰ refer to the government's lack of a clear ideological commitment and a coherent strategy on the reform of the state. From Terragno's comments, Arango de Maglio remarks that the absence of frequent Cabinet meetings and interaction between ministers, who dealt directly with the President, hampered the state reform proposal and its becoming a mutual objective with shared responsibilities.²¹

Moreover, the announcement of those privatizations did not generate significant interest on the part of private investors. For instance, in the petrochemical sector (where some of the largest domestic holdings had been expanded) only Atanor, of all the state enterprises tendered, was effectively privatized in 1988. Finally, the whole privatization initiative coincided with a period of increasing decline in the government's political capacities. The letters of intent with Scandinavian Airways System and Telefónica de España for the transfer of 40% of Aerolíneas Argentinas and ENTel respectively were never approved by Congress and the negotiations did not prosper.

Given these conditions, the following two sections will analyze the factors that made similar transactions inevitable and viable only a few years later.

¹⁸ See, Glade (ed.), 1991, pp. 75-98.

¹⁹ Cf. El Informador Público, 10/20/89, p. 5.

²⁰ See Canitrot, 1991; Carciofi, 1990; Machinea, 1990; Arango di Maglio, 1990.

²¹ Cf. Arango de Maglio, 1990, p. 41, 52.

V. 2.- Means, Ends, and Rationale for Privatizing in the 90s

Privatizations in Argentina can be seen as part of a world-wide policy trend that spread as of mid-1970s. Several countries had been seeking to reduce fiscal deficits by diminishing public expenditures, privatizing state-owned enterprises, and limiting state involvement in economic and social welfare activities.²² Undoubtedly, the neoconservative rhetoric that promoted these trends had influenced Latin American policy makers, in general, and Argentine ones, in particular. However, to understand national experiences it is necessary to look closely at the crucial juncture in which this policy prescription had been applied.

Evidence shows that Argentina's last two governments' privatization initiatives, mentioned in Section V.1., sharply contrast with that of the Peronist administration's. The latter faced almost no effective opposition and rapidly carried out a very broad privatization program. I argue that the main explanatory factor here is the complete breakdown of the state-centered socio-economic model --most clearly manifested in the fiscal crisis of the state (see Section III.4.)-- which altered the matrix of preferences and options for all actors.

Two phases can be distinguished in the general characteristics of policy implementation under the Peronist government.²³

²² For a synthesis of the international sources of the privatization policies, see Ikenberry, G. John: "The International Spread of Privatization Policies: Inducements, Learning, and 'Policy Bandwagoning'", in Suleiman and Waterbury (eds.), 1990, pp. 88-110.

²³ This distinction of stages is arbitrary and differs from that of other authors (see, for instance, Gerchunoff, 1992; Twaites-Rey, 1993b; Bour, 1993). It is made only for analytical purposes that respond to the focus of this study. It is based on differences in the way the privatization policy was implemented throughout the process.

The first one began in mid-1989 when Menem took office, and extended throughout 1990 until early 1991. First of all, it involved the transfer of Entel (the national telephone company) and Aerolíneas Argentinas (the national airline) to private hands, the same two cases that Radicalism had brought to the government's agenda. Nevertheless, during this period other privatizations were implemented (some were concluded in the second stage; see details in the Appendix). These included: railroads, several television channels and radio stations, some central and secondary petroleum areas, petrochemical companies (Polisur, Petropol, Induclor, Monómeros Vinílicos, and Petroquímica Río Tercero), and some lines of Ferrocarriles Argentinos (the national railways).

However, the Menemist government defined both ENTel and Aerolíneas Argentinas as leading cases of its reformist attempt. This was because these first privatizations were intended to send clear signals to the financial and business community of the government's commitment to market reforms. Besides, the fiscal deficit problem, together with the impossibility of obtaining new external loans, necessitated an acceleration in the process. Therefore, implementation was guided by both the political goal of building credibility and the economic objective of raising funds to achieve an equilibrium in the national accounts and service the foreign debt.

Consequently, there was remarkable concern over meeting deadlines and very little concern over the procedures. Minister Dromi, a key figure in this stage, acknowledged that the process had been so fast that he could not tell what aspects of the management needed improving because he did not have enough time to deal with all the tasks he had been assigned.²⁴ It was precisely at that time that numerous denunciations about corruption and scandalous episodes involving the

²⁴ Cf. Interview, *Ambito Financiero*, 08/07/93, p. 22.

highest level of officials began to emerge,²⁵ though these did not seem to be a source of serious concern to the government: ministers and *interventores* did not resign; the processes advanced; and one can find ambiguous statements like this: "... what is needed is transparency in the procedures. Transparency is not synonymous with ethics, nor equanimity, nor good behavior, but it certainly helps to dress the democratic model elegantly."²⁶

As had happened with other economic measures, Domingo Cavallo's arrival at the Ministry of Economy in early 1991 was a watershed for the entire adjustment and reform process. From then until the end of 1993 a considerable number of privatizations were carried out or concluded. During this second stage, financial urgencies kept marking the rhythm and content of privatizations. (Revenues coming from the sale of public assets have often been used to balance the national accounts.) But, as monetary stabilization consolidated and corruption scandals proliferated, there was an explicit intention to be more careful with the procedures, to establish sectoral regulatory frameworks, to obtain the Congress' support before proceeding with the bids, and to accelerate the process.

This second phase involved the privatization of power (Segba and others), gas (Gas del Estado), and water and sewerage (Obras Sanitarias de la Nación) services, as well as the balance of the railway lines, the remaining package of petroleum areas, the steel companies (SOMISA and Altos Hornos Zapla), around 500 buildings belonging to state-owned properties, the Buenos Aires subway system, some hotels, military factories, the national grain board, grain elevators at various ports, the livestock market (Mercado de Hacienda de Liniers), and the racetrack (Hipódromo Argentino). In 1994 the reform of the social security system and the transfer of ocean transport companies (ELMA and others), of the

²⁵ Around fifteen lawsuits were initiated solely against Minister Dromi; a half-dozen against María Julia Alsogaray.

²⁶ Minister Dromi, with reference to the privatization instruments. Cf. Clarín, 07/02/89, p. 7.

national insurance company (Caja Nacional de Ahorro y Seguro), and of the national agricultural corporation (Corporación Argentina de Productores, CAP) were concluded (see details in the Appendix). Given the characteristics and temporal location of the sale of YPF (the national oil company), it is taken as an intermediate case in this study since its privatization presented characteristics of both implementation stages.

In general terms, the economic relevance of most of the public services²⁷ and the political goals of the process had much to do with their becoming the main targets. The significant deterioration in public services (a problem that had accentuated during the Radical government and that affected the population's daily life) made any solution very popular. Consequently, privatizations --presented to the public debate within the framework of the "efficiency discourse"-- became good instruments for a government that was desperately in need of concrete achievements to strengthen its position.

The first Menemist Minister of Public Works, José Roberto Dromi, was the architect of the so-called reform of the state. He is a lawyer, a specialist in Administrative Law. During the electoral campaign, he had been Menem's delegate in talks with the military. He had been working on the privatization program since the early 1980s, even in collaboration with the Radical government. On coming to the Ministry of Public Works in 1989, he elaborated the Law of the Reform of the State, which was the kick-off for privatizations. He continued to work on what he vaguely labelled the "political engineering" of its implementation until his ministry was absorbed by the Ministry of Economy.

Dromi took office with a plan to restructure state-owned enterprises, prior to the launching of the privatization policy --a task

²⁷ The data from the 1950-1980 period show that the contribution of public service enterprises to the GNP maintained an average of 6% during those decades, as well as the participation of their personnel as a percentage of total employment (also about 6%). See Ugalde, 1984, pp. 39-41.

that could not be accomplished because of financial constraints. At that moment, he considered it absolutely essential to concentrate decisions and planning at the level of the Ministry of Public Works, which would indicate which global strategies to take. The firms to be privatized would function as the executive bodies in charge of carrying out those decisions; their boards of directors were thus suppressed and replaced by a sole administrator or *interventor*. He also claimed to have put forth some of the names for those key posts to the President, such as María Julia Alsogaray and Octavio Frigerio. Because of the above negative situation of public services and its repercussion on public feeling, he initially gave priority to the privatization of ENTel, YPF, railways, and highways. The mechanism used was public tenders.²⁸

Dromi framed the initiative in terms of "finishing with that old socialist experience we have been so to speak 'dragging', by which the state was the father of everything, the specialist in assisting, helping, and subsidizing without limits."²⁹ He did not believe that this new policy contradicted the traditional Peronist ideology since, in his own words, "Peronism has to be interpreted," and he constantly resorted to the concepts of pragmatism, realism, "no-other-alternative," and to the idea that "under the current circumstances, there is no other way but to apply Perón's lessons."³⁰

He also brought up the efficiency goal that guided the transfer of most state activities to private hands. His arguments about the state's inability to finance the necessary investments that public enterprises needed in order to catch up with the new international standards and become competitive largely resembled those used by Terragno (former Minister of Public Works) some years earlier. Nevertheless, Dromi emphasized that under the Peronist administration there was no

²⁸ See La Nación, 06/16/89, p. 8; Ambito Financiero, 07/08/93, p. 22.

²⁹ Cf. Interview, Ambito Financiero, 07/08/93, p. 22.

³⁰ Cf. Página 12, Suplemento Cash, 07/08/09, pp. 1-2.

privatization process, much less a mere "auction of state assets" as critics argued, but rather a reformulation (a complete transformation) of the state.³¹ Paraphrasing a liberal argument, he argued that public enterprises, although some were profitable, were being transferred "so that society could administrate and control them (...) It will control them everyday when it uses them (...) That's what the President thinks. The citizen is going to hoist the flag of public interest."³² Within this framework, the state should withdraw from economic life, perform only few essential functions, and leave private activity free to operate. Thus, indebted, inefficient, and deficitary public enterprises had to be privatized.³³

However, despite this explicit rationale for privatizing inspired in the fashionable neoliberal arguments, the government clearly sought two other objectives through which politics and economics closely interacted. One was to carry out a deep fiscal adjustment that would reduce both public expenditures and the deficit and provide the resources to service foreign commitments and reduce the external debt. The other was to send an unequivocal signal to domestic and international actors about the economic orientation and the state's new role in a reformed economy. That is, the government had to demonstrate its political willingness to reverse the previous statist-populist-distributionist model. This implied giving priority to both the free workings of market rules (through privatization, deregulation, liberalization, etc.) and the interests of the business community (by offering diverse incentives to a few private economic agents for their economic expansion and participation in the reform processes).

³¹ Cf. Página 12, 05/03/90, p. 3; Página 12, Suplemento Cash, 07/08/09, p. 2.

³² Cf. Página 12, 05/03/90, p. 3.

³³ See interview with Minister Dromi, Clarín, 07/02/89, pp. 7-8.

V. 3.- Policy Making and Policy Network

The first characteristic from the empirical evidence is that privatization cases differ notably. Each case presents its own particularities and that, in part, has to do with the fact that there was no clear, all-comprehensive policy design with "instructions". In fact, to some extent, that was due to the fact that information systems within state-owned enterprises were generally very inefficient.³⁴ The data was scarce or almost null and badly organized. The balance sheets themselves were very often improperly made, as the ENTel case exemplifies. This lack of technical and administrative resources did not facilitate the previous stage of any action, that is, the elaboration of an accurate diagnosis of the situation to be addressed.

As a result, the government had no knowledge and it proceeded without a plan. Once the decision to privatize had been taken --and not by chance was it taken in a precipitous form-- implementation was defined along the way. However, at that point this defining was necessarily shaped by the interactions between actors and, to a certain extent, was beyond the control of the governmental circles.

In addition, unlike other national experiences, the character of Argentine privatizations has followed an integral and nongradual path. In other words, privatizations involved the sale of almost all public shares, keeping very little in public hands; and they were all done at once within a few years' time. This implied that in most cases time did not permit an internal restructuring of the firms and no much care was given to the competitive character of bids. Likewise, in only a very few

³⁴ In that respect, see Minister Dromi's statements in Section V.1.

cases had regulatory frameworks been established at the moment of the transfer.³⁵

As was explained in Section V.2., the first stage of privatization was characterized by speed and carelessness. Two factors were crucial in determining the rhythm and form of the implementation: the financial urgencies and the need to send a clear signal of government commitment to the new economic orientation. The privatization of ENTEL serves as a paradigm of the importance these two factors had. The government made strenuous efforts to meet the original deadline, despite the fact that the conditions of the tenders had been significantly altered in order to reach this objective (see Chapter VI). As for the second factor, privatization is said to have acquired a highly symbolic content, working as an instrument to generate political credibility within the local business sector and among external economic actors. This factor was so important that, as Palermo points out³⁶, when the economic goals (basically, solving the fiscal deficit) conflicted with political objectives (i.e., closing the credibility gap),³⁷ the government gave priority to the latter.³⁸

³⁵ See Gerchunoff (ed.), 1992.

³⁶ See Palermo, 1995a, p. 211.

³⁷ As Section IV.3.3.1. explains, that was because Menem's sudden ideological shift did not show immediate positive results: serious domestic and external distrust about his real commitment to the neoliberal fundamentals persisted for at least two years, despite the fact that the President had appointed important local businessmen and representatives from the most liberal and conservative political wing from the very beginning.

³⁸ It is worth noting that the conflicting character of these two goals arises from the way privatization was implemented. In order to attract investors and show its commitment to reforms, the government accepted responsibility for the public enterprises' liabilities, modified the conditions of the tenders in favor of the future awardees and, among other things, did not carry out the necessary valuations of the firms. In sum, the state sacrificed potential profits and most of the state-owned enterprises were badly sold. For this and other reasons (see Section V.5.), privatization did not resolve the fiscal problem.

Furthermore, policy content was defined along the way, through the actors' interactions. With respect to this, it is worth underlining that private actors' intervention in the policy-making process worked mainly through informal and nonstandardized procedures. This had to do not only with their particular mechanisms of aggregating interests and their own organizational patterns, but is also related to the fact that decisions within the governmental sphere were in the hands of only a few individuals and their inner circles. This, in turn, implied that the many conflicting situations that characterized the privatization process mostly resembled palace intrigues. The resolution of those disputes was linked, in terms of procedures, to no fixed rule and, in terms of content, to personal discretion that was based on neither rational calculations nor economic efficiency rationale.

Moreover, the resolution of those differences often led to a reformulation of what the predecessor or the loser in that struggle had done. Therefore, the policy implementation process became more and more complex and uncertainty about its development increased. This kind of situation occurred, for example, when Ministers Dromi (Public Works) and González (Economy) replaced the *Interventora* Alsogaray towards the end of ENTel's privatization and led the last stage of the tender (see Section VI.6.). All this happened in the context of frequent redefinitions within bureaucratic structures, which indicates how technically and operationally incapable the state was to carry out the reforms. For instance, in October 1990 Minister Dromi announced the creation of fifteen commissions and several under-secretariats to design the guidelines for the privatization of state-owned enterprises; a few months later Minister Cavallo decided to make important organizational changes and create new under-secretariats with similar functions.³⁹

Some analysts also remark on the officials' lack of skills and knowledge about the specific policy area, a factor that complicated the privatization process because it provoked delays, confusion, and

³⁹ See Twaites-Rey, 1993a, p. 69.

uncertainty.⁴⁰ Even more, there exist indicators that corruption was at the root of countless irregularities since some officials also acted as lobbyists for the economic groups who were interested in the bidding.

The disputes that arose within the governmental circles had basically two sources. During the first stage of privatization, the main source was the general lack of definition about the policy itself and how to implement it. In other words, as there had been no previous design and procedures were defined along the way, serious dissent developed over what steps to take. Clear examples of this situation was the never-ending discussions about the regionalization of the telephone company, the division of YPF into four firms by type of activity, and the use of the capitalization of debt mechanism in most cases. However, during the first, as well as the second stage of the privatization program, a permanent source of dispute was the definition of power spheres, that is, the control over the form and content of the privatization process, over what to do and how to do it. Frequent confrontations between the ENTel's *Interventora* (María Julia Alsogaray) and the Minister of Public Works (Roberto Dromi), and between YPF's *Interventor* (José Estenssoro) and the Minister of Economy (Domingo Cavallo) provide abundant evidence (see details in Chapters VI, VII, and VIII).

Besides, the participation of the future buyers in various stages of the decision making stands out. This turned particularly intense in the elaboration and modification of the bidding conditions, that is, of those norms that would later govern their activities and the market dynamic. For instance, the *Administradoras de Fondos de Jubilaciones y Pensiones* (Administrators of Retirement and Pension Funds, AFJPs) were permanently consulted about implementing the norms about the reform of the social security system (see Chapter VIII). Likewise, the private local and foreign oil companies also participated in the elaboration of decrees establishing the deregulation of oil sector activities (see

⁴⁰ See, for instance, Mooney and Griffith, 1993.

Chapter VII). This increased their certainty of the legal framework of the transaction, an element that had traditionally discouraged investors for fear of future changes in the rules of the game.

At any rate, appeals for "legal security" were constantly made by all actors in an ambiguous way. As was clearly the case in the reform of the national social security system, investors demanded it when modifications in legal norms worked against their interests but not when, according to their own pressures, the Executive vetoed the modifications approved by Congress. The government took the same position when it came to justifying its own comings and goings about different points of the negotiations. Nevertheless, the fact that the terms of most licenses have been endlessly renegotiated and legal norms are constantly violated generates an overall distrust of the legal framework that is supposed to regulate the emerging market economy.

On the other hand, as had happened with other actors, individual contacts and informal bargaining mechanisms between union leaders and the Executive officials also predominated in the government-union relationship. The President played a key role, especially when unions manifested serious dissent that could translate into negative votes in Congress or even a schism within the official block. In those cases, the President acted as a mediator at times and at others as an arbiter with full authority to maintain an equilibrium and impose discipline in case disagreements surfaced.

Due to the kind of interactions that has been explained so far, a general policy network developed around the privatization issue. It had few and dense nuclei because of the high concentration of decision-making procedures in some state agencies. These were basically the Ministries of Economy and Public Works, the enterprises to be privatized, and certain individuals particularly, some ministers, *interventores*, and their closest advisors who operated around the main epicenter of decisions, the Presidency. The development and content of many aspects of policy making and implementation depended on the discretionary initiative of key individuals and their ability to impose their criteria on the rest of the actors. At the same time, their power

was largely determined by their direct access to the President. He always had the last word in any dispute and his authority was unquestionable.

It is plausible to say that the base of this pyramidal network broadened during the second stage of the privatization when other domestic actors became somewhat involved in the policy-making structures. Minister Cavallo's intention to generate more transparency and systematize the process led to several rounds of talks with different political sectors and intermediate organizations. The government only proceeded with the tender of public enterprises once Congress had approved the sale or award. For example, part of YPF's privatization was undertaken in this way, and this was the methodology applied to the social security system reform. Consequently, many "horizontal" channels were opened. This implied that the process moved more slowly than it had during the first two years. Also, new sources of conflict and negotiation cropped up.

Nevertheless, the discretionary factor did not fade away since agreements were often violated and many norms that had been approved by consensus were later changed or annulled by other means through, for example, vetoes, reglamentary decrees, and the modification of other related laws. Typical was the case of several clauses of the law on the social security system reform on which the Minister of Economy and legislators disagreed (see Section VIII.6.).

Even more, irregular procedures were used. For example, the Executive, once again faced with pressing financial needs in March 1995, sold 20% of YPF shares which were to remain in state hands according to the YPF privatization law (see Section VII.7.). Another was the resounding vote on the regulatory framework for the privatization of the national gas company in March 1992 when the participation of a non-congressman, a deputy's friend, helped make up a *quorum*.

All these facts are by no means trivial because they are indicative of: the absence of autonomy and independence of important democratic institutional powers (in this case, the Legislative); the

pervasive delegitimization of democratic mechanisms; and the *de facto* institutionalization of rules that were not agreed upon by common consent (the internalization and acceptance of these regularized patterns of interaction and decision making by all actors.)

Again, with regard to the degree of discretion in policy making, when the second stage of privatization was launched, the Minister of Economy had already concentrated far more power than any of the *interventores* and had achieved a great deal of autonomy. Indeed, the case-studies indicate that he mediated the Executive-Legislative relationship and the interest groups-political power interaction. For instance, he often sent his closest advisors to Congress to participate in the elaboration of norms and to control party discipline during crucial voting. He also regularly consulted with private investors over the best way to channel their concerns and interests and implement particular aspects of the economic policy.

Consequently, two closely related points should be mentioned. One, when the network broadened, dissent increased and new strategies to neutralize opposition had to be applied, especially when that opposition came from some sectors of the governing party itself. In that respect, party discipline was maintained through personal and informal bargaining whose main purpose was to ensure that parliamentary dissent would not alter the Convertibility's economic program.⁴¹ Two, Minister Cavallo's discretionary intervention was only limited by political needs (e.g., the negotiations on the 1994 constitutional reform and the electioneering prospects of the governing party), that is, those factors that could affect his permanence and the continuity of his economic program.

Finally, it is obvious by now that the Argentine case follows the global pattern: privatizations were the result of initiatives by governmental elites. It was also a decision driven by both necessity and

⁴¹ This was actually one of the crucial points of the debate on Article # 40 of the law on the social security system reform.

opportunity. These features also marked the construction of the political, technical, and economic viability during the implementation phase.⁴²

V. 4.- The Construction of Policy Viability

V.4.1.- The Political Viability

Privatizations were not part of the Peronist electoral campaign program. Indeed, Peronism had strongly resisted it when the Radical government tried to implement a similar policy some years before. Nevertheless, by the time it came to office, the Peronist party ranks had taken heterogeneous stance towards this issue. While the unions in general maintained a traditional position based on nationalist and statist arguments, the political wing of the party was ambivalent.⁴³ President Menem took advantage of the effervescent debate --which reflected a minimum consensus on the need to do something with public enterprises-- and gave all actors little time to define their positions

⁴² Refer to Section II.2. for this analytical distinction.

⁴³ Although some sectors within Peronism, its governors and other provincial officials, considered the initiative positive, the party continued to defend a very narrow ideological position in Congress in an attempt to prevent Radicalism from being the architect of a policy success. This was totally evident during the parliamentary treatment of the privatization agreements of Aerolíneas and ENTEL in April 1988 when Eduardo Menem (Carlos Menem's brother) fiercely advanced traditional nationalist arguments.

and no choice but to support the Executive's initiatives. The President's sudden ideological shift, the building of a new governing coalition that could guarantee minimum political and economic stability, and the financial urgencies of a bankrupt state made privatizations the central piece of the government program.

As for opportunity, it was a particularly propitious moment for the reasons addressed above. The public enterprise issue --specially criticisms of the poor performance of state-owned enterprises and its negative impact on other economic variables-- had matured considerably which translated into a broad public consensus in favor of privatizations. Besides, as was mentioned in the Section V.1., the two previous governments had already brought the issue to the governmental agenda and Radicalism had even taken some concrete steps towards privatizing in 1987.

Obviously, the factors that enabled a notable advance in privatizations as from 1989 were not present two years before. In 1987 private interest in acquiring public enterprises was scarce. In the realm of ideas, the Radical party did not evince the blind devotion to neoliberal fundamentals that Peronism manifested in the 1990s. As was mentioned in Section IV.2., Alfonsín's discourse focused on the importance of recovering and consolidating democratic institutions and the economic policy was subordinated to political imperatives.

On the contrary, under Menem's administration the economic policy became the most relevant issue. The economic crisis was such a dramatic problem in itself that it set the basis for the official interpretation of the matter. Any opposition to the new orientation --even from Peronist ranks-- was confronted with the emergency argument. The appointment of right-wing non-party members and a tight economic team contributed to the ideological cohesion and gave the Peronist government an executive ability that the previous administration had lacked (see Section IV.3.).

Even more, Menem successfully confronted the potential opposition coming from the military. First of all, he had a completely different

approach to Alfonsín's: he had maintained a close relationship with the rebel group, had vindicated the military actions in the late 1970s (i.e., repression), and, once in power, offered amnesty in exchange for subordination. Despite generalized opposition, he declared two general amnesties. He made it clear that he would pardon past crimes but would punish future uprisings. He did so when the rebel group provoked the last and bloodiest rebellion in December 1990. That was the first time the Commander-in-Chief remained loyal to the Executive and accepted the order to repress. This, together with bureaucratic changes within the military sphere, consolidated a new military leadership⁴⁴ that was willing to subordinate itself to the political power and to admit past errors --including repression, something that was inconceivable before then.⁴⁵

In addition, the dismantling of the military-industrial complex was another way to cut the military autonomy. By the mid-1980s, the military enterprises showed important deficits. The fiscal crisis made evident that the state could no longer finance them. This became even more evident under Menem. Therefore, like the rest of the public enterprises, the military complex became subjected to the economic adjustment policy. The military budget was cut in a half, salaries dropped, some ambitious projects were curtailed, and the military were forced to establish priorities on how to use the fewer resources they received. One of the ways Menem used to curb resistance was to promise that funds coming from privatizations would go to the restructuring and modernization of the Armed Forces. However, according to new norms, those funds would not go directly to the Ministry of Defense but would be administered by the Ministry of Economy. As in other issue-areas,

⁴⁴ Top officers in charge of the Armed Forces since 1991 represent a new generation, the ones that actually fought the Malvinas/Falklands War and were highly critical of the high-ranking officers at that time.

⁴⁵ On this issue, see Fraga, 1989; also Acuña, Carlos H. and Catalina Smulovitz: "Militares en la transición argentina: del gobierno a la subordinación constitucional", in Acuña, C.H., (comp.), 1995, pp. 153-202.

privatizations were carried out very fast; they were subjected to the financial urgencies of the national treasury; and a number of advisors and *interventores* coming from the liberal wing were appointed to carry them out.⁴⁶ In short, although some of the military may have been reluctant to accept privatizations, they had no other choice. They had lost their veto power. And it is also plausible that the diffusion and generalized acceptance of neoliberal ideas have probably influenced the military's thinking, as they did with other actors'.

On the other hand, as the transfer of power looked more like the rushed abandonment of a sinking ship than a normal electoral change, Peronism could not only enjoy the so-called "honeymoon" of all newcomers to power but also exploit the total discrediting and political weakness of the opposition party. The previous Radical Minister of Public Works, Rodolfo Terragno, accurately pinpointed the contrast between both administrations on this matter; he said: "Today Radicalism cannot question the government without being asked, in turn, to report on what Radicalism had done. Menem's government is promoting massive and urgent privatizations, together with an abrupt deregulation and mutilation of the state. All this is being done in an effort to secure the dictatorship of the market. Before a model like this, no matter how we defend our record, we will always be vulnerable to the accusations: our state reform was, from today's perspective, timid, faithless, late, and ineffective."⁴⁷

Thus, the context of the decision was formed with all these factors. The Peronist government was able to frame the privatization policy in a political discourse that equated public enterprises with inefficiency, inflation, and deficit, and they presented privatization not only as the best alternative but also, and most important, as the only feasible option. Only a radical change, it was argued, could avert

⁴⁶ See the details on Pérez Esquivel, 1995.

⁴⁷ Cf. Clarín, 08/28/90, p. 9.

so many evils at once. As was pointed out in Chapter IV, traditional Peronist pragmatism did the rest to overcome ideological contradictions.

In this way, the political viability of the privatization policy was constructed. It was later consolidated through concrete measures that had been taken during the implementation phase.

V.4.2.- The Technical Viability

It is plausible that the technical viability might have constituted a real obstacle to policy implementation since a context of crisis and the lack of government capacities would have made it impossible to carry out a substantial reform. Indeed, that was the case, but the context of crisis also broadened the room for maneuver by transforming those same deficiencies into resources: the crisis justified pragmatism and "allowed" the government discretionary power in the resolution and execution of concrete aspects of the policy.

Thanks to an agreement with the Radical party (see Section III.4.) the sanctioning of the Reform of the State Law immediately after Peronism took office allowed the Executive to freely dispose of state-owned enterprises, make internal changes, and decide upon their sale. Together with the Emergency Law, these two laws legitimated a high degree of power concentration at the level of the Executive. They made a very discretionary management of the privatization issue possible. In addition, some other measures, all of which tended to limit and control the opposition capacities of other powers and organisms, facilitated the discretionary exercise of that power. For example, the increase in the number of members of the Supreme Court of Justice and their selection from judges who supported the official party; the dismissal of the authorities of the Fiscalía Nacional de Investigaciones Administrativas (National Prosecuting Attorney's Office for Administrative

Investigation); the reshuffling of the Tribunal de Cuentas (Government Auditing Board). Moreover, the use of innumerable presidential decrees and the Executive's veto power has been common practice during the Menemist administration (see Section IV.3.1.).

In the case of the privatization policy, these practices manifested themselves on several occasions. For example, the sale of most state-owned enterprises was first implemented by decree: four presidential decrees set the general guidelines for the awarding of the telephone service in the beginning of 1990; Decree 1591/89 ordered the sale of Aerolíneas Argentinas (the national airline); the so-called Decree-Plan 666/89 initiated the privatization process of railways and established its basic characteristics; Decree 2778/90 approved the plan for the internal restructuring of YPF (the national oil company) and conferred a high degree of discretionary power on YPF's *Interventor* so as to allow him to go beyond the Law of the Reform of the State and eliminate the control by the Ministry of Public Works; likewise, YPF's internal statute --a key element in the negotiation of the privatization of the firm-- was also approved by decree, as well as the norms establishing the deregulation of oil-related activities.

During the implementation of the privatization policy in specific cases, the use of the decree mechanism was also a regular procedure. For instance, in 1990 making an exception to previous norms, the Executive used it twice to prevent ENTel's bankruptcy, a situation that could even have jeopardized the privatization process; the President also decreed the dismissal of the top official at the *Inspección General de Justicia* when he objected to the ongoing procedures of the privatization of ENTel and Aerolíneas Argentinas.

A perfect example of the use of the presidential veto was the reform of the national social security system (see Section VI.3.). The role of a dependent Supreme Court of Justice was evident in the case of Aerolíneas Argentinas, when the court applied the so-called *per saltum* mechanism by which it suspended the sentence of a lower court that could have stopped the privatization of the airline. This was done with unusual celerity, urged by the Ministry of Public Works, and an

exceptional mechanism that the circumstances did not require was applied.⁴⁸ In the case of the privatization of highways, the Supreme Court also facilitated the implementation process through a sentence favoring the licensees against popular demands.⁴⁹

In other words, before a lack of the necessary resources to construct the technical viability of the policy, the government turned to other mechanisms. As was mentioned in Section IV.3.1., the context of crisis and the generalized sense of chaos and instability broadened the room for government manoeuver. The context allowed the government to deter social demands and justified rapid and drastic action. As for privatization, the dramatic financial situation of most state-owned enterprises and their poor performance in providing public services undoubtedly contributed to reinforcing this diagnosis. In the case of companies that showed some profitability, such as Aerolíneas Argentinas, the justification was the need for financial resources that could keep investments at the necessary level to maintain a correct service.

Thus, relying on this "window of opportunity" the Executive to some extent "institutionalized" the discretionary use of the decision-making power that had already been conferred on it by the Constitution and the extraordinary power Congress delegated.

Accordingly, the more concrete aspects of technical viability also follow the same pattern: whenever opposition arose within intermediate bureaucratic agencies, officials were replaced and vertical channels of authority were reinforced. In fact, the kind of resistance that bureaucratic cadres exerted was typical of a prebendary and clientelistic system: paralyze decisions, delay or set obstacles to implementation. This was one of the difficulties Minister Dromi often referred to. He remarked that once privatizations had been launched the general atmosphere within the lower levels of public administration was

⁴⁸ See Thwaites Rey, 1993a, p. 71.

⁴⁹ See Schvarzer, 1993, p. 131.

one of inaction. Officials seemed to assume that the measure would soon be reverted, as usually happened, and so the best strategy was to wait until senior officials were replaced or had decided to give up.⁵⁰ Therefore, the government set up a sort of "parallel administration" by appointing *interventores* with ample faculties to carry out privatizations, replacing key managers of state-owned enterprises, and/or forming *ad hoc* commissions with representatives of different interest groups.

Nevertheless, the story does not end here. The concentration of decision-making power, discretion, and personalism was not only manifested through the use of extraordinary mechanisms of decision making at the level of national institutions and powers. As will be analyzed in detail in the following chapters, these mechanisms also pervaded all formal or informal procedures through which privatizations were carried out. This implied that the interplay of actions and its final result --that is, the "who-gets-what" that determines the economic viability of the policy-- had very specific characteristics.

V.4.3.- The Economic Viability

To analyze the economic dimension of policy viability some structural factors should be considered. In general terms, the dramatic deterioration of state capacities and its translation into a credibility gap that constrained the viability of any economic policy have already been explained in Chapter IV. As for the privatization program, this limitation was evident from the very beginning of the process.

⁵⁰ See interview with Minister Dromi, Somos, 10/18/89, p. 16.

At first glance, the configuration of forces and power resources evidenced a major imbalance between two central actors. The government was seriously constrained by the above-mentioned financial urgencies and political needs. The local economic groups and foreign creditors were the only ones who could provide the necessary capital and political support to influence significantly the development of the economic program and, more concretely, the sale of state-owned enterprises.

Just the opposite occurred in the case of the government-union relationship. As a result of a long process of union ranks fragmentation, their position *qua* an economic and political actor had been weakened and their bargaining capacity and veto power reduced. By the 1990s the structural situation of the labor force was mainly characterized by the lack of ideological and organizational cohesion (see Sections III.4. and IV.3.3.2.). In addition, during the 1980s, these features were accentuated by the increasingly secondary role unions acquired within the party apparatus. Under Menem's rule, unions had to face the government's inflexibility towards their demands and the negative consequences of the labor reforms the Peronist administration has been implementing⁵¹ (see Section III.4.).

This general map of resources becomes highly relevant in addressing the "how" question of privatization, that is, how the policy was implemented, for this equilibrium of forces largely determined the actors' options and strategies. Within that framework, their interaction --mainly between the government and potential investors-- developed. That interaction shaped the way the privatization policy was implemented and, to some extent, its content.

Menemism's attitude before the international financial agencies was also one of close collaboration rather than confrontation. The government wanted to avoid situations that might have impaired their

⁵¹ A summary of these changes within the labor movement can be found in Palomino, Héctor: "Quiebres y rupturas de la acción sindical: un panorama desde el presente sobre la evolución del movimiento sindical en la Argentina", in Acuña (comp.), 1995, pp. 203-229.

already fragile position. More concretely, two distinctions can be made about the government-external actors' relationship in this policy issue-area.

One, there was an intense intervention by international financial organizations and consulting agencies on economic policy design and implementation. They provided technical assistance and financing for the reform of the state. For instance, foreign consultants were often in charge of the public enterprises' valuation and of the elaboration of the bidding conditions. The WB provided experts and around US\$ 300 million for the privatization of ENTEL (the remaining portion of a loan directed to the reform of the public sector). In the case of YPF, the WB also conceded a loan (around US\$ 130 million) to be applied to the internal restructuring of the firm, and experts from that institution participated in the sale of petroleum areas. As for railroads, a WB report about the reform of the railway system (to be financed with funds from the bank) was made public in mid-July 1990, and the government took it as the basis for the official project.

Two, the role of creditor banks throughout the implementation of the privatization policy was crucial since they had to concede a waiver that would allow the Argentine government to freely dispose of public companies. This was because public enterprises had become the guarantee of Argentina's foreign debt as a result of the GRA (Guaranteed Restructured Agreement) signed by the last military government and ratified by President Alfonsín in 1987. Without that waiver, state-owned enterprises could not have been sold. Therefore, external creditors -- who were at the same time the main potential buyers-- were reluctant to concede that pardon until the last minute, using it to exert pressure during the bargaining process and obtain better conditions (see the details in Sections VI.4. and VI.5.).

The importance of this point was well illustrated by Minister Dromi's statements during a meeting with the *Comisión Bicameral* (the parliament's supervisory commission in the privatization process). In reference to the difficulties in getting the waiver, he said, "This indebtedness per company is forcing us to try to obtain a pardon, almost

like charity (...) This is acknowledged by the board of directors of a foreign creditor, who has even set up a committee to monitor the behavior of our economic programs, our plans, etc. (...) they monitor everything about us. If not, we don't survive. I would like to have this unwritten abnormal shameful clause, but of practical reality in Argentina, established when the talks begin as a point of reflection so we understand which are the adjustment clauses."⁵² He also emphasized that the waiver would not be obtained by any minister or *interventor*, but by the same enterprises who were interested in the tenders (e.g., Telefónica de España, Bell Atlantic), who would negotiate it with the creditor banks that would also form part of the bidding consortia.

Even more, Dromi was absolutely clear about the role of private creditor banks and international financial institutions in economic policy making and their influence on the privatizations: "Honestly speaking, you know that all the tenders have an unwritten clause that we have not written out of shame, out of national shame, which is the degree of dependence of our country. It does not even have the independence, not even the dignity to be able to sell what it has to sell. A country that cannot dispose of its goods, a country that is internationally inhibited. On-its-knees, shame-ful-ly..." [his spelling].⁵³ Similar comments about the effects of conditional lending and financial agencies' permanent monitoring were insistently emphasized by the Minister of Economy at that time, Erman González.⁵⁴

Besides, the capitalization of debt mechanism applied in most privatizations allowed those same banks to recover part of their credit by using depreciated debt bonds as part payment. Although there was no clear consensus in the Cabinet about the capitalization issue, as negotiations with potential investors advanced and few bids were received for each case, this clause was included in the bidding

⁵² Cf. Página 12, 09/09/90, p. 9.

⁵³ Cf. Página 12, 09/09/90, p. 8.

⁵⁴ Interview, Buenos Aires, 02/27/96.

conditions. Minister Dromi, who had previously discarded that mechanism, justified its inclusion in the transfer conditions in these terms: "The problem is that the economic situation has made us consider this concept insofar as we have an Argentina that has to pay the price of its risk and of the unforeseen opening of investment possibilities which took place in other markets. The potential investors are no longer as interested as they once were. We will allow capitalization to compensate for this inconvenience and to alleviate the weight of the external debt."⁵⁵

Indeed, in most privatization cases few investors were interested in the bids. On the contrary, the government had to increase the incentives to retain the few offers. Minister Dromi explicitly admitted this obstacle in his speech to Congress in September 1990 and remarked that it was more difficult for the Peronist administration to capture investments than for Radicalism some years before.⁵⁶ One way the government found to attract investors was to carry out deep internal changes in the firms to be privatized (e.g., streamlining, administrative internal restructuring, renegotiation of collective labor agreements, all processes that involved massive layoffs),⁵⁷ in order to eliminate their deficits, make them profitable and, therefore, attractive.

In order to guarantee profitability, the state not only assumed the political and economic costs of the restructuring but also took over the liabilities of most public enterprises. Moreover, in several cases the government accepted that the license conditions include a special

⁵⁵ Cf. Página 12, 12/29/89, p. 5.

⁵⁶ Cf. Página 12, 09/04/90, p. 7; 09/09/90, p. 9; Clarín, 09/09/90, pp. 4-5.

⁵⁷ For instance, YPF's personnel was reduced by more than 50% during the internal restructuring period. (Around 19,000 employees were dismissed or encouraged to accept early retirement.) In the case of the railways, out of a total of 96,000 workers, 28,000 were laid-off. During SOMISA's *Intervención*, the personnel went from 12,000 agents to 6,000 in six months.

clause about the future public guarantee of the level of the rate of return. As part of that game, the monopolist character of all public services markets was maintained or created in order to capture the investors' interests. They themselves actually conditioned their participation in the bids to the existence of these clauses.

Consequently, the bidding conditions were generally very advantageous for the buyers. Through this sort of compensation, local private agents who had previously benefited from state contracting and subsidies became the owners of the recently privatized highly profitable monopolies and oligopolies. The largest economic groups that had emerged under state protection and had diversified and expanded during the last military government (e.g., Pérez Companc, Acindar, Bidas, Garovaglio y Zorraquín, Soldati, Techint, Benito Roggio, Astra) participated and won most of the bids in association with creditor banks and foreign companies.⁵⁸ (Citibank, for instance, had an important participation in several privatizations.)

The procedures contributed to reinforcing the same trend. In the case of ENTel, for example, the *Interventora* obtained the President's authorization to use her discretion to increase the rate of the telephone service without the intervention of the Ministry of Public Works. She did so several times during the tender process following the demands of the future licensees. She even set the rate higher than what had actually been petitioned. The conditions also included a special clause by which the state guaranteed an annual rate of return of 16% -- that is, the state would make up the difference in case profits fell below that rate. This was estimated on the basis of an initial valuation of the firm which was far higher than the price finally paid (see Section VI.5.).

The privatization projects for YPF also included its total internal restructuring in order to transform the firm into a profitable enterprise before offering its shares on the stock market. This

⁵⁸ See Twaites-Rey, 1993b, pp. 20-22.

transformation was carried out with very positive results. During the last three years before YPF's privatization, its net annual profits mounted to more than US\$ 600 million.⁵⁹ Contrary to what the neoliberal propaganda argues, this proves that public sector adjustment and reform is possible even when the firms are still in the public sphere and that they can become profitable within a few years' time no matter who owns them.

With respect to unions, Menemism adopted two strategies to assure their alignment behind the privatization initiatives. One was the classic "divide-and-conquer". The government took advantage and fueled the already accentuated fragmentation of the labor movement. One way to involve key union leaders in the reformist economic project was to incorporate them as officials (specially those coming from the wing that was more prone to negotiate). This was the case in two potentially controversial privatizations: Julio Guillán (leader of the telephone union) was appointed Under-Secretary of Telecommunications; Diego Ibáñez and Antonio Cassia, top leaders of the oil union, were both appointed to YPF's board of directors.

Another method was to give leaders who agreed with the official orientation access to union hierarchy. This was done through the manipulation of unclear and irregular electoral processes. For instance, the case of the election for the authorities of the gas workers union in November 1991: the opposition list, having its own privatization proposal, was fraudulently excluded.⁶⁰

The government was inflexible with the more combative stream of unions. It publicly discredited and downplayed their resistance. It confronted them by accelerating and deepening the reform process. There were some episodes that manifested strong opposition to privatization, such as the telephone workers strike in 1990; the mobilizations of San

⁵⁹ Cf. *El Cronista Comercial*, 28/04/93, p. 2; *Clarín*, 08/02/95, p. 17.

⁶⁰ For a detailed account, see Dinerstein, 1993, pp. 22-24.

Nicolás' population in 1990 and 1991 with the SOMISA privatization (that is, the public steel company which employed the majority of inhabitants of the town); the massive protest demonstrations by the population against the privatization of highways in 1991; the railroads and oil workers strikes in 1991, and the air transport workers in 1992 and 1993. The government retaliated by declaring those strikes illegal, replacing workers with military personnel, and urging employees to decide between a prompt return to work or dismissal. In fact, massive lay-offs took place in several cases and few reincorporations were carried out via case-by-case negotiations. Both measures worked in favor of the desired internal restructuring of enterprises to be privatized.

The Menemist administration underestimated those opposition measures, as well as the feasibility studies and reform projects that many unions and professional employee organizations presented. The government showed no openness towards the initiatives of those groups which, in general, were inspired more by a relatively high consideration of the social character of public services than by a purely economic interest.

On the other hand, the government also applied a compensatory policy towards the unions through the so-called Programas de Propiedad Participada (Participatory Property Programs, PPPs). In most of the privatized enterprises, workers kept a small percentage of shares but in a syndicated form. That is, the property is individual but the representation is collective. Workers had to name a legal entity as representative, and thus unions became the "natural" delegates of this representation. The unions are currently in charge of the negotiation and management of the PPPs. The inclusion of that condition in the bidding conditions served to remove obstacles to the process. This was very clear in the case of the reform of the social security system (see Section VIII.5.).

In sum, the combination of rewards and sanctions guaranteed policy acceptance and made a distribution of costs and benefits favoring the economic elite viable.

V. 5.- The Political and Economic Impact of Privatizations

The impact of privatization can be evaluated in several ways. There are obvious difficulties in analyzing a very recent process that has not yet concluded. Therefore, assessment of the impact will necessarily be partial and provisional. I will consider here only those effects that are related to the main policy objectives (see Section V.2.), about which there is some empirical evidence, and some of their implications for the state-society relationship.

First, with respect to the fiscal problem, there was a significant inflow of capital in the early 1990s from the sale of state-owned enterprises. It had a positive short-run impact on national accounts that helped to support the Convertibility Plan since it allowed for the maintenance of the exchange rate, the compensation of the trade balance deficit, and the attainment of conditional lending goals that the international financial institutions had agreed on. However, there was also a medium- and long-term counter-effect: the outflow of capital due to remitted earnings by the foreign consortia now holding privatized companies.⁶¹

Therefore, in general terms the effects of privatization on national accounts were diverse: on the one hand, revenues increased in the short run because the state received cash from the sale of public enterprises; on the other, revenues decreased in the short and medium term when firms showing a surplus were transferred, and expenditures were reduced when firms showing a deficit were privatized. Nevertheless, on the whole, cash revenues from privatization have served to counterbalance deficit trends in the fiscal accounts. The fact that

⁶¹ See Gerchunoff, 1992, pp. 21-51; Basualdo, 1994, pp. 31-34.

this policy has not been articulated with other measures and supported in the long run by other genuine sources of financing⁶² made privatizations only a temporary palliative to the fiscal problem.

Second, the evidence is conclusive about the results of privatization in terms of obtaining resources to service and reduce external debt via the capitalization of debt mechanism: between 1990 and 1992 the Argentine state received US\$ 5.44 billion in cash and rescued debt bonds at nominal value for a total of US\$ 11.34 (or US\$ 4.5 billion at real value), the former representing 19% of the public sector external debt in 1988. However, there was also a counter-effect in this case that annulled that debt reduction: the state resorted to new indebtedness during the 1989-1992 period, amounting to US\$ 14 billion. In other words, the net increase in the external debt reached US\$ 2.7 billion.⁶³ Furthermore, as the state took over most of the public enterprises' liabilities before privatizing (see Section V.3.), by 1994 US\$ 20 billion of debt had been transferred to the National Treasury.⁶⁴

In addition, since 1990 a new cycle of private indebtedness has begun. The consortia formed to participate in the bids and particular firms in them financed their tenders with loans and speculative investments in the domestic and international financial markets. As a result, private indebtedness increased and took new forms.⁶⁵

Third, the political goal of building a supporting coalition by transmitting the government's firm commitment to a reformist approach to the business community (that is, the intention to revert the previous

⁶² Despite the immediate positive results of the tax reform, tax collection fell again since 1994. The fact it mainly relied on taxes on consumption made it vulnerable to recessionary trends.

⁶³ Cf. Basualdo, pp. 30-35.

⁶⁴ Around US\$ 17 billion corresponded to the external debt of public enterprises and US\$ 3 billion to their internal debt. Cf. *Ibidem*, p. 37.

⁶⁵ See Basualdo, 1994, pp. 40-41.

socio-economic model) was fully accomplished. As was explained in Section V.3., the Menemist administration was inflexible when it came time to implementing privatizations, even at the risk of a schism in the party ranks. Moreover, one of the ways of coping with the opposition was to accelerate and deepen the reforms.

Nevertheless, the impact of these actions went beyond the symbolic dimension. Privatizations helped to accentuate and consolidate the structural process of the concentration of wealth initiated two decades before. As a result, a small number of domestic holdings, the same economic groups that had expanded and diversified their activities largely at state expense and had benefited from state intervention and protection and from debt nationalization in 1982 consolidated their position as economic and political actors (see Section III.2.). In the 1990s, they were the main participants and awardees in the privatizations through associations with foreign companies and banks. These consortia acquired 51% or more of the shares of most privatized firms.

The concentration effect was reinforced by two facts. One, the state did not appear to be particularly concerned about attaining a broad diffusion of property through the capital market. Even the distribution of shares among workers through the Participatory Property Programs was delayed in most cases.⁶⁶ This favored the concentration of private ownership in the hands of a few domestic and foreign economic agents. Two, the transfer of public enterprises implied the granting of monopolist or oligopolist markets, now held by those private consortia (see Section V.3.).

Moreover, the concentration trend was also stimulated by the economic groups' strategies. According to Azpiazu, their participation in the bids responded to three main economic rationales⁶⁷: a) private

⁶⁶ See Gerchunoff and Cánovas, 1995, p. 490.

⁶⁷ See Azpiazu, 1993.

firms that acquired shares or the totality of state-owned enterprises in the same economic sector they were already working (e.g., Indupa, Garovaglio y Zorraquín, Techint, Siderca); b) private firms or groups that obtained the licenses for public services or enterprises that allowed them to integrate their production vertically or horizontally (e.g., Bunge y Born, Techint, Acindar, Loma Negra); c) economic groups that extended and diversified their activities across economic sectors (e.g., Soldati, Techint, Pérez Companc) through their participation in various privatizations.

As a result, the national industrial profile in general has been affected at the structural level. Additionally, a differential impact across sectors can also be identified. Their dynamic has been affected since the increase in prices of inputs (gas, power, water), services (telecommunications), and transport due to privatizations had a differential impact on production and distribution costs.

Other consequences are visible, but only in certain industries, such as: i) in fulfilment of the conditions, new investments are being made in privatized companies, generating an increase in demand in some sectors (e.g., equipment in telecommunications, construction materials, oil exploitation equipment); ii) possibilities of a technological and productive restructuring of some sectors have been opened (e.g., steel); iii) as was mentioned above, the level of concentration of capital and the centralization of management has increased, the steel and petrochemical sectors being the best examples of this, as well as of the iv) greater participation of foreign firms.⁶⁸

Fourth, the economic and political goals and effects are related since, as Basualdo suggests, the positive effects on fiscal accounts were impaired by the way privatizations were carried out, especially during the first stage.⁶⁹ Because of the priority to deadlines and the

⁶⁸ On the details of these changes, see Azpiazu, 1993, pp. 44-50; also Azpiazu y Nochteff, 1994, pp. 187-194.

⁶⁹ See Basualdo, 1994.

careless attitude towards procedures, the assets of firms were undervalued. In fact, valuations were either never carried out or final estimations were set too low. ENTel is a case in point, as well as most of the petrochemical areas and YPF (see Chapters VI and VII).

Besides, for the same reasons (i.e., accelerating the process and making the transaction more attractive to potential investors) the conditions of transfer were not always advantageous to public interests. The new managers of privatized companies were given ample room for maneuver to set the rate of the services. Each adjustment in those rates had an immediate effect on the structure of relative prices and it was the entire population that was the most negatively affected by the increments. Moreover, the regulatory frameworks of the new managers' activities were either very weak or nonexistent so that there were very few instances for the public to complain or to file a claim.

Fifth, an improved allocation of resources and a more efficient delivery of public services was less evident than what advocates of private management had foreseen. Three main points can be made in that respect.

As was mentioned above, the bulk of resources obtained from privatizations was used to meet fiscal goals and service foreign debt. Though the funds were initially intended for social policies, and the change in the decision triggered some serious Cabinet disputes, the criteria based on financial urgencies prevailed (see, for instance, Section VI.4.). Only in the case of YPF's sale did the state use part of the revenues collected through privatization to solve some problems in the social security system (see Section VII.6.).

On the other hand, the estimates showed only a moderate impact of privatizations on the process of capital formation. According to investments already carried out or stipulated in the transfer conditions, the aggregate investment of public services enterprises

amounted to 2% of the GNP in the first half of the 1990s and would be around 1% of the GNP for the rest of the decade.⁷⁰

Finally, few indicators have been determined on the degree of efficiency that has been attained and so do not allow for a general assessment. While Aerolíneas Argentinas' service in quantitative and qualitative terms has declined notably since privatization, as well as that of the gas companies, the telecommunications service has shown no significant modifications since ENTEL became a private firm.⁷¹ However, the fact that private consortia have not carried out major risk investments to improve the deteriorated infrastructure of public services and the public authority has not been very diligent in setting up regulatory and compliance rules, does not portend substantial changes in this respect.

Very few regulatory frameworks have been sanctioned by law and are actually in force. Nevertheless, they do not establish clear and homogeneous rules for the private action. For instance, they do not contain any definition of the public character of the service the privatized companies are offering and no criteria for evaluating the quality of the service and/or whether the private managers fulfill their obligations with the clients. Even more, regulatory bodies do not function as institutionalized channels for the clients to voice their claims. For instance, some of them do not receive complaints; clients' rights are not specified in the frameworks; there are no norms about compensations to clients for inefficiencies in the services.⁷²

One of the major difficulties on this point lies on the fact that the little information available about the quality of the service comes exclusively from the enterprises themselves. Opinion polls have not been made to assess the level of satisfaction of the population with the

⁷⁰ See Azpiazu, 1993, pp. 16-17.

⁷¹ See Twaites-Rey, 1993a, pp. 58-61.

⁷² For details, see López, 1996; also Rima et al., 1991.

services. Besides, the regulatory bodies have no autonomy either from the political power (they are under the Executive's jurisdiction) or from the private owners (the privatized companies are their main source of financial support). Many of these shortcomings are the result of the speed of the privatization process, of the privileges conceded by the government to the private managers through the tender conditions, and of the absence of government concern to maintain a regulatory role of the state.

Conclusions

State expansion occurred under all kinds of regimes, even under governments showing clear market-oriented preferences. In fact, private and public interests became closely intertwined over a historical process that shaped the structure and dynamic of the Argentine economy. So, it is plausible to argue that this expansion also followed and served private interests, as well as those of bureaucratic agencies growing hand in hand with the state apparatus, despite world-wide and local ideological trends.

Until the late 1980s, demands for nationalizations and privatizations came from social sectors with close ties to state-owned enterprises. Nevertheless, it is precisely the deterioration of the state-centered socio-economic model and the state's own fiscal crisis that made governmental elites launch an all-encompassing privatization program in the 1990s. Undoubtedly, this initiative garnered a general consensus about the need to reform the state apparatus, but to become viable it required a redistribution of costs and benefits among those actors who had vested interests in state activities.

The structural equilibrium of forces at the moment of the launching determined a very low government bargaining capacity *vis-à-vis* the local and foreign business and financial communities. On the contrary, the complete organizational and ideological disarray of the unions and the fact that the governing party was Peronist --which traditionally could rely on the labor sector support and had strong vertical patterns of internal discipline-- made it relatively easy to obtain union alignment.

Nevertheless, it was precisely because of the way in which policy was implemented that the government could alter the other actors' preferences and choices. The use of extraordinary mechanisms of decision

making allowed the Menemist administration to overcome opposition and to accelerate the process. The kind of policy network that developed around the privatization issue (mainly characterized by a high degree of power concentration, discretion, and personalism at all levels of the process) facilitated the redistribution of costs and benefits. To a large extent, it was through the interactions within that network that the policy acquired content.

As a result of the process, the impact of privatizations had diverse consequences on the economic objectives (basically, solving the fiscal problem), because public finances had not been completely regenerated. It had positive results on the political dimension, for the above redistribution made possible the building of a governing coalition that had manifested a considerable degree of political and economic support to the current administration. In other words, privatizations have served to consolidate the privileged economic and political position of a few domestic economic groups that had also intensified their association with foreign capital through privatizations.

So, returning to the idea posed in Section V.1., it is possible to talk of the confluence of public and private interests in the 1990s. Once again, the state has played the double role of being the "policy subject" (the actor who initiates and carries out the process, in this case, privatizations) and also the "policy object" (the spoils of a struggle for the redistribution of national wealth). This was possible in the 1990s because there was again a point where public and private interests met. Following the analysis of the social and economic impact of privatizations in Section V.4., it is not yet evident whether the government's definition of "the public interest" coincides with the population's needs and desires. In fact, the new rules of the game that were agreed upon during the implementation process (that is, the new balance between the public and the private) put into practice a new form of state protection of the economic activities of a small social stratum.

Chapter VI

The Privatization of the National Telecommunications Company (Empresa Nacional de Telecomunicaciones, ENTel)

Introduction

Being one of the first two cases of privatization, ENTel's sale is the paradigm of a government coming to power with no credibility and having to make a virtue out of necessity. As a result of the state's lack of resources and policy design, the implementation process was largely *ad hoc*, determined as negotiations advanced. The symbolic and instrumental character of this privatization in terms of building credibility and showing commitment to reforms shaped policy outcomes. Indeed, policy content was largely responsive to the interests and demands of foreign and local private investors (not only international creditor banks and large economic groups but also international financial agencies and foreign governments). Despite the participation of these actors, the policy network that was formed in this issue-area was relatively smaller and more tightknit than the ones in the other two cases.

Speed and executive ability were achieved first, at the expense of the transaction conditions. The tender conditions were constantly modified in order to overcome obstacles to privatization. Second, speed and executive ability were guaranteed by granting some individuals a great deal of autonomy, especially, the *Interventora* and some of the ministers around whom a web of mainly informal and personalized interactions revolved. That is why it is called here a "personalized" policy network.

Actually, this network had two main nuclei: the President and the reform team led by the *Interventora* of the firm. These nuclei centralized the ongoing negotiations in the main arenas of interaction: the government structures (where other ministers intervened), between the government and external actors (e.g, local and foreign investors, foreign embassies), and within the realm of domestic politics (e.g.,

between the government and the union). The President, as hegemonic actor of the policy-making process, convalidated the highly discretionary practices that characterized those interactions (see details in Section VI.3.). Thus, the high degree of congruence between the macro and micro levels of the decision-making structure facilitated policy implementation.

VI.1.- Public versus Private Interests in the Telecommunications Sector

The first Argentine telephone exchange was inaugurated in 1881 by the Société Du Pantelephone de Loch, a Swiss-French firm. The firm was sold to British investors in 1886 and renamed the River Plate Telephone Union. The US ITT (International Telephone and Telegraph Corporation) bought it in 1929. The first Peronist government acquired it in 1948 and created EMTA (Empresa Mixta Telefónica Argentina), intending to keep only 51% of the shares. However, it progressively acquired the remaining shares and the firm became a fully public enterprise, renamed ENTel (Empresa Nacional de Telecomunicaciones) in 1956. After that, it was responsible for 90% of the telecommunications services¹ across the country.²

¹ This included local, inter-city, and international telephone services; telex; television signals; broadcasting; data transmission, and other minor services. It also included the installation and maintenance of equipment.

² The other 10% was performed by CAT (Compañía Argentina de Teléfonos), run by Ericsson, the Swedish company, which operated in six

By the end of the 1970s, ENTel was characterized as an obsolete and deficient enterprise. It was the perfect example for those who were advocating that the privatization of state-owned enterprises would be the only solution to economic inefficiency, excessive expansion of the state and the permanent increase in public expenditures. During those years, the media's and public officials' statements nurtured an incipient debate around the ENTel case that met with favorable public support for the need to privatize.³

Arguments against ENTel's performance abounded. As Herrera put it, over the last decades the Argentine telecommunications system was characterized by regional and social inequalities, technical heterogeneity, and poor quality of service. An asymmetric distribution of lines followed the main indicators of social and economic development across regions so that Buenos Aires City, and the Buenos Aires, Santa Fe, and Córdoba provinces concentrated more than 80% of the lines. Also, the condition of the equipment and the high operating costs made ENTel increasingly unable to satisfy demand, while the service provided was extremely poor.⁴

The first privatization plan was attempted in 1977. It was called "peripheric" privatization because it involved the subcontracting of private partners to perform non-essential services or activities (e.g., repair of external networks, provision and installation of some equipment, auxiliary tasks such as data processing, vehicle maintenance, the printing of phone books). This kind of subcontracting was an important antecedent to privatization and a practice that continued under the Radical government.

provinces, and by CET (Compañía Entrerriana de Teléfonos), in charge of the telephone service in the province of Entre Ríos since 1926.

³ See, for instance, *La Opinión*, 02/23/77, p. 11.

⁴ See Herrera, 1993, pp. 47-48.

Consequently, in 1982, another plan for the partial privatization of ENTEL was launched. It limited its performance to the international and inter-city services, its division in five regions, and the formation of a consortium with foreign and local firms. The project required the modification of the legal framework for the telecommunications sector. Norms existed that prevented private enterprises from performing the service. Since the legal changes were never made, the initiative failed from the beginning. In any case, the idea of a definite transfer of the firm to private hands had not yet fully matured and was not included in the governmental agenda.⁵

During the 1980s there was still some controversy over the role of the state in the provision of key public services and its commitment to the fate of national industries that provided inputs. Moreover, by the end of the decade, the telephone union still opposed privatization plans and its discourse appealed for national sovereignty and for the social function of the service. Even ENTEL's high ranking personnel defended its monopolistic and public character.⁶ However, some public opinion polls indicated a significant degree of acquiescence towards privatization: 83.5% of the population consulted.⁷ In other words, the phase of problem formation took place in the mid-1980s and by the time Peronism came to office, the issue was already included on the government's agenda.

Indeed, towards 1987 there was an important push from the Radical government towards private participation, deregulation, and decentralization in the telecommunications sector.⁸ Unions were invited

⁵ See the interview with the Secretary of Communications at that time, Gral. Corrado, Redacción # 105, November 1981, pp. 26-30.

⁶ See, for instance, the declaration of principles made by the trade union in Clarín, 11/26/87, p. 19; 12/15/87, p. 49;

⁷ See Informe Especial, Siete Días, # 930/85, pp. 77-79.

⁸ Among other measures, the Executive issued a decree allowing the Secretariat of Communications to grant concessions to private firms for

to participate in a broad restructuring since, as was already mentioned, the situation had turned quite serious. ENTel could no longer satisfy the demand for services; there had been an important deterioration in the infrastructure; maintenance programs were almost nonexistent; personnel had been reduced; profits had decreased; and the company's debt had soared. At this point, the union leaders seemed quite open to dialogue with the government.⁹

However, as the initiative advanced, the telephone union was firm in its opposition, as was consonant with the broader political strategy of Peronism.¹⁰ To justify such an opposition, Julio Guillán (General Secretary of the Federación de Obreros y Empleados Telefónicos, FOETRA, the telephone union) argued that the Radical initiative to end monopolies and to deregulate the telecommunications sector "is anti-constitutional because it attempts to rectify a law by a decision of the Executive Power and, moreover, it is irrational and anti-economic because it tends to leave the management of a strategic area for national defense and the profitable business it generates in the hands of a private monopoly".¹¹

Nevertheless, in 1988 the Radical government started negotiations with private firms to create a mixed company, that is, a corporation

the operation of the telecommunications service. See Clarín, 11/13/87, p. 19. In addition, the Directorio de Empresas Públicas (Public Enterprises Board of Directors) elaborated a special report on ENTel's situation and possibilities of restructuring. See El Informador Público, 06/26/87, p. 10; 07/10/87, p. 10; 07/17/87, p. 11; 08/14/87, p. 16; 08/21/87, p. 12; 08/28/87, p. 13; 09/04/87, p. 25.

⁹ See Somos, 04/29/87, pp. 60-62.

¹⁰ In retrospect, Guillán admitted that it was evident then, towards the end of Alfonsín's mandate, that the Radical government lacked the necessary political capacity to implement the privatization. Peronism speculated with the possibility of doing it later and capitalized on it as a major achievement. Interview with Julio Guillán, Buenos Aires, 03/08/96.

¹¹ Interview, El Cronista Comercial, 12/22/87, p. 15.

with both public and private joint ownership of the stocks. The mechanism was the direct contract with an operator who would share 60% of the enterprise and provide technology and management, while the state would keep the other 40% and the authority to regulate the rate of the service and the levels of quality. Telefónica de España was a firm candidate from the beginning. The price agreed upon was \$750 million (\$500 to be paid in cash and \$250 through a capitalization of debt mechanism). A letter of intent was signed with Telefónica in March 1988, but the agreement was indefinitely delayed and never obtained the necessary congressional approval.

It is important to underline that the conditions of the transaction were similar to those which were finally agreed upon with ENTel's new owners: a guaranteed market monopoly, an increase in the service rates before the transfer, an adjustable rate (even subsidized if necessary), and liberalization of imports. In addition, the debt would remain public. As was mentioned before, by this time ENTel's poor performance had raised positive expectations in public opinion about privatization.¹² However, the project met strong resistance from interest groups for different reasons, especially from the opposition (Peronism), from the local business sector, from the unions, and even from the media.¹³

Of all of them, probably the most striking stance was that of the potential buyers. Although the government finally conceded that the agreement would not undermine the position of the traditional national suppliers of equipment, local economic groups --specially those known as "the Captains"-- continued to oppose the initiative and lobbied against it from the business chambers: the CATYA (Cámara Argentina de Telefonía

¹² See, for instance, *La Nación*, 10/26/81, p. 13; 12/10/81, pp. 14-15; 05/11/82, p. 13; 07/03/85, p. 8; *Ambito Financiero*, 03/01/82, p. 23; *La Prensa*, 10/19/85, p. 10.

¹³ See *Clarín*, 12/29/88, p. 27; *Ambito Financiero*, 02/27/89, p. 5.

y Afines) and the CEA (Consejo Empresario Asesor).¹⁴ It is interesting to note their later change in behavior, when they actually participated in the bids.

As for external actors, some changes in the telecommunications sector at the international level may have favored the launch of ENTel's privatization in the 1990s. In particular, some technological innovations and the consequent introduction of new services in the 1980s had altered market structure and competitive conditions in developed countries and had triggered the decision of big multinationals to extend their operations to less developed countries.¹⁵ So, the interest of the American "Baby Bells" and other European companies in ENTel's privatization can be understood in that framework.

VI.2.- ENTel as a Leading Case in the Privatization Program

By the beginning of 1989, Peronism had abandoned its dogmatic position on privatization, in general, and appeared to be more flexible over the agreement with Telefónica. It was still reluctant to let the already discredited Radical government count it as one of its own achievements. However, once in power and according to the objectives of

¹⁴ See El Cronista Comercial, 12/02/88, p. 12.

¹⁵ See Clarín, Suplemento Económico: "El negocio de la década", 08/14/94, pp. 1-7.

the reform of the state program, a decision about this issue was taken: a project to transform ENTel into a private enterprise was launched.

Undoubtedly, this policy shift was related to other aspects of the economic policy and to international factors, particularly, the financial limitations created by an increasing public deficit, the accumulation of a large external debt, and the cutting of loans from international financial institutions (see Section III.4.). As for the actors' perceptions, a Peronist party in government generated all kinds of doubts and fears among the international creditors and the business sector in general. For this reason, this case was closely connected to the broader problem of credibility.

Indeed, Antonio Erman González (Minister of Economy at that time) emphasized the point. He argued that the business community's distrust was very significant. That was why the first privatizations had to be carried out fast and had to include important state-owned enterprises (such as ENTel and Aerolíneas Argentinas). Besides, the international financial institutions were pressing for an acceleration in the process, conditioning the renegotiation of the external debt on privatization. They also actively participated in the implementation stage of the privatization program, providing technical expertise and financial resources to be used in the public enterprises' restructuring (e.g., severance pay, early retirements). So, the arena of relations between the government and external actors became very important in determining outcomes. With reference to the privatization of ENTel, González said: "Each step, each detail was agreed on with the international financial institutions."¹⁶

In the implementation phase, one of Menem's first decisions was to appoint María Julia Alsogaray administrator ("*Interventora*") of the firm and give her a great deal of autonomy to carry out the privatization. At

¹⁶ Interview with Antonio E. González, Buenos Aires, 02/27/96.

that time, Alsogaray was national deputy for the UCeDé. Her appointment was also used as an instrument to cope with the credibility problem.

According to the theoretical framework used here, personal attributes and background are relevant to understanding actors' actions. In the case of the *Interventora*, it is important to note that she is the daughter of the party's leader, Ing. Alvaro Alsogaray, a key figure of the conservative wing and traditional advocate of liberal dogma. Her designation appears to be highly symbolic and strategic. It was believed to send clear signals to domestic and international actors about the chosen path and to elude ideological contradictions. In the words of the then Vice-President, it was necessary because Peronists could not fully understand the privatization issue; there was no conviction among them and the government needed to look for "convinced people" to carry out the task.¹⁷ Some other party members also believed her technical profile, her links with the private sector, and her executive ability -- "something difficult to find among politicians"-- were advantages while leading the privatization process.¹⁸

Beyond the symbolic aspects of Alsogaray's role in the privatization of ENTel, she also became a key player in the Menemist administration, as the President's personal friend and as a top official in several posts. Since 1989 she has been part of the President's inner circle and has been the center of numerous corruption scandals and frivolous episodes so characteristic of Menem's style (see Section IV.3.3.3.). Her own style actually complements his very well. She not only took delight in the advantages of her position but also exerted a very egocentric, personalistic, and discretionary management of her public functions.¹⁹ According to González, the sense of autonomy is part

¹⁷ See interview with Eduardo Duhalde in *Página 12*, 10/04/92, p. 7.

¹⁸ Interview with Antonio E. González, Buenos Aires, 02/27/96.

¹⁹ Just to mention another example of Alsogaray's perception of her public role, let us point out that it was impossible to interview

of her own personality.²⁰ She seems to confirm that view: "I care about my image as long as it does not interfere with what I think I have to do. (...) I do not answer to either the President or the people. I do what I think should be done,"²¹ she argued when questioned about criticisms of her performance.

Accordingly, her idea of the reform of the state did not contemplate building more efficient structures, state capacities, or regime consolidation, but only the sale of state-owned enterprises. The centralization of decision-making power was an inherent feature of power politics. She argued: "The belief that decentralizing bureaucracy means decentralizing power means not knowing where power lies. Because it cannot be found in bureaucracy but rather in those who control the political, economic, and social power of the structure."²²

She has been seriously questioned by several sectors and the public in general²³ and has been prosecuted several times for her performance but, unlike other officials, she neither admitted to her mistakes nor paid the political costs of her actions. The unconditional and permanent support she received from the President seems to result from a combination of their personal relationship²⁴ and of the political debt Menem has with her father. The latter has been a key link with the

her for this study because, in the words of her secretary, "she had nothing to gain from the interview", so it would be "a complete waste of time for her."

²⁰ Interview with Antonio E. González, Buenos Aires, 02/27/96.

²¹ Clarín, 02/14/93, p. 33.

²² El Periodista de Buenos Aires, # 86, 05/02-08/86, p. 9.

²³ Though public opinion backed the privatization process over time (47.6%), Alsogaray's image grew increasingly negative (73.5%). See Página 12, 04/28/90, pp. 2-3.

²⁴ The press often suggested that they were sentimentally involved, particularly in 1990. That may also help to explain Alsogaray's direct access to Menem and his constant support.

economic establishment and has contributed to the Peronists' success in crucial elections and votes in Congress. Thus, this is a typical example of the fact that actors' power resources are not necessarily nor exclusively linked to their position in a formal institutional setting.

Likewise, all these elements are relevant in how they highlight both the sources of perceptions and actions at the individual level of analysis and their impact on the kind of policy network that developed in a certain issue-area (see Section VI.1.3.). Undoubtedly, given Alsogaray's central role in the privatization of ENTel and the high degree of autonomy conferred on her by the President, her personal traits contributed to the type of network that was formed in the telecommunications sector and, to a large extent, that shaped the dynamic and content of interactions.

Despite Alsogaray's protagonism, it is worth pointing out that José Roberto Dromi, Minister of Public Services at that time and the architect of the reform of the state project, had his own plan to transform ENTel into a stock company, which had already been negotiated with the union. As was mentioned in Section V.2., he was a key figure during the first stage of the privatization process --mediating in almost every dispute and building the necessary political support for the whole project in both Congress and the Peronist party. He finally replaced Alsogaray when ENTel was transferred.

Since her appointment ENTel has acquired the status of a pilot case of the whole privatization process and, particularly, of the government's willingness for and commitment to the economic reform. What is more, ENTel's privatization was said to have been the cornerstone of the transformation process. Consequently, the idea that it could not fail was a guideline whenever an obstacle appeared. This could be said to have been the golden rule of the game.

That was very clear in Alsogaray's mind from the beginning. She gave high priority to celerity and to the deadlines established: only thirteen months passed between the decree deciding ENTel's sale

(September 1989) and the actual transfer (November 1990), which had been originally scheduled for early October 1990. She also paid special attention to sending signals that could capture foreign capital. In her own words: "We must proceed quickly so that we can send out signals to attract capital investment. This will make it possible to handle the external debt issue more easily later".²⁵ As is described in the following sections, it became clear that financial urgencies prevailed and she progressively resigned to the fact that she could not carry out a complete restructuring of ENTel prior to the sale.²⁶ Any conditions of the deal could be modified as long as the firm was sold. This was probably the most important "unwritten" rule of the game in this case.

In early 1990 four decrees for the privatization of ENTel were signed by President Menem, setting the general guidelines for the process. They established: 1) The privatization would be carried out by complete or partial granting of the shares to two stock companies, which would receive the license. Another two companies would perform the international and other services. Ten per cent of the shares would be reserved for the employees, five for cooperative associations, and twenty-five for public offer. 2) Two licensees (called North and South) were created and assigned different geographic jurisdictions. 3) Some norms were established for the creation of firms which would be responsible for the international and other services. Among other things, a telephone company with international experience would participate in each group (the so-called "operator"). That company would be in charge of the administration of the firm with a management contract signed by the other members of the group so that it would assume responsibility for certain tasks, such as the development of managerial policies, design of the organizational structure, and the

²⁵ Cf. La Nación, 06/27/89, p. 8.

²⁶ Actually, according to Antonio E. González, she had no plan at all for ENTel's privatization and, as was already said, there was not much time for policy design (interview with González, Buenos Aires, 02/27/96).

implementation of technological innovations. 4) An international public tender was called. A mechanism of "double envelope" was established: the first presentation would have the objective of evaluating the technical and financial capacities of the bidders; the second one was only for those who had passed the first stage and could tender 60% of ENTel. Besides these four points, a strict, nine-month schedule was set up, justified by the need to show unequivocal achievements to domestic and international actors.

Despite these guidelines, it seems clear that no previous, detailed, comprehensive, and agreed-upon design of the policy existed. On the contrary, as the privatization process advanced, several issues arose and the conditions of the deal were actually established in an *ad hoc* manner, while those issues were resolved (see Section VI.4.).

VI. 3.- The Formation of a Highly "Personalized" Policy Network

ENTel was one of the first two cases in the entire privatization process. Thus, it is very representative of how the privatization policy developed and came to be implemented. However, for the same reason it also reflects several particularities of the policy context that characterized the first years of the Menemist administration, especially, the speed of the reform implementation. As was mentioned above, financial needs and the credibility gap determined that deadlines prevail over any other consideration. The centralization and concentration of decision-making power in very few hands, together with

the great deal of autonomy conferred on the *interventores*, worked in favor of these urgencies.

Thus, a relatively small policy network made up of public and private agents developed. Only a few officials in charge of the privatization constituted the nuclei of that web: basically, the *interventora*, Maria Julia Alsogaray, and some of her advisors²⁷ who initially met with officials from the Secretariat of Communications, the Ministry of Public Works (Dromi's advisors), external consulting agencies,²⁸ and the union representatives to discuss the general guidelines.

Experts from international institutions (e.g., the World Bank) eventually participated in those meetings as observers.²⁹ When the tender was later called, the main interactions occurred between the *interventora's* team and the potential investors, although creditor banks' participation and the possibility of using the capitalization of debt mechanisms led officials from the Ministry of Economy to intervene. Another circuit of relations with external actors emerged when U.S. and European ambassadors lobbied in favor of foreign companies (see Section VI.1.6.).

Section VI.1.1. explained the characteristics of the telecommunications sector. It had been assumed for decades that it

²⁷ Among them were Ricardo Zinn, an UCeDé member who also advised her in the privatization of the national steel company (SOMISA) and Estenssoro in YPF's sale, and Carlos Sánchez, a union leader from the professional ranks.

²⁸ Morgan Stanley & CO and the Roberts Bank were appointed as financial advisors. Coopers & Lybrand, through its local associates Hartenek & López, was in charge of ENTel's valuation. Only the Roberts Bank made a profit of around US\$ 3.8 million for that task (in part as fixed earnings paid by the World Bank, and in part as a commission determined by the final sale price of ENTel). See *Prensa Económica*, 09/10/90, pp. 40-43.

²⁹ Interview with Julio Guillán, Buenos Aires, 03/08/96.

constituted a natural monopoly.³⁰ This contributed to the existence of a relatively small number of participants. Likewise, the fact that only a few potential investors participated in the bid reinforced that trend. The licensing conditions which the government and the new private managers agreed on --basically, the maintenance of a monopolistic market for the telephone service (see Section VI.1.5. below)-- had the same effect.

The interaction between actors was both formal and informal. However, following a general trend in the Argentine policy-making process, informal contacts were frequently used in lobbying, as well as for channelling decisions and solving internal disputes within the government circles. This was reinforced by the vertical dynamic of the interactions which always ended at the top; the President therefore was the hegemonic actor even in the implementation phase of the policy making process. According to Alsogaray, his intervention was crucial in the resolution of key issues (e.g., ENTel's regionalization and the use of the capitalization of debt mechanism), mediating and shifting the balance between opposite approaches, as well as in the search for foreign investments.³¹

Informal channels of access to the President were good means to obtain and keep power shares. As was explained above, this determined, to a large extent, the high degree of autonomy and discretion exerted by the *Interventora*. Besides, her style of managing public affairs was totally congruent with the policy style introduced by President Menem (see Section IV.3.).

³⁰ That assumption was based on the idea that it was more efficient to provide the telephone service through only one network that generated important economies of scale. Recent technological developments impuled the incorporation of other services (e.g., satellite and telefax communications, mobile phone), thus altering competitive conditions within the telecommunications sector and questioning that assumption. See Gerchunoff, 1992, pp. 242-247; also Herrera, 1993.

³¹ See *La Nación*, 07/01/90, p. 8.

Undoubtedly, this consistency between the macro and micro level of policy implementation contributed to neutralizing opposition and accelerating the privatization process (see Sections VI.5. and VI.6.). In that sense, the specific policy network which developed in the case of ENTel helps to explain how successful the Peronist administration was in constructing policy viability for the privatization program.

VI. 4.- The Definition of Policy Content and Instruments

As in other issue-areas, the content of the policy was the result of the actors' interactions, disputes, and compromises. However, in the case of ENTel, the celerity of the process weighed more heavily than in other cases. Given the context of crisis that characterized the first stage of privatization (see Section V.2.), financial urgencies and the government's need to show its commitment to the privatization strategy and some concrete achievements largely determined the content and instruments of policy implementation. Indeed, the definition of what to do and how to do it emerged from the discussion and disputes taking place in eight main issues.

The following analysis of these issues will support this point. Their resolution provides many examples of the actors' perceptions and actions and of how their interactions served to construct a kind of network that made policy viable. Most of these issues had to do with the construction of economic viability, that is, the agreement on who would get what. This was so crucial to policy implementation that other

dimensions (e.g., technical viability) became dependent on the economic one (see, for instance, points three and four below).

One, the division of the enterprise into several regions. This was one of the first themes discussed between Alsogaray's advisors and potential investors and providers (Pecom-Nec, Siemens, Alcatel, Telefónica de España, and the American GTE, West Bell, and South Bell were consulted).³² At the beginning of the process, the government had no clear-cut definition of this issue. The so-called "regionalization" was supported by the local suppliers of inputs as long as it guaranteed them a market share, but it was strongly resisted by international operators and by the two biggest national suppliers (Siemens y Pecom-Nec) because of the relatively low potential rate of return in such small regions.

By the end of 1989 the regionalization question had almost been decided on in favor of a division into only two regions. In great part this was the result of the recommendations made by the appointed foreign advisory agency: two companies would be easier to sell than one large one. According to Alsogaray, "We were afraid that only one ENTel would be too large a company in the light of the initial low credibility of the country. And failure would imply an enormous political risk. It was easier to sell two smaller companies on the international market."³³ Thus, the resolution of the issue was based on economic and political reasons. Once again, financial urgencies and the credibility problem affected the outcome.

Two, the provision of equipment to future purchasers. This issue was linked to the previous one since the discussion largely revolved around the interests and demands of established suppliers. They resisted the potential purchasers' intentions to avoid the inclusion of conditions on equipment purchasing in the licensing contracts. Local

³² See *Ambito Financiero*, 08/09/89, p. 4.

³³ Interview, *Ambito Financiero*, 11/01/91, p. 14.

providers feared that future licensees would look for supplies abroad.³⁴ Therefore, they lobbied intensely within the policy network until they achieved the modification in the government's policy on the matter (e.g., by signing new provision contracts while the privatization was being carried out and making future licensees responsible for the debts generated by those contracts). Their leverage on the policy implementation comes from the fact that these providers (specially, Pecom-Nec and Equitel) appeared to be the only "certain" potential bidders as consortia members from the very beginning, given the low expectations the tender raised for potential investors.³⁵ Local suppliers also obtained the inclusion of a clause that obliged the telephone companies to give preference to the existing domestic industry, though only under certain conditions, which casts doubts on the real impact of this clause.³⁶

Three, the application of the capitalization of debt mechanism as a form of payment. In principle, the government was neither fully convinced of its expediency nor clearly resolved about the conditions of its applicability. However, it intertwined with the debt negotiations that were being carried out together with the privatization. As was mentioned before, the union opposed it, arguing that what the sector truly needed was real investment. Private firms repeatedly asked for a clear definition of the way it would be applied. The mechanism became progressively more relevant as very few private firms and banks -- specially foreign creditors-- showed interest in the business. It was

³⁴ As was mentioned in the previous section, though local firms could participate in the bids, the consortia had to include at least one international telephone company, which would be in charge of key managerial tasks (e.g., decisions on organizational structure, equipment, technological innovations).

³⁵ On the details, see *Ambito Financiero*, 02/01/90, p. 3.

³⁶ See Herrera, 1993, pp. 53-55; also Llach, Juan J.: "La nueva economía institucional y la desestatización de las empresas públicas. La experiencia argentina en los sectores de telefonía (ENTel), aeronavegación (Aerolíneas Argentinas) y energía eléctrica (DEBA), in Porto (ed.), 1990, p. 280.

finally a determinant of the outcome since it was established that the winner would be the one to offer the greatest amount of debt bonds. This is a clear example of technical viability being subjected to economic viability.

Four, the price of the enterprise. This issue generated confused episodes over different figures. The starting point was to consider ENTel's balances. The difficulty was having to work with an old one: the last available one dated from 1987, and the last inventory did not include the obsolescence of the equipment.³⁷ Despite that, the privatization team estimated the assets at US\$ 3 billion, and the price of the enterprise at \$ 1.5-1.8 billion --almost the same values determined by the BANADE (Banco Nacional de Desarrollo de la República Argentina) and by the international consulting agency Coopers & Lybrand.

As the experts believed that nobody would buy ENTel at that price, Alsogaray initially decided to set no base price, going against the specifications of the tender. This generated fierce criticisms and several comings and goings on the part of the government (i.e., contradictory statements gave the impression that the decision was not very firm). In fact, another point underlay the discussion: the 16% guaranteed rate of return already offered to investors had been calculated on the entire assets of \$ 3.2 billion; it meant a profit of at least \$ 500 million a year, almost one point of the Argentine GNP. So, if only \$ 214 were to be paid in cash as negotiations specified, the initial investment would be recovered and doubled in a year. The Executive finally decided that 60% of ENTel would be sold for \$ 1 billion; the base price would be \$ 214 million, from which debt bonds could be offered, the winner being the one to offer more bonds.

Five, the rate of the telephone service. It was said to lag far behind international rates and would therefore be adjusted before the transfer. However, the issue also had a political connotation since it

³⁷ See Somos, 04/04/90, pp. 34-36.

was linked to the government's search for credibility. With reference to the controversies generated around the enormous increase in the rate of the service, Alsogaray justified the adjustment on the ground of credibility, saying, "we had to show them that we were going to follow through with what we had said".³⁸

On this point, her discretionary authority was reinforced by an authorization from the Executive to set the rate without the intervention of the Minister of Public Services. This increased her autonomy and leverage within the policy network. She invoked this faculty each time her negotiations were questioned.³⁹ Accordingly, the rate of the service was raised several times, following private investors' demands. It is estimated that the increment in australes in real terms was around 90% between August 1989 and September 1990.⁴⁰ Although the excessive increase led to serious criticisms and public unrest, it was justified by the need to make the transaction more attractive (i.e., to guarantee higher profits) and to demonstrate the government's commitment.

According to the original specifications of the tender, the pulse (the unit by which the length of the call is measured) could not cost more than \$ 183, which would eventually guarantee a rate of return of around 30% instead of the original 16% postulated; the private firms asked for \$ 289. After very controversial negotiations, the new owners could begin their administration in November 1990 charging \$ 286.57 (including taxes) for the service.⁴¹ In other words, they got what they wanted and that meant starting business with almost no risk but with the guarantee of extremely high profits. Indeed, according to the *Bicameral Commission of Congress* that was one of the most --if not the most--

³⁸ Cf. *Ambito Financiero*, 03/30/90, p. 8.

³⁹ See Decree # 373, *El Cronista Comercial*, 03/01/90, p. 2.

⁴⁰ Cf. Gerchunoff, 1992, p. 255.

⁴¹ Cf. *La Nación*, 11/10/90.

expensive rates for a telephone service in the world, and one that raised the potential yield of the firms to 67%.⁴² What is more, a high ranking member of Bell's board of directors estimated that if the rate had been 50% lower than the one the government conceded and if it had not included the agreed on adjustment mechanism, the business would still have been highly profitable.⁴³

In sum, this is another example of the importance of a substantial imbalance of power between the government and the private sector (see Section V.4.3). This disequilibrium undoubtedly determined the actors' relative bargaining capacity and shaped policy outcomes. The same comment applies to the following two points.

Six, the waiver to be conceded by international banks. In mid-1987 the Radical government ratified a GRA (Guaranteed Restructured Agreement) signed by the previous military government by which state-owned enterprises were taken as a guarantee for Argentina's external debt. Therefore, if any of them had been sold without a previous waiver from the creditors, the latter would have been able to sue the Argentine state. As the waiver would have halted the privatization process, hard negotiations developed around it. Banks (especially Citibank) used the issue as a tool to press for better financial conditions and to prevent further modifications in the sale regulations. Finally, the waiver was conceded just before the deadline, in the first days of October 1990.

Seven, the legal and regulatory framework. The rules were established, suppressed, and modified as negotiations advanced, guided more by political and economic considerations than by technical ones. For instance, the obligations of the future owners were unclearly stated in the tender conditions. Under a month before the presentation of

⁴² Cf. Clarín, 05/07/91, p. 7.

⁴³ See interview with Juan Carlos Valls, Página 12, 11/25/90, p. 10.

bids,⁴⁴ no legal framework had been designed for the new private firms; and, at the moment of the sale, no regulatory authority existed.⁴⁵ Besides, the tender conditions were constantly modified as a way to generate incentives for private investors, often in response to the latter's demands. For example, in March 1990 the requirements for future investors were flexibilized so as to allow France Telecom to bid and to facilitate the participation of local enterprises.⁴⁶ As in other aspects, the authorities' justification was to give priority to deadlines.

Moreover, the nonexistence of clear rules was exacerbated by certain characteristics of Argentine politics and by the particular style of the Peronist government. That is, discretionary and personalistic procedures prevailed, to the detriment of already weak decision-making structures. For example, the Secretariat of Communications was transformed into an Under-Secretariat in February 1990, which meant that it lost regulatory power over the privatization process and Alsogaray's administration acquired further autonomy.

Eight, interbureaucratic disputes and policy-making mechanisms. The characteristics of the transaction were also determined by the result of disputes taking place exclusively in the governmental arena of interactions between members of the Executive. Serious disagreements broke out between Alsogaray and Guillán (the union's leader and Under-Secretary of Communications), and between Alsogaray and Ministers Dromi (Public Services), González (Economy), and Cavallo (Foreign Affairs).⁴⁷

⁴⁴ See *El Cronista Comercial*, 02/23/90, p. 3.

⁴⁵ After the transfer, the National Commission of Telecommunications was formed to act as the regulatory board. It has been working with difficulty because of the lack of financial resources and specialized personnel.

⁴⁶ See *Ambito Financiero*, 03/18/90, p. 5; 04/18/90, p. 3.

⁴⁷ On differences between Alsogaray and Dromi see, for instance, *Página 12*, 03/12/90, p. 3.

For instance, one of the first and more resonant confrontations between Alsogaray and Cavallo (Minister of Foreign Affairs at that time) occurred in early 1990 when the Italian government lobbied to get an equipment provision contract signed (known as "DIGI II" because it aimed to digitalize the Buenos Aires telephone network). It had already been negotiated and conditioned to a "soft" loan from the Italian government, as part of a cooperation agreement between Argentina and Italy. For this reason, the Executive (including Cavallo) wanted to have it signed. The international companies interested in the privatization opposed the conditions (because of the limits it would set on their future decisions on equipment) and threatened to withdraw from the ENTel tender. Alsogaray supported the position of bidders and refused to ratify the agreement. A tense diplomatic situation arose and the solution was reached when the government decided to implement the DIGI II, though it also acceded to limit the scope of the contract in order to avoid hurting future awardees of ENTel.⁴⁸

Of course, in most of these disputes, the underlying motivation was the sharing of power. On some occasions, the fact that Alsogaray was a non-party member worsened the struggle. She put it this way, "It seems to me that the problem we liberals had was that they used us, in a way, as a façade. I don't know if they were convinced I could privatize ENTel when they called me ... and well, then the friction began. In other words, we liberals obviously wanted to obtain a quota of power and nobody had calculated that. And so, they created antibodies against us."⁴⁹

On the other hand, the fact that deadlines were crucial for the two so-called "leading cases" (ENTel and Aerolíneas Argentinas) fueled disputes within government circles to finish first and show concrete achievements. According to Alsogaray: "... at that time [1990] there was

⁴⁸ On this point, see Clarín, 05/23-24-25-30/90.

⁴⁹ Interview, Ambito Financiero, 05/06/91, p. 45.

a kind of latent competition --that nobody acknowledged-- to see who would be first to finish the privatization process: ENTEL or Aerolíneas Argentinas. It was even said that they [i.e., other officials] hindered me because Aerolíneas was not ready and they didn't want ENTEL to be first ...".⁵⁰

Moreover, second-level officials (e.g., ministers or the *Interventora's* advisors) often quarrelled and even resigned because of differences over particular aspects of the negotiation and over their part in the decision-making power. There appears to be a recurrent pattern in officials' disputes --as well as in risk situations-- which were ultimately resolved by the President, and later embodied in ambiguous norms. This happened, for example, when the issue of regionalization had to be settled and the union manifested strong opposition, when capitalization was discussed and there were important differences between members of the Cabinet, and when the government wanted to push the process and produce an impact on foreign investors.

Thus, the development and the content of many aspects of the policy formation process depended on some individual's discretionary initiatives and the possibilities of imposing his/her own goals. At the same time, those possibilities largely rested on his/her direct access to the President, and not precisely on their position in an institutional structure. This point was remarked on by González: bringing ENTEL's case to the general understanding of the policy-making process, he argued that the analysis should not be tied to formal or structured conceptions since hierarchies and informal mechanisms do exist that sometimes matter more than formal institutions.⁵¹

So, given the particular political context that characterized the first years of Menem's administration and its impact on policymaking (see Section IV.3.1.), it can be argued that implementation could advance

⁵⁰ Interview, Somos, 01/11/93, p. 13.

⁵¹ Interview with Antonio E. González, Buenos Aires, 02/27/96).

quite easily, at least at that time, once the policy had crossed the threshold of the Executive. Some features of the Argentine political system (see Section IV.1.) created the conditions for such an outcome. However, the high concentration of decision-making power and the legitimation of discretionary and personalized procedures under Menem's government facilitated policy implementation. ENTel's privatization constitutes a case in point.

Obviously, to construct technical viability, the "decree mechanism" was crucial in smoothing the government's path. General decisions about how to privatize were made that way, and all other obstacles were overcome through centralized decision making and molded into decrees. For example, there were at least two instances when ENTel's financial collapse might have seriously impaired the privatization process, both quite near the day of awarding. In September 1990, as an exception to Decree # 1757, which only half a month before had suspended internal debt payments for ten years, the Executive's Decree # 1868 granted ENTel a \$ 40-million loan in order to cancel its debts with providers.⁵² In October 1990 ENTel's financial and legal situation appeared to be even more complicated. Its bank accounts had been seized because its debts had led to lawsuits by its providers. Again, on the Executive's decision, the Banco Ciudad conceded a "financial lifesaver": a \$ 13-million loan that helped to solve the short-run problem of salaries. In early October 1990, in another manifestation of the same political style, President Menem asked the top official of the Inspección General de Justicia, Alberto González Arzac, to resign. This official had made two important objections to ENTel's privatization: he had summoned Alsogaray for irregular procedures, and he had denounced the violation of the Law of the Reform of the State (Law # 23.696, Article 19) which required that the assets of state-owned enterprises be valued prior to their sale.

⁵² See Clarín, 09/20/90, p. 18.

VI. 5.- Neutralizing Opposition and Attracting Investors

To construct economic viability, the government had to face two difficult tasks: to neutralize opposition (basically, from the union) and to capture the business sector's interest and support. As was shown in the previous section and will be presented here, policy content itself was the instrument used to legitimate a new distribution of costs and benefits between these actors. This section also provides numerous examples of the practices described in Section IV.3. as part of the Menemist policy style (e.g., the carrot-and-stick strategy applied towards the union).

The nuances of the telephone union's opposition to and acceptance of the privatization process deserve a chapter apart. Let us give, though, only a few examples.

In general terms, the union's resistance was either underestimated and discredited or firmly resisted by the government. On the one hand, it was characterized as exaggerated, and the compatibility between official projects and labor's goals were considered to be "a matter of time and dialogue with those who disagree." On the other, the leader of the telephone union, Julio Guillán, was co-opted as a public official.

Guillán originally came from the combative wing of union ranks. He had been in prison for five years under the military rule. He later supported the Renovation stream, expecting the new leaders to restore unions to their privileged position within the Peronist party. He had also participated in the *concertación* attempts launched by the Radical administration.⁵³ In harmony with this approach, the union submitted its

⁵³ See *El Periodista de Buenos Aires*, # 138, 05/01-07/87, p. 40.

own proposal to President Alfonsín (a plan to be developed over five years) for ENTel's restructuring which, according to Guillán, represented an intermediate option that involved the transformation of the firm but not necessarily its privatization. The project gathered the support of all workers and foresaw their participation in the process of change.⁵⁴

Although Guillán was still opposed to deregulation and privatization, his discourse was one of the most open to reform initiatives and his position was very pragmatic. On the withdrawal of state intervention, he argued at that time, "We assume responsibility for this reality just as it is. We have spent thirty years defending state enterprise and we haven't achieved our goals: to incorporate technology to help in the industrial development of the country. Now the system is affected by all the erratic policies that we have suffered from and the people are demanding good service. They tell us: 'We want telephones! We need them!' We know that these yearnings can't be satisfied with the simplicity of old slogans."⁵⁵

Thus, in July 1989 he was willing "to work for the change." He was aware of the exhaustion of the old socio-economic model and that the demands for change (specially for state withdrawal from the economic sphere) were not only a crucial point in the liberal wing and the arguments of the mass media, but were also quite widespread. He had submitted the union's gradualist proposal to Menem but, once in office, the President argued that the Peronist government had inherited a bankrupt state and the transformation would have to be accelerated in order to avoid further harm.⁵⁶

⁵⁴ Interview with Julio Guillán, Buenos Aires, 03/08/96.

⁵⁵ Interview, El Porteño, Mayo de 1987, p. 16.

⁵⁶ Interview with Julio Guillán, Buenos Aires, 03/08/96.

Guillán aspired to the post of Secretary of Communications but he was offered the Under-Secretary and accepted that position for a few months.⁵⁷ He still openly opposed the total deregulation of the sector, although he admitted to the need to capture investments from private sources. He did not fully agree with Alsogaray's plans for ENTel, though he was aware of the symbolic character of her appointment and expected the union to participate in the technical discussion of concrete aspects of the privatization policy. He conditioned his acceptance of the Under-Secretary post to the government's commitment to keep all the sector's personnel and to the promise to improve workers' salaries.⁵⁸

However, as the process advanced, none of these conditions and expectations was fulfilled, and Guillán's behavior (i.e., his continuous support of the government) was questioned by the rank-and-file.⁵⁹ Yet, he still remained loyal to the Executive's position. When the dissent between leader and the rank-and-file was so serious that it threatened the project, the government saw him as the legitimate representative of the union. When he himself questioned the official orientation on a few occasions, he was accused of playing conflicting roles and was urged to decide whether he stood with the government or not. At that time, intimidation was also reported by the union, but it was not investigated and the matter was never cleared up.⁶⁰

In late 1989, union elections consolidated a new leadership which was less responsive to the government and more combative. Throughout 1990 the union constantly denounced the privatization as an "extranjerización" of the enterprise (declaring that it would become a foreign firm) and argued for its own proposal for a public,

⁵⁷ As was mentioned before, that Secretariat was reformed in February 1990 and the Under-Secretariat was eliminated.

⁵⁸ Interview, Página 12, 07/06/89, pp. 2-3.

⁵⁹ See Clarín, 06/30/89, p. 7.

⁶⁰ See El Cronista Comercial, 10/31/89, p. 15.

monopolistic, and efficient ENTel.⁶¹ In general terms, the union seemed to accept the change, although it sustained an ideological discourse that frequently equaled privatization to de-nationalization and betrayal of workers' historic interests. More concretely, it accepted openness to private capital but refused to endorse the regionalization of the firm and the use of the debt capitalization mechanism of payment. (They were tied to the old conception of a monopolistic market for the sector.)

In early September 1990 a strike was declared by the telephone union. Alsogaray remained absolutely inflexible. Criticised for her attitude, calls for her resignation arose even within the Cabinet and among party members. President Menem was also very firm: he conditioned the resumption of the dialogue to the suspension of the strike.⁶² As the strike continued, the government responded by replacing workers with military personnel, and by threatening to fire workers and apply sanctions without compensations.⁶³ Indeed, massive dismissals took place and the union finally called off the strike.

Moreover, in the midst of difficult negotiations over the transfer contract of ENTel to private owners (see below) and over the end of the strike, inflexible positions threatened the privatization process. The government announced the suspension of part of the general labor agreement and particular agreements that had been made with the telephone union that "worked against the productivity of public enterprises," such as additional rewards for seniority and various fringe benefits (e.g., snack and travel expenses).⁶⁴ This measure also worked as an incentive to the private sector.

⁶¹ See *Página 12*, 04/01/90, pp. 4-5.

⁶² See *La Nación*, 09/07/90, p. 4.

⁶³ See *La Nación*, 04/06/90, p. 5.

⁶⁴ See *Ambito Financiero*, 10/23/90, p. 3.

Likewise, the so-called "collective labor agreements" were later renegotiated between the already private telephone companies and the workers' representatives. The main modifications involved greater decisional autonomy for the enterprise on questions of labor and the reduction of certain workers' prerogatives. Higher wages were conceded but additional items were simultaneously suppressed.⁶⁵ In addition, during the strike Bell and Telefónica published a notice stating that they would not recognize "unnecessary, nonproportional or inconvenient labor contracts", as well as renegotiations or extensions of existing contracts and those contracts that did not fulfill the transfer conditions agreed on in the specifications of the tender.⁶⁶

As had happened in almost all the enterprises to be privatized, another mechanism was used to offer the unions a compensation for the adjustment costs: the Participatory Property Programs (PPPs), created by the Law of the Reform of the State (see Section IV.3.3.2.), by which workers had the opportunity to buy shares of the firms. The mechanism also represented a very good deal for unions since the workers had to name a legal entity for their representation because the shares were to remain unionized. (That is, the property is individual but the representation is collective). So, unions became the "natural" delegates in the negotiation and administration of highly profitable PPPs, and union leaders in general, aware of their lack of political leverage, greatly appreciated this opportunity to participate in the reforms.

⁶⁵ It is interesting that the private firms interested in the business manifested that a future labor conflict was not of major concern, while corruption among high ranking personnel and labor costs were actually important sources of worry (see, for instance, Página 12, 05/13/90, pp. 8-9; El Economista, 08/31/90). They were probably confident that the combination of changes in the labor norms, recession, and increasing unemployment would deter unions from adopting a confrontational strategy. In fact, the tender conditions established that future operators would administer the service according to the labor regime in force at the moment of transfer and, as was explained above, a new labor agreement had been reached by then.

⁶⁶ La Nación, 09/08/90, p. 6.

Guillán argued: "We have to be part of the business, or else, power takes another way".⁶⁷

Nevertheless, the absence of a clear, legal, and methodological framework delayed the implementation of most of the PPPs. In the case of ENTel, the program was put into practice in 1992, two years after the privatization; almost 45,000 workers became owners of 10% of the shares of the new enterprises for which they paid around \$ 16,660,000.⁶⁸

As for the task of capturing the interest of potential investors, several steps were taken. For instance, once the decrees approving the specifications of the tender had been signed in January 1990, Alsogaray made a trip to New York and London to promote foreign investment. The episode is relevant because it shows the absence of policy design and the ad hoc resolution of each aspect as implementation advanced. The press registered that she could not satisfy the inquiries of businessmen because the government's strategy was confused, contradictory, and ambiguous. The government's same unclear management of the process and also the prospects created by the opening of Eastern European economies were undermining incentives to invest in Argentina. Consequently, as banks holding Argentine debt bonds were the most interested, only few offers could be expected. This situation also conditioned the government's room for manoeuvre and forced it to make more concessions to the future owners.

For example, in 1990 and throughout the bargaining process, certain rules of the game were defined. They differed greatly from the deregulation and liberalization claimed: monopoly of the market for a minimum of seven years with an option to extend it for another three years; a free rate (which had already been substantially increased before the transfer), adjustable by a combined index, with a guaranteed rate of return of 16%, the possibility that the state subsidize them if

⁶⁷ Interview with Julio Guillán, Buenos Aires, 03/08/96.

⁶⁸ Cf. *Prensa Económica*, Buenos Aires, 05/93, p. 46.

profits dropped, and exclusion of the provisional tax of 25% that was previously destined to pensions; the state would still be responsible for liabilities (\$ 870 million with external creditors and around \$ 1 billion with local providers).

Moreover, some other conditions were the result of several modifications in the original specifications of the tender in order to keep or capture offers. For instance, some requirements of future investors were eliminated. (In that way, foreign public companies could participate, national ones could associate with international operators and, particularly, Bell Atlantic could avoid U.S. anti-trust laws and qualify as a bidder.)⁶⁹ The schedule was altered, a new base price for the capitalization was established, the license to perform the service was extended to some other activities, and more obligations for the new owners were added. The policy network developed in this issue-area facilitated the discretionary use of power to modify these conditions. However, as later developments proved, these practices could boomerang because they increased private actors' reluctance to participate in the bid.

In early 1990, thirteen firms bought the tender specifications, but only seven proposals were received. They had two months to study the economic and technical situation of ENTel and to present their offers. At that moment, half a dozen consortia were negotiating their formation: Telefónica de España, Techint, and Citibank; Pescarmona and Stet (Italy); Socma and Bell South (US); Soldati, Alcatel (France), and Manufacturer's Hannover Trust; Pecom-Nec, US West; Midland Bank and PLC (UK). Other enterprises also manifested interest: GTE Company (US), Bell Canada, Bell Atlantic (US), Nynex (US), Cable & Wireless (UK), Ascom-Hasler (Switzerland).

By mid-1990, when offers should have been presented, a dangerous stalemate occurred. On this point, outcomes were largely determined by

⁶⁹ See *Ambito Financiero*, 06/15/90, p. 5.

the actors' power resources and relative bargaining positions. The banks were reluctant to authorize the waiver unless more favorable conditions for the privatization were agreed upon and some debt arrears cancelled.⁷⁰ Being both creditors and investors, they exerted a strong pressure on the government. There even existed rumours about an out-and-out blackmailing strategy on the part of the creditor banks on the Argentine government.⁷¹

In addition, the destination of the cash from ENTel's sale was a key point that complicated the negotiations with the banks even more and created new sources of dispute between Congress and the Executive and among various members of the latter. Originally, it was to have been destined to social welfare goals (priority being given to education, health, and security) but, as a result of the creditors' pressure, it went directly to them as part of the debt payment. Once again, the economic dimension of policy viability prevailed.

Largely because of this confusing framework and uncertain government orientation, some enterprises abandoned the tender (GTE, Nynex, Cable & Wireless), and others threatened to follow suit (specially Bell Atlantic --the government's favorite-- and Telefónica de España, one of the best positioned from the beginning). This shows that the uncertainty generated by a highly discretionary and personalized network like the one formed in this issue can also create obstacles to policy implementation. In addition, all those enterprises saw themselves as the banks' marionettes (because the latter had the financing power to decide whether or not the transaction would take place) and they complained of the lack of transparency and seriousness in the government's management of the process, as well as the general political and economic situation, which increased the so-called "country-risk".⁷²

⁷⁰ See Somos, 03/21/90, p. 40.

⁷¹ See Somos, 06/13/90, p. 43.

⁷² See Página 12, 06/14/90, p. 7.

As a result of this give-and-take, the bids were determined by only three consortia: Telefónica de España, associated with Citibank and Techint, made the best offer for both regions, North and South; Bell Atlantic, together with Manufacturer's Hannover Trust, Cititel, and Garfunkel and others (Balston Trading, Cadipsa, Welbers and Cofipa) made the second best offer for the North region; Stet made the third best bid for the North region and the second for the South one.⁷³ Though Telefónica clearly surpassed the others in both regions, the specifications of the tender gave priority to two operators instead of only one monopolistic owner. Bell thus improved its offer for the North zone⁷⁴ and was granted the license, while Telefónica obtained the license of the South zone.

Thus, 60% of ENTel was sold for US\$ 1.3 billion. Only 10% was received in cash, 40% in promissory notes were to be paid in three annual installments after three years of grace, and 50% were in debt bonds. In that way, US\$ 5.03 billion of foreign debt would be cancelled.

It is worth noting that the banks and local firms held most of the shares of each consortium from the start. This was the composition of the two sets of winners. On the one hand, Bell had only 4.9%, Manufacturer's Hannover 52%, Garfunkel and others 43.1%. (It included Cititel 9.99%, Syar 9.9%, Blaston Trading 8.83%, Cofipa 5.67%, Cadipsa 4.35%, and Welbers 4.32%. Most of them later sold their shares to Manufacturer's, which came to hold around 70% of the shares). On the other, Telefónica de España held 33%, Citibank 57%, and Techint 9.9%. In both cases, they possessed 60% of the shares of each region. The

⁷³ Telefónica offered US\$ 114 million cash and US\$ 2.72 billion in bonds for the South region, and US\$ 100 million cash plus US\$ 2.30 billion in bonds for the North region. Bell offered US\$ 100 million cash and US\$ 2.23 billion in bonds for the North region (it did not make an offer for the South region). Stet offered US\$ 100 million cash plus US\$ 2.1 billion in bonds for the North region, and US\$ 114 million cash plus US\$ 2.33 billion in bonds for the South region. Cf. *El Cronista Comercial*, 06/26/90, p. 3.

⁷⁴ It raised it to US\$ 2.30 billion. Cf. *La Nación*, 06/26/90.

remaining 40% was distributed in the following way: 25% for public offer, 5% for cooperative associations, and 10% for the workers.⁷⁵

VI. 6.- Actors' Strategies and Policy Contingencies

The last stage of the privatization process was complicated in many respects. First, the situation of ENTEL itself, as an enterprise, appeared to have lost control as a result of conflicts with present and former workers, controversies about the firm's physical assets, disputes with local providers of inputs, and an increased debt that had doubled during Alsogaray's administration largely because of mismanagement and corruption. Second, as was mentioned in the previous section, by September 1990 the union had intensified the struggle and the government responded by declaring the strike illegal, imposing massive layoffs, and replacing the workers with military personnel. As another illustration of the actors' imbalanced bargaining positions, Bell and Telefónica threatened to ignore new labor contracts, and refused to sign the transfer until the government had accepted another rise in the rate of the service and the elimination of the previsional tax.⁷⁶ Third, the granting of the concession had to be postponed because the licensees had difficulties raising the necessary cash and bonds.

⁷⁵ See *Ambito Financiero*, 09/25/90, p. 2.

⁷⁶ See *Ambito Financiero*, 09/18/90, p. 4.

Therefore, the interactions within the policy network became more complex because of the multiplicity of sources of disagreement and conflict. Thus, the purpose of this section is to show how in this phase of ENTel's privatization policy outcomes were shaped by the fact that all actors perceived their interests to be threatened and forced negotiations to maximize their relative gains.

Indeed, the entire process was on the verge of failure when Manufacturer's Hannover announced that it was unable to obtain the bonds in time. Initially, the government refused to modify the schedule and threatened to sell to the third bidder. A hard negotiation began in Buenos Aires and continued in Washington, including not only the personal intervention of Alsogaray and President Menem, but also that of the Argentine economic team in charge of the debt negotiations.⁷⁷ Here the privatization policy clearly intersected with other policies. The government did not want Bell to drop out of the deal because it could undermine its broader strategy to consolidate ties with the United States. So it finally offered to relax the schedule and the conditions for the reception of the bonds. Bell's association with other firms and the possibility of a new international tender were also considered. The consortium led by Stet was ready to take over and intensified its lobbying, pressing for determination of the tender.⁷⁸ At the same time, the U.S. Embassy and the U.S. State Department lobbied to keep Bell in, while Manufacturer's and some Argentine officials tried to form a pool of banks. Despite these efforts, the recessive economic context and the uncertain development of the Gulf crisis made the international banks reluctant to invest.⁷⁹

⁷⁷ See *Ambito Financiero*, 09/25/90, pp. 3-4; *Clarín*, 09/27/90, p. 14.

⁷⁸ See *Ambito Financiero*, 09/25/90, p. 2.

⁷⁹ See *El Economista*, 01/19/90, p. 12.

Nevertheless, Manufacturer's argued that the real problem was not financial but rather political. It did not have enough time because it received a draft of the transfer contract too late to study and without the modifications made in the specifications of the tender. It also argued that it was pressed by "political deadlines" that did not respond to the nature of the transaction.⁸⁰ Some other sources confirm that it was not just the fact that political considerations intertwined with economic ones but that two policy issue-areas also interacted. Javier González Fraga (from the Ministry of Economy) was in Washington to negotiate the external debt issue. He was trying to bring actors' positions nearer and to convince banks to support the operation; banks thus asked for "a good deal and political guarantees of the government's support for Bell's project."⁸¹ According to Antonio Erman González, Bell finally withdrew from the process out of a lack of confidence in the real bases of the government's commitment to the privatization.⁸²

Apparently, Bell continued trying to reach an agreement, even by associating itself with another bank. Once it was evident that Stet had obtained better conditions to present the bonds and that Manufacturer's had been denied those advantages, Bell also threatened to sue the Argentine state, arguing that the transfer contract had been modified inequitably. The government responded that the investor group led by Bell was not constituted and that its guarantee had already been due a month before.⁸³ It is worth noting that the government could have used this argument to its favor at that time, but it did not and the opportunity to obtain \$ 1 million for that guarantee was lost.

In this context, Bell's decision to withdraw became public the same date established to sign the transfer contract, though the U.S.

⁸⁰ See *La Nación*, 10/10/90.

⁸¹ See *Clarín*, 09/27/90, p. 14; 09/28/90, p. 10.

⁸² Interview with Antonio E. González, Buenos Aires, 02/27/96.

⁸³ See *Ambito Financiero*, 10/05/90, p. 3.

ambassador had announced it to President Menem earlier that day. At that point, interactions within the policy network had concentrated in the arena of government-external actors relations. Once again, there had been rumors about the government's willingness to accept the U.S. administration's requests to flexibilize requirements and deadlines.⁸⁴ However, Stet was convoked to take over the North zone and it accepted. The decision was taken at the last minute. The awarding decree was made over the phone and it was rushed through, without a number and date and with many empty blanks to be filled in according to the ongoing negotiations.⁸⁵ This was another example of the irregular and *ad hoc* procedures the process often followed.

Then, the transfer was postponed and a new stage in the negotiations over the rate of the service and the implementation of the capitalization mechanism was initiated. The latest developments had raised such a serious dispute among the members of the Cabinet and implacable criticisms of Alsogaray's performance, that Dromi took over and together with Antonio Erman González, Minister of Economy, carried out this last phase of the implementation process. Actually, by that time the government had manifested its willingness to start a new stage in the whole privatization program and, on the grounds of the experience it had accumulated, give it more transparency and clearer rules and goals. So, a commission was set up to revise the contract made by Alsogaray with the purpose of balancing costs and benefits for both parts.⁸⁶ In fact, the key point of the discussion at that moment was the rate of the service and its rate of adjustment in case of changes in the general monetary situation. This is a clear illustration of the fact

⁸⁴ See *Ambito Financiero*, 10/04/90, p. 2.

⁸⁵ See *Clarín*, 10/05/90, pp. 2-5.

⁸⁶ According to González, "the government should not grant so many prerogatives" to private licensees [in reference to the long term of the concession, the tariff structure, and the deadlines for payment]. Interview, Buenos Aires, 02/27/96.

that the credibility problem was still unsolved and continued shaping policy options.

At this point, the key actors seemed to have hardened their positions,⁸⁷ but the government's new inflexibility lost credibility since there was no clear epicenter for decisions and contradictory signals were sent out. The President was firm (e.g., unwilling to alter the tender conditions), absolutely tied to the ambiguous text of the specifications of the tender, and convinced that only he himself had the last word in any dispute. His attitude fully exemplified his policy style. However, in an attempt to curb more political pressures and costs, he urged his ministers to conclude the agreement before his return to Argentina from a trip abroad.

On the other hand, Ministers Dromi and González had their own project --which later proved to be quite similar to Alsogaray's-- and were fully committed to modifying the conditions she had established. The differences between these top officials are not relevant in themselves. The point is how they solved them. For instance, Alsogaray, her father, and some close advisors continued to make informal negotiations with the private firms (concurrently with Dromi's and González's negotiations) with the hope that their direct access to the President would guarantee a ratification of their deals.⁸⁸ This clearly illustrates the mind-set officials had regarding their own power resources. She also objected to her staff's collaboration with the above ministers during this final stage and refused to provide information. In short, once again vertical and discretionary mechanisms at all levels of the decision-making structure affected the policy outcomes.

At the same time, the circuit of interactions between the government and external actors continued to move along. There was an open intervention by the American, French, and Italian Embassies in

⁸⁷ Even Telefónica de España threatened to withdraw.

⁸⁸ See Somos, 10/31/90, pp. 4-9.

favor of the private enterprises' claims. In that context and based on a very relaxed agreement, the government urged the winners to sign the transfer contract.⁸⁹ With this the government finally conceded an increase in the rate of the service that was 60% higher than the one that had been agreed on in the tender conditions.⁹⁰

It is also worth noting the position and perceptions of other actors at that juncture. First, the international agencies closely followed the development of the negotiations. In particular, the World Bank, which had provided technicians and \$ 300,000 (the remainder of a prior loan for the public sector reform), had been warning of a lack of definitions, modifications in the specifications of the tender, and irregular procedures. All those interviewed admitted that the WB's and the IMF's supervision included every aspect of the negotiations, was permanent and very exigent.⁹¹

Second, the opposition party (Radicalism) questioned every aspect of the privatization, but this opposition could not halt the process since the Economic Emergency Law and the Reform of the State Law had allowed the Executive to decree ENTel's sale and to freely decide on the means of implementation (see Section III.4.).

Third, once some agreement between the members of the Executive and the firm had been reached, the *Bicameral Commission of Congress* (formed by members of the Deputies' and Senators' Chambers to supervise the privatization process), which had questioned almost every aspect of the negotiations, suddenly ended its debate in the midst of serious disagreements and without producing any draft recommendation. This was a clear implication of the concentration of power achieved by the Executive. Indeed, the majority of Peronist legislators in that

⁸⁹ See Clarín, 10/26/90, pp. 12-13.

⁹⁰ See Clarín, 10/27/90, p. 2.

⁹¹ That was a point stressed by the Minister of Economy at that time, Antonio Erman González (interview, Buenos Aires, 02/27/96).

commission (plus Executive pressure to maintain party discipline) determined that.

Fourth, throughout this last phase of the negotiations and even sometime after the transfer, Bell --with the support of the U.S. Embassy-- continued to manifest its interest in the transaction and exerted pressure on different levels of the decision-making structure. For instance, at some point it suggested acting as a secondary operator or as a provider of equipment and technology. It even threatened to initiate legal procedures, arguing that the rules of the tender had been altered inequitably.⁹²

Fifth, the union awaited the President's direct intervention in the labor conflict (specially regarding the dismissals). However, Menem refused, as did the Minister of Labor (Jorge Triaca), who argued about reincorporations: "It is not a matter for the Ministry of Labor, but rather for the company."⁹³ However, as a consequence of the new distribution of the established costs and benefits, the new scenario clearly favored the business sector's interests. The final agreement did not include any obligations on the part of the new owners either to pay severance pay or to respect labor stability.

⁹² See *El Cronista Comercial*, 10/05/90, p. 4; *Clarín*, 11/09/90, p. 11; *La Nación*, 11/09/90, p. 24.

⁹³ Cf. *La Nación*, 10/04/90, p. 8.

VI. 7.- Some Immediate Consequences of ENTel's Privatization

After the transfer to private hands the process was initiated to sell the balance of ENTel's shares, but the absence of clear legal and procedural patterns complicated and delayed the sale. Again, the controversies involved Alsogaray --also appointed by the President to conclude this part-- her advisors, and officials from the Ministries of Public Services and of Economy. Privatization also intertwined with other adjustment measures. But this time, the increasing protagonism of the new Minister of Economy, Domingo Cavallo, also had an impact on the outcome. The solution to such controversies were determined by the fiscal needs of the state, rather than by the original goal which was to implement the so-called "popular market capitalism" schemes. For instance, trying to maximize the return, only 25% of the total shares were offered to the public, in dollars or pesos, with a maximum of \$5000 per investor; public bonds were not accepted. The other 75% was offered to local and foreign investors, in dollars, and with no limit.⁹⁴

The process was also conditioned by the simultaneous negotiations of a new loan with the IMF and with the privatized companies about new increases in the rate of the telephone service: four banks paid the Argentine state \$300 million in advance and assumed the risk of the sale of the shares. The negotiation of the agreement also interwove with the telephone companies' demand for an increase in the rate of the service and a new rate adjustment mechanism, which was supported by those four banks. The government agreed on the basis of its need to comply with the fiscal requirements of the IMF's conditionality. The sale of the remaining shares finally took place towards the end of 1991 on the local

⁹⁴ Cf. *Ambito Financiero*, 09/05/91, p. 2.

and some international stock markets. The demand for shares was high and the Argentine state collected around \$2 billion.⁹⁵

By mid-1992 the state still owned 10% of the shares reserved for the workers, which should have been sold before ENTel's transfer took place. Meanwhile, the Secretariat of Public Services was receiving the dividends of those shares, and proceeded to make short-term deposits with them. Those dividends yielded low profits because they were subject to short-term deposit conditions (that is, to a low interest rate).⁹⁶ In December that year the agreement for the transfer of the shares was signed and a committee formed by government officials and union leaders was put in charge of organizing the PPP. The certificates of the shares began to be assigned in September 1993.

ENTel, as an enterprise, did not disappear completely. Again, headed by Maria Julia Alsogaray and now under the name of "Residual ENTel", the firm continued working to finish various tasks related to the transfer to private hands, particularly the cancellation of the remaining debt: around \$ 2.10 billion in public debt. In the meantime, some irregular procedures were detected. A search for those responsible was initiated and an investigation into the loss of a considerable amount of money was made. Accusations flew about the obscure management of financial resources and Alsogaray's poor administration. She was prosecuted on several charges but absolved of them all.⁹⁷

Finally, only a few years have passed since ENTel was privatized. The telecommunications sector has become one of the most dynamic and profitable economic activities. In two years the new private companies obtained a rate of return of 12.9%. Telefónica Argentina made profits of around US\$ 404 million, while Telecom's reached US\$ 238 million. That is

⁹⁵ See El Cronista Comercial, 12/10/91, p. 15; Ambito Financiero, 12/17/91, p. 5.

⁹⁶ See Página 12, 08/23/92, p. 10.

⁹⁷ See Página 12, 07/17/91, p. 8; Clarín, 08/14/91, p. 23.

far more than what the Argentine state received for 60% of ENTel's shares.⁹⁸

Conclusions

ENTel's case is the most representative of the first stage of the privatization program. Here the context of crisis, lack of credibility, resources, and capacities, and the symbolic dimension of economic policy stand out. However, these elements cannot be analyzed independently of the policy network that developed in this issue-area. This shows the prevalence of political culture factors such as a high degree of concentration of decision-making power, vertical channels of authority, and personalized and discretionary mechanisms of policy formation.

The identification of this pyramidal policy network made it possible to test general assumptions about structural conditions and the broader policy-making process found in previous chapters. Indeed, this is the issue-area where congruence between policy style at the macro and micro levels of the decision-making structure is most evident. The relatively reduced and tightknit character of the network, the vertical organization of its authority mechanisms, and its centralized and highly personalized character support such a congruence. This congruence is the main factor that explains the success of policy implementation in this case.

⁹⁸ Cf. Página 12, 02/20/93, p. 8.

However, this case also shows that, although discretion and personalism guaranteed rapid and successful implementation, they also increased uncertainty about the process. If everything is subjected to discretionary and *ad hoc* procedures, there is no way for actors to predict the future of the game. Such uncertainty thus often produces stalemates or drawbacks. For the same reason, the formation of this type of policy network does not necessarily lead to the achievement of optimal policy outcomes. ENTel could probably be taken as the best example of both a successful policy implementation and bad business for the state. It was an expeditious sale, and a poor one at that.

Chapter VII

The Privatization of the National Oil Company (Yacimientos Petrolíferos Fiscales, YPF) and Oil-Related Activities

Introduction

The privatization of YPF and oil-related activities does not exactly fit either the first or second stage of privatization for various reasons. It was concurrent with both of the other two cases considered in this study. It followed similar goals and patterns of implementation, and the kind of network arising in this issue-area shared elements with the other two. For this reason, it has been labelled intermediate or hybrid.

It has an important component of personalized and discretionary decision-making mechanisms and a vertical dynamics that ended at the top in the figure of the President. These features were present in the ENTel case. However, the policy network developed in the oil issue-area had some particular characteristics: a) as the privatization of oil activities comprised several economic activities, it generated a number of privatization proposals that were finally unified; b) the government sought congressional approval; c) as a result of a) and b), the network expanded horizontally in the number of participants and issues involved. This expansion meant the incorporation of several actors into the policy-making process (especially, business representatives) and the development of other channels of communication (e.g., between officials from various bureaucratic agencies, national and provincial structures, different business organizations, a large number of operating banks, technical advice from diverse local and foreign institutions). These traits differentiated this policy network from that of the telecommunications sector and placed it closer to the one developed in the social security issue-area.

For all these reasons, this case shows the beginning of a process of policy adaptation: policy making progressively moving away from an extremely personalized network (as in ENTel's case) towards the most organizational one (formed in the social security issue-area). In

between, an intermediate hybrid policy network developed in the oil sector.

VII.1.- The Management of a Strategic Resource

Until the current administration decided to launch an extensive privatization program, Yacimientos Petrolíferos Fiscales (YPF) had been the main symbol of the statist criteria that dominated Argentine economic policy for decades¹. Ever since the first discovery of oil in Comodoro Rivadavia in 1907, there had been a generalized consensus about the need to keep oil production and commercialization in public hands. The idea that the public management of natural resources implied an autonomous and sovereign use of national wealth reinforced this consensus. Though a few private companies participated in some areas, the state's monopoly of the oil resources and market was constantly protected and enhanced.² With that objective in mind, the Dirección General de Yacimientos Petrolíferos Fiscales --later renamed simply YPF-- was created in 1922.

¹ See Solberg, 1979.

² Until 1991, 98% of oil production was carried out by YPF (62.5% under YPF's own management and 35.5% through contracts with private enterprises). Although private participation existed, the public monopoly was reinforced by the regulatory and legal framework. The private sector could not freely dispose of the oil (only passing it on to YPF), nor could the refineries freely buy it to make by-products. (Oil was assigned by quotas at a fixed rate.) Thus, the government (through YPF), in fact, established the prices the public paid and those paid to producers and contractors, and the taxes included in the by-products; it also fixed the quotas and conceded authorizations to export. On this point, see Roca and Karakachoff, 1992.

Attempts to open oil-related economic activities to private participation were made in 1955 under Perón's presidency and between 1958 and 1962 during Frondizi's Developmentalist administration.³ In the first case, Congress never approved an oil license agreement with the American company, California Argentina, for the exploration and exploitation of an area in Santa Cruz. In the second, several agreements were signed for the exploration and exploitation of some basins; they were severely criticized and finally annulled. After that, different governments either respected ongoing contracts or signed new ones, implicitly admitting that YPF alone could not satisfy the production and expansion needs of the oil industry.

When the Radical government took office in 1983, YPF was an inefficient behemoth with an enormous deficit. This was the result of several factors. On the one hand, there had been a serious indebtedness process during the previous military government: YPF's debt grew from US\$ 324 million in 1975 to US\$ 5.7 billion in 1983.⁴ On the other, the deficit largely originated in the low prices YPF received for its products (in part because an average of 50% of the prices went to the national treasury in the form of taxes⁵) and in the debt other public enterprises and agencies maintained with the national oil company.⁶

In addition, the exploitation contracts that YPF signed with private enterprises were too much advantageous for the latter. These contracts concerned areas that YPF had already explored and stipulated

³ Oil production had stagnated. The state had no resources to invest on oil exploration and exploitation. The main purpose of incorporating private capital was to increase domestic production as to reduce the country's dependence on oil imports.

⁴ Cf. Siete Días, Informe Especial, 04/27/83, p. 3.

⁵ Oil prices were regulated by the Secretariat of Energy and by the Ministry of Economy. They often oscillated according to a number of factors. Pitonesi (1990) argues that since 1970 oil and by-products prices were not so much affected by variations in international prices or in production costs as by the shifts in the macroeconomic policy.

⁶ See Informe Energético, # 5/82.

that all findings had to be sold to YPF at a price agreed on in advance. Therefore, private contractors did not run any exploitation or commercial risks.⁷ As for the phase of oil distribution, private enterprises worked on the most populated and developed areas, while YPF had to work all over the national territory, including distant and peripheric regions where costs were higher. Besides, YPF had to pay royalties to the provinces for the oil extracted from their territories. The debt originated by these royalties was a permanent source of conflict between the national state and the provincial states.

By the 1980s YPF was the largest Argentine enterprise (producing an equivalent of 10% of the gross domestic product) and ranked fourth in Latin American in sales. However, in the early 1980s it showed a deficit of approximately US\$ 4 billion, equivalent to 70% of its sales, and an external debt of US\$ 5.4 billion.⁸ Its liabilities increased during the first few years of the Radical administration, reaching US\$ 6.55 billion at the end of 1985.⁹

It is also worth noting the evolution of YPF's production performance and its internal expansion and bureaucratization: from 6,795 employees in 1930 to 33,576 in 1955, though *per capita* production remained constant (121 cubic meters). Until the late 1950s, Argentina imported more than 60% of its oil consumption, and production grew at almost the same rate as consumption. In 1962, self-sufficiency of oil provision was almost achieved and production increased even more towards the end of the decade. Yet, during the 1970s the number of employees peaked (50,555 persons) and production stagnated. By 1984 YPF employed

⁷ For details, see Pitonesi, 1990; also Quarracino, 1986.

⁸ The yearly turnover at that time was around US\$ 6 billion. Cf. Siete Días, Serie Documentos, 04/25/85, p. 80.

⁹ Cf. El Periodista de Buenos Aires, # 66, December 13-19, 1985, p. 14.

33,725 persons and was producing 18,797,000 cubic meters of oil, which meant a *per capita* production of 557 cubic meters.¹⁰

In the 1980s these antecedents paved the way for the formation of a favorable public opinion towards the privatization of oil-related activities.¹¹ As in other issue-areas, the phase of problem formation developed throughout that decade and, by the time Peronism came to office, the issue and alternatives of resolution were already on the government's agenda.

Indeed, before the indicators of dramatic inefficiency, disinvestment, and institutional paralysis, the Radical government took some measures. In 1985 while in Texas President Alfonsín announced the launching of the Houston Plan, which basically aimed to convoke private international capital to participate in the exploitation of Argentine oil resources. YPF's crisis was the cause and justification for this initiative. As a result of the debt crisis the firm lacked financial resources to continue exploiting. This could eventually risk the supply of oil. Moreover, a project to totally restructure YPF was taken into consideration.¹² The debate centered on the need to streamline the enterprise and divide it into three other companies, by their activity¹³ (that is, oil exploration and extraction; oil industrialization, transport, and commercialization; and sea and river transport fleet).

The oil union initially opposed both the Houston Plan and YPF's internal restructuring and decentralization. A top union leader said it

¹⁰ Cf. *Siete Días*, Serie Documentos, 04/25/85, p. 79.

¹¹ A poll carried out by the firm Guillermo Bravo y Asociados in 1985 indicated that 71.4% of the population was in favor of the privatization of YPF and that around 55% agreed with the Houston initiative. Cf. *Siete Días*, Serie Documentos, 04/25/85, pp. 82-83.

¹² It is worth noting that by mid-1987, a proposal for the deregulation and opening of the oil sector had been elaborated by Fundación Mediterránea. See *Ambito Financiero*, 06/03/87, p. 23.

¹³ See *Ambito Financiero*, 11/21/85, p. 5; *La Razón*, 12/12/85, p. 3; *La Prensa*, 12/19/85, p. 8.

was "for political reasons" as they did not want Radicalism to capitalize on a successful process.¹⁴ The union later relaxed its dogmatic position and conditioned acquiescence to its participation in the decision-making process. At that moment, Cassia explained the shift in strategy in the following way: "Peronism does not dogmatically oppose the Houston Plan or deregulation, as long as the reform benefits YPF."¹⁵

On the other hand, the press's comments during those years reflected the confusion and annoyance of the local entrepreneurial sector before the indefiniteness and ambiguity of the government's policy. Indeed, the inter-bureaucratic disputes abounded, as well as the frequent replacement of officials, contradictions in the decision-making process, and juxtaposition of functions and faculties among the Secretariat of Energy, the Ministries of Economy and Public Services, and YPF. Following a long-term pattern, President Alfonsín very often intervened to resolve controversial situations.¹⁶

By 1988 the financial situation of YPF was even worse and the Petroplan (another plan to offer international bids for the exploitation of some areas in association with YPF) was suspended following protests from almost all sectors.¹⁷ It was at that time that the possibility of

¹⁴ Interview with Antonio Cassia, Buenos Aires, 01/31/96.

¹⁵ Cf. Página 12, 08/01/87, p. 7.

¹⁶ One of the disagreements among officials at the Ministry of Economy and at the Secretariat of Energy mainly revolved around the impact of YPF's deficit and debt, and the tariff structure on the national accounts. In early 1986 the President decided that the national treasury would take over YPF's debt with providers and contractors. See *Tiempo Argentino*, 01/13/86, p. 5; *La Razón*, 01/28/86, p. 3; 03/04/86, p. 4. Another dispute emerged later when YPF's president, Rodolfo Otero (Senator Edison Otero's brother), resigned over a disagreement about the restructuring plans designed by the Secretariat of Energy. However, President Alfonsín was afraid of losing Senator Otero's leverage in the Chamber in the negotiation of the "Punto Final" Law (a norm aimed to end military rebellions), and he personally asked Rodolfo Otero to stay on. See *Clarín*, 12/18/86, p. 18; 10/03/87, p. 12; *Ambito Financiero*, 12/23/86, p. 5.

¹⁷ The Petroplan had provoked contention among some members of the Cabinet (particularly, between Minister Terragno and YPF's new

selling YPF's shares was mentioned for the first time by a member of the Cabinet. It was thought of as a solution to turn YPF into a financially solid company and update its technological resources within a two-year period.¹⁸

Undoubtedly, evidence that the state could no longer sustain YPF's permanent deficit served to support the arguments of those who clamored for deregulation and privatization. By then, Rodolfo Terragno had been appointed Minister of Public Works and was launching his own ideas about the privatization and deregulation of several economic sectors (see Section V.1.). At the same time, the international financial institutions promoted economic structural reforms that included these measures. In that sense, in April 1989 YPF negotiated a US\$ 130-million loan with the WB as a way to finance the transformation of the Argentine oil sector on the condition it be opened to private competition.¹⁹

president, Jorge Lapeña). The union perceived it as a potential cause of job loss. The domestic oil companies did not completely agree on its conditions because they foresaw greater advantages for multinationals. The Radical party considered it inopportune to implement it during an electoral period. See *Ambito Financiero*, 09/29/88, p. 4.

¹⁸ The announcement was made by the Secretary of Coordination from the Ministry of Public Works, and also commented on by YPF's president. See *La Prensa*, 05/06/88, p. 4; *La Nación*, 05/05/88, p. 8.

¹⁹ See *Clarín*, 04/07/89, p. 7.

VII.2.- Policy Ambiguity and Divergence of Interests

The Peronists' electoral platform opposed the oil plans that had been implemented by the Radical administration and they declared they would revise existing oil contracts. Once in power, though, their oil policy was characterized by a lack of definition. The intention to revise contracts was soon abandoned. Instead, the objective of increasing oil production by promoting associations with private capital soon took priority. Yet, as there was no clear indication on how the government wanted to implement this, foreign enterprises were reluctant to invest. Domestic firms were afraid to face competition in the exploitation of major oil areas. Consequently, the government began a slow process to build consensus around each step of the privatization and deregulation process. This was the beginning of the oil policy network --very unlike that of the telecommunications issue-area.

There was, nonetheless, an initial point in common with the ENTel case: the delegation of decision-making power by the Executive to an *Interventor*. Octavio Frigerio was appointed *Interventor* (head) of YPF with special mission: to streamline the enterprise. His personal background sparked some objections. For instance, the oil union accepted the transformation project, but strongly opposed Frigerio's appointment because of his links with the privatization initiatives during Frondizi's government.²⁰ Though this was the main argument for union resistance, the media indicated that workers actually opposed the

²⁰ Octavio Frigerio is the son of Rogelio Frigerio, Secretary of Socio-Economic Relations during the Frondizi administration. Together with the President, he was the ideologist of the developmentalist strategy. Although he was not Minister of Economy, he had much more leverage over economic policy making than the minister.

government's intention to continue and deepen the implementation of the Houston Plan and Petroplan.²¹

It is interesting and relevant to note that the leader of the oil union (the Sindicato Unidos Petroleros del Estado, SUPE) was Diego Ibáñez,²² a close friend of President Menem's from their imprisonment under the military rule and one of the members of his immediate circle. The press qualified Ibáñez's position towards the Peronist government saying that "he went from divorce to romance," an unsurprising attitude since SUPE belonged to the 62 Organizations, the "soft" line of the CGT led by Lorenzo Miguel. In any case, the close friendship between Ibáñez and Menem underlines the importance of informal and personal relationships in the policy-making process. This friendship prevented a total confrontation between union and government from developing but also exacerbated the ambiguities of the Executive's attitudes.

The second top oil union leader, Antonio Cassia, confirmed that Menem convoked several union leaders to a special meeting in order to gather their support for the decision to accept an anticipated transfer of power (see Section IV.3.3.2.). According to Cassia, that was the moment when the economic orientation was defined. Menem confronted the union leaders with the need to carry out a deep adjustment as a policy imperative. This was a perfect example of the use of the "crisis argument" to justify the reform and, in that way, construct political viability (see Section V.3.1.). Given that the state had run out of reserves, the sale of secondary petroleum areas appeared to be a suitable way to collect resources rapidly. Accordingly, Menem took that decision. Cassia also explained the union's compliance with the Executive's initiative as a progressive pragmatic adaptation to new

²¹ See La Nación, 06/25/89, pp. 5-7.

²² Unfortunately, Ibáñez could not be interviewed for this study because of his death in a car accident in January 1994.

circumstances --the only attitude that a debilitated labor movement could adopt: "Whoever doesn't adapt to changes, loses," he argued.²³

Thus, the oil union became a good example of the most "tolerant" wing of the labor movement described in Section IV.3.3.2. Notwithstanding this acquiescence, union participation in the decision-making process was formally accepted but not always respected in practice. For instance, Menem had apparently accepted Ibáñez's candidate for the post of YPF's *Interventor*, Herminio Sbarra, but then turned round and suddenly announced Frigerio's appointment. When the union questioned the decision, the President responded firmly: "No trade unionist twists the President's arm," he stated.²⁴ On several other occasions, the union complained because decisions about oil license agreements and YPF's internal management were taken without respecting the agreement signed between the union and the Executive, which required a previous consultation with the representatives of the rank-and-file.²⁵

Moreover, the official discourse with respect to the union constantly presented multiple nuances: dissident opinions were welcomed but the primacy of authoritative presidential decisions was also emphasized. For instance, before numerous criticisms, the President resorted to his personal policy style and to the already mentioned political discourse. He remarked, "Ibáñez can say whatever he wants, but the one who selects the officials is the President [in reference to Frigerio's appointment]. The union leaders have to understand that we cannot go on like this. They themselves are going to lose in the end, because they lose with every factory they shut down."²⁶ The limits of dissent were also clearly established: "There are conditions for

²³ Interview with Antonio Cassia, Buenos Aires, 01/31/96.

²⁴ See *La Nación*, 06/27/89, p. 10.

²⁵ See *El Cronista Comercial*, 07/06/89, p. 17; 07/19/89, p. 15.

²⁶ Cf. *La Nación*, 06/25/89, p. 8.

conciliation, not for belligerence,"²⁷ Frigerio stated. In addition, as had happened in other privatization cases, the pragmatic approach and the fast pace of the process were justified by resorting to the "crisis argument" and to the correct interpretation Menem had made of the people's desires and of Perón's ideas (see Section IV.3.2.).

At the same time, the union leaders used the same kind of argument with the rank-and-file to justify their ideological *aggiornamieto* and alignment with the official position. For example, Antonio Cassia argued, "... there is total agreement in the PJ [Justicialist Party] ... We will not abandon the banners of the defense of YPF, but the union understands the chaotic state the country is in --which was almost on the brink of a civil war-- and the government's need to provide urgent solutions to the problem, and that is why we are making our contribution that will open the way for a significant amount of capital to enter Argentina."²⁸ In addition, he mentioned that no other party but the Peronist party in office could implement the reforms with the acquiescence of the workers. Nevertheless, it was the leaders' intention to ameliorate the negative impacts on the labor force. So, small- and medium-sized enterprises were created and workers had participation in them as both employees and owners.²⁹ These kinds of compensations obviously contributed to neutralizing opposition.

As in ENTel's privatization when the union hardened its position, the government responded firmly, indicating that it would not modify its course of action. As a result, the union suspended opposition measures. The government's behavior can be explained, as in the other cases, by its attempt to build credibility of its economic policy. On this point, Frigerio pointed out, "The accelerated rhythm of the changes is a key

²⁷ Cf. La Nación, 06/27/89, p. 10.

²⁸ Cf. Clarín, 10/04/89, p. 2.

²⁹ Interview with Antonio Cassia, Buenos Aires, 01/31/96.

issue and the only guarantee for the success of the oil policy. Changes must be shown ..."³⁰

Likewise, Estenssoro (Frigerio's successor) explained this game of sanctions and rewards arguing that "the trade union encountered an extremely strong political decision which forced it to renegotiate a new labor contract with a company **with clear objectives**" [his emphasis]. In addition, he believed there were no significant labor conflicts because YPF offered severance pay (which totalled around US\$ 1 billion and was partially covered by a loan from the WB) to workers who decided to leave the firm and training courses to those who decided to stay.³¹

In the same line, potential resistance from YPF's internal bureaucracy was attacked, basing arguments on the crisis situation and the inevitability of reform, and thus creating political viability. Even more, different *Interventores* manifested that they indicated to top-managers how firm the government's plans were and suggested that anyone who disagreed should leave his/her job.³² Again, technical viability was constructed by appointing a parallel administration wherever necessary.

The mechanisms used to carry out the privatization were: the opening to national and foreign private capital which initially centered on the continuation of the Houston Plan; a new program for the tender of some areas of low productivity; and a new regulatory framework that would allow YPF to associate with private companies for the exploitation of the richest oil basins. Experts from the WB worked as advisors helping to define the contract clauses as part of a broader agreement on technical assistance.³³

³⁰ Cf. *El Cronista Comercial*, 07/15/89, p. 6.

³¹ See interview with Estenssoro in *Panorama*, May 1994, pp. 10-14.

³² See, for instance, the interview with Carlos O. Pierro, Frigerio's successor, in *Face to Face*, April 1990, pp. 22-24.

³³ See *Página 12*, 07/25/89, p. 8.

Three major decrees synthesized the deregulatory spirit of the new legal framework. Decree # 1055 (10/10/89) permitted private enterprise to sell oil on the domestic and international markets. Decree # 1212 (11/08/89) suppressed some regulations, such as the distribution of quotas among refineries, the requirement of an authorization to import oil and by-products, the settling of prices by the government, the authorization to install refineries, and several norms about gas stations. Decree # 1589 (12/27/89) broadened the scope of the free availability of oil and deepened the deregulation of the sector by suppressing export and import tariffs, establishing the free availability of foreign currency, making a commitment to maintain the international price for the producers in case the government limited oil exports, and licensing oil transport and other complementary activities to private firms.

It is worth noting that, from the beginning, private enterprises actively participated in the policy network. They intervened in the preparation of these decrees to the point that they appeared to condition the process on a prior agreement with the future private partners. They were clearly part of the policy network. The entrepreneurs particularly asked for the design of "clear and precise rules" and warned against the risk of establishing norms that could frighten away foreign private investment.³⁴ (This is another example of the potential boomerang effect of the prevalence of discretionary practices; see Section VI.4.) This active participation continued throughout the privatization process and intensified in Congress where, according to Cassia, the local oil entrepreneurs exerted far greater pressure and lobbied much more than foreign firms.³⁵

³⁴ See the letter sent by twenty national and foreign companies to President Menem, *Ambito Financiero*, 11/08/89, p. 5.

³⁵ Interview with Antonio Cassia, Buenos Aires, 01/31/96. He was, at that time, national deputy and, as such, acted as president of the Energy Commission.

As for the privatization of the oil basins, the government implemented three significant measures: a) licenses of oil basins already exploited by YPF; b) reconversion of contracts --called *Contratos de Locación de Obras y Servicios*-- into license agreements; c) association of YPF with private companies for the exploitation of central areas, including the free availability of oil.

VII. 3.- Privatization Projects

In early 1990 inter-official disputes resulted in Frigerio's resignation. Rumors existed of serious disagreements between Minister Dromi and himself about the policy towards the military.³⁶ However, in reference to his leaving, Frigerio blamed Dromi and Ibáñez for obstructing his exercise of YPF. He also mentioned the high fragmentation of power and interests within YPF's directorate as a major cause of trouble.³⁷ However, institutional features combined with officials' mind-sets to complicate policy implementation. For instance, on another occasion Frigerio referred to the difficulties of constructing technical viability. He remarked on the swiftness of the process --a key factor for the success or failure of the privatization-- was not well understood by the officials above him who recommended he slow down in order to build a consensus and not confront the union. According to Frigerio, this lack of comprehension also extended to other

³⁶ See *La Nación*, 01/13/90, p. 6.

³⁷ Cf. *Ambito Financiero*, 02/09/90, p. 4.

issues (such as the deregulation policy itself), complicated the design of measures, and created obstacles to the reform.³⁸

In addition, as in the case of ENTel, policy content and instruments were defined as the process advanced. For instance, within the government circles, serious disputes had already taken place between José Roberto Dromi (Minister of Public Services) and Néstor Rapanelli (Minister of Economy) in late 1989. They both agreed upon the basic orientation of the oil sector's privatization and deregulation. However, they disagreed on the mechanisms to implement that approach, although Dromi's position relied on the explicit support of the National Congress of the Peronist Party. The discussion basically revolved around two issues: whether or not to apply the debt capitalization mechanism to the sale of oil resources as a way to attract private investments (which Dromi did not agree with), and the scope of the norms about the free availability of oil by private producers. According to Dromi, the availability to export oil surplus should not include those YPF contractors who at that moment provided 30% of the oil production because it had to be linked to the domestic needs of self-sufficiency. Rapanelli and Frigerio, in contrast, believed there should be no restrictions on oil availability.³⁹

Nevertheless, after Frigerio's departure, the privatization process was accelerated, specially when José Estenssoro was appointed *Interventor* of YPF in August 1990.⁴⁰ As had happened with Maria Julia Alsogaray in the case of ENTel and with Octavio Frigerio himself, Estenssoro's appointment also had a highly symbolic content since he was an oil entrepreneur, the prototype of a self-made man with well-known sympathy for liberal ideas and close ties with the local and

³⁸ Cf. *Face to Face*, April 1990, p. 55.

³⁹ See *Clarín*, 10/04/89, pp. 2-3.

⁴⁰ Unfortunately, Estenssoro could not be interviewed for this study either. He died in a plane accident in May 1995, together with one of his closest advisors, Ricardo Zinn, who had also been Alsogaray's collaborator in ENTel's privatization.

international business community. Cassia remarked that Estenssoro also had a clear and comprehensive long-term strategic view of YPF's internal restructuring.⁴¹ In addition, another parallel can be drawn with Alsogaray: Estenssoro also brought a very personalistic and discretionary style of management to YPF, and his administration also faced charges of corruption.⁴² Ibañez stated that he behaved like a typical "*patrón de estancia*" (ranch owner).⁴³ Therefore, Estenssoro's style was fully consistent with that of the Executive, thus providing congruence between the macro and the micro levels of the decision-making structure.

On the other hand, by mid-1990 further proof of the acceleration of the process was Menem's decision that part of YPF would be transferred to the private sector --a decision that he had transmitted to Ibañez some time before. He indicated that deregulation of oil-related activities had to be completed by the end of the year, although there was no consensus within government circles on how these measures were to be implemented.⁴⁴ The U.S. international McKinsey & Company was then requested to carry out a study of YPF's complete restructuring, for which they received one million dollars.⁴⁵

⁴¹ Interview with Antonio Cassia, Buenos Aires, 01/31//96.

⁴² For instance, in 1992 around 50 contracts were signed between YPF and a construction company to repair the YPF building, which involved expenses for US\$ 9.5 million. See *Página 12*, 11/29/92, pp. 2-3; 12/01/92, p. 4.

⁴³ Cf. *Clarín*, 05/05/95, p. 42.

⁴⁴ See *Somos*, 08/18/90, p. 13.

⁴⁵ See *El Cronista Comercial*, 09/26/90, p. 10; *Clarín*, 12/19/90, p. 8.

Additionally, by mid-1990 the tender of central⁴⁶ and secondary⁴⁷ oil basins was launched: around US\$ 1.5 billion was collected in the first case and US\$ 250 million in the second. Though the government had initially offered 50% of the central areas, between 60 and 90% of them were finally sold for financial urgencies during the following two years. The same reason motivated some changes in the procedures. For example, the tender conditions were relaxed to facilitate the integration of consortia; the base price was reduced; the simple mechanism of accepting the highest cash bid was adopted;⁴⁸ and new technical and financial advice was sought in order to redefine and accelerate the procedures.⁴⁹ This clearly resembles the path followed in the ENTel case.

As was mentioned before, several proposals existed. After Estenssoro's appointment they had begun to be considered and policy outcomes came to be shaped from the discussion. At this point, the oil policy network began to expand and to differentiate itself from the one formed in the telecommunications sector.

Estenssoro presented his own project for deregulation, the privatization of the majority of oil basins, and the tender of YPF's shares. The latter would require a previous restructuring of the enterprise in order to make it profitable. Such a transformation would include the reduction of 50% of the personnel, the sale of perforation

⁴⁶ Central oil basins are the richest ones. They represent 12.21% of the total identified resources and 13% of total production.

⁴⁷ Secondary areas are those producing an average of less than 200 cubic meters daily or those that have been inactive for five years or more.

⁴⁸ For instance, US\$ 20 million less was asked in the second tender of the Tierra del Fuego basin (the first had failed), while US\$ 43 million less was asked for the Santa Cruz II basin, taking into account the future investors' suggestions. See *Página 12*, 01/21/92, p. 8; *Clarín* 02/26/92, p. 18; 03/03/92, p. 5; 04/03/92, p. 7.

⁴⁹ The consulting agencies appointed were DeGolyer and Mac Naughton and Roberts Capital Markets/Morgan Stanley.

equipment and the fleet, the sale of YPF's shares in petrochemical mills, the association with private capital in refineries, the transfer to private hands of important segments of the commercialization process, the incorporation of private participation in the process of oil distribution, the sale of oil pipe lines, and the creation of a bond for the financing of YPF's debt. The union reacted against Estenssoro's appointment and named his plan "Tupac Amaru" in reference to the Indian chief's dismemberment. Nevertheless, it agreed on YPF's restructuring but demanded participation in the decision making. Again, President Menem acted as mediator.

Likewise, Julio César Aráoz (Secretary of Energy) designed his own privatization project on the basis of the Italian ENI model.⁵⁰ Antonio Cassia also had a privatization plan, as well as several members of the Radical party, and Minister Dromi. The differences gave rise to a polemic about who would command the privatization process.

Nevertheless, the Executive gave priority to the project elaborated by McKinsey, which had the World Bank's endorsement. A refined version of this project, which had many points in common with Estenssoro's, was prepared by him, Luis Prol, Under-Secretary of Public Enterprises, and Daniel Montamat, Prol's advisor, former president of YPF under the Radical administration, and finally won the approval of the Ministry of Economy. It included a transformation plan for YPF to be developed in two years, consisting of the sale of assets valued at US\$ 1.13 billion, the association with private enterprises for the exploitation of some areas, and the dismissal of around 18,500 employees (over 50% of its personnel).⁵¹

The main criteria that would guide the changes would be profitability: YPF would keep only those activities that met two

⁵⁰ He suggested the creation of an oil and gas holding with majority public ownership, divided into operative units, and giving the provinces participation in the benefits.

⁵¹ See Página 12, 12/19/90, p. 1.

conditions, that of being strategic from the firm's point of view (e.g., complementary activities) and economically profitable; those activities meeting only one qualification would be shared with private partners; those fulfilling neither would be privatized or closed. So, the transformation would allow for an increase in YPF's price from the original valuation of US\$ 3-4 billion to US\$ 7.4-8.4 billion; once attained, YPF's shares would be sold on the stock market.

SUPE (the petroleum workers union) questioned the initiative, especially for its consequences for the oil workers. Ministers Dromi and González also opposed the project and suggested a new one be designed, one that would include the support of the union, Congress, and the provinces. This new plan would contain the participation of workers in YPF's shares and the maintenance of a leading role for the enterprise in the oil market.

However, in early 1991 the Executive approved the refined version of the McKinsey plan. YPF became a stock company and the privatization process received new impulse. This impulse may be explained by the convergence of several factors. Domingo Cavallo, the new Minister of Economy who rapidly acquired protagonism in the decision-making process (see Section IV.3.3.3.), supported Estenssoro's action and was anxious to solve the public deficit problems. He thus urged an acceleration in the privatization process. A key nucleus of the policy network was formed around him. From an institutional point of view, it meant that the Ministry of Economy would acquire preeminence over the Ministry of Public Services, not only because of the officials' actions but also because the latter's institutional structure was absorbed by the former that year (see Section IV.3.1.). Also, President Menem could then apparently side-step his role as mediator, saying that the union leaders had to take up their conflicts with the Ministry of Economy.⁵² Moreover, the plan was approved by Decree # 2778 in December 1990.

⁵² See *El Cronista Comercial*, 02/08/91, p. 5.

The use of this mechanism had at least two important implications at that moment. One, it allowed YPF's managers (basically Estenssoro) to decide on the sale of YPF's assets. This ended the Minister of Public Services' interference, because, among other things, Decree # 2778 transformed YPF into a stock company and approved its new statute. This statute allowed YPF to transfer all or part of its shares to private hands. It specified neither whether nor how the state could determine that proportion, and it established no regulations with which the new company would have to comply. In that sense, the decree went far beyond the framework of the Law of the Reform of the State, opening up the possibility of carrying out a broader privatization (i.e., YPF's total sale). Two, the decree allowed the Executive to by-pass congressional intervention and, thus, avoid delays.

Moreover, the deregulation of oil-related activities was decreed after January 1, 1991. This measure included the free availability of oil to producers; liberalization of prices of oil and by-products, which would be determined by the laws of supply and demand; liberalization of imports of oil and by-products; and the unlimited installation of gas stations.⁵³

Again, SUPE argued that its suggestions were being ignored and planned mobilization measures. Drawing on different data from those used by McKinsey, the union made a proposal for YPF's restructuring. However, the tone was one of complaint rather than confrontation, and the basic claim was for greater participation in the decision-making process.⁵⁴ Likewise, the local oil companies also participated in the policy network through their corporate associations. They expressed their satisfaction with the government's full conviction and commitment to the market-oriented reforms, and with the speed and determination that was

⁵³ See *La Nación*, 12/26/90, p. 5.

⁵⁴ See *Clarín*, 02/07/91, p. 7.

characterizing YPF's privatization process.⁵⁵ Both privatization and deregulation of the oil sector would open new economic opportunities for YPF's former providers and contractors (e.g., a larger market share since they will be able to extract oil in greater quantities and sell it freely, unlike before when they accounted for only 33% of the oil exploitation and had to sell the oil to YPF).⁵⁶

The criticisms, in general, focussed on Estenssoro, not only those from the union but also those from: oil producers who had been badly affected by the new commercialization policy, from dissident Peronists who had designed Menem's electoral campaign, from the Radical party, and from the provinces.⁵⁷ Though Cavallo's support was decisive in advancing Estenssoro's plans, some changes were made during the implementation phase. The inclusion of new issues and actors in the policy network made those changes necessary. The main one was the merging of Estenssoro's project with one elaborated by José Luis Manzano (president of the Peronist block in the Chamber of Deputies), which basically incorporated a formula to answer the provinces' claims (see below).

In addition, the new project, which also drew on the McKinsey report, was sent to Congress. This search for congressional approval meant that interactions within the policy network became more complex, a process that resembled the one taking place in the social security issue-area (see Section VIII.5).

The approved project involved the acceptance of the provinces' ownership of the oil basins and gave them 10% of the rights of association in the tender of the central oil basins. Once the

⁵⁵ During those years there were several manifestations by the Cámara de la Industria del Petróleo (Petroleum Industry Chamber), representing the biggest local companies (Astra, Bidas, Pérez Companc), in favor of a rapid implementation of privatization and deregulation. See, for instance, *El Cronista Comercial*, 07/02/90, p. 7; 07/15/90, p. 9; *Clarín*, 12/01/90, p. 9; *La Nación*, 02/26/91, p. 8.

⁵⁶ See *El Cronista Comercial*, 04/07/89, p. 18.

⁵⁷ See *Clarín*, 02/22/91, p. 7.

associations had been made, YPF's assets sold, and the debt was renegotiated in late 1992, the initiative also foresaw a distribution of YPF's shares in four categories: 51% for the national state (class A), 39% for the provinces (class B), 10% for the workers (class C), and a percentage resulting from those shares which the national state and the provinces would sell to private investors (class D). Besides, the national state would determine, through the Minister of Economy and together with the affected provinces, the amount of the debt claimed by the latter as oil royalties. Such a debt would be paid with a bond (called *Bono de Consolidación de Regalías de Hidrocarburos*). The bonds could be used to buy YPF's shares at an amount that was proportional to the provinces' credit; afterwards, those shares had to be sold on the stock market. So, in the final distribution of YPF's capital both the national state and the provinces only kept 40% of the shares, 10% was reserved for the workers, and 50% was sold.⁵⁸ The project relied on the petroleum union's acquiescence and the support of the Cámara de la Industria del Petróleo (Petroleum Industry Chamber), which represented big local oil companies and over which Estenssoro had significant leverage.⁵⁹ This confirms the importance of his personal background and the significance of his appointment that was referred to in Section VII.3.

The new plan not only pleased the union but also the Minister of Economy, who was being pressed by external creditors to pay the debt's arrears and by the provinces to pay the debt from oil royalties. The privatization plan helped to cope with both problems. However, once again, different policy issue-areas intersected and affected the outcome. The provinces' claims exerted important pressure since they would eventually translate into a serious obstacle to the approval of the privatization law in Congress. Indeed, the provinces questioned certain contradictions in Manzano's initiative. Though the project

⁵⁸ As was mentioned below, all these dispositions were finally contained in the law of YPF's privatization approved by Congress (Law # 24.145, 09/24/92).

⁵⁹ See *El Cronista Comercial*, 07/30/91, p. 11; 08/11/91, p. 12.

recognized their ownership of oil basins, it also overlooked provincial ownership of those areas that were already being exploited according to previous plans and those included in the Plan Argentina. That was the reason the Ministry of Economy devoted some time to making the provinces' claims compatible with the bill sent to Congress.⁶⁰ In other words, the extension of the policy network, by opening new instances for negotiation and compromise, had an impact on policy outcomes.

At Congress, for instance, there was another front of protests: the Radical party also questioned the scant participation of the state in the future privatized YPF and the basic approach underlying the Plan Argentina. As for the latter, the criticisms arose from the fact that, under this new plan, a licensee who found oil could exploit it without restrictions and freely avail himself of the benefits. In contrast, under the Houston Plan implemented by the Radical government, the public ownership of oil resources had been preserved and, in case of an oil discovery, YPF had the right to associate with the private contractor to exploit it.

In the meantime, the transfer of oil-related activities to private hands continued. In October 1991 the government launched the Plan Argentina, an ambitious plan to open the exploitation of oil resources in vast territories to private investors. It included license agreements for 25 years for different groups of petroleum areas, while YPF would keep only 10% of the oil basins. Again, the political viability of this measure was constructed on a justificatory discourse. Anticipating potential criticisms, President Menem resorted to pragmatic arguments and announced that the plan was a crucial step towards modernization and growth. He emphasized that he was unwilling to remain tied to ideological dogmas while wealth remained "asleep, hidden, unexploited," and the situation translated into "visible poverty."⁶¹ As for the technical viability, the mechanism of awarding was similar to the one

⁶⁰ See *Ambito Financiero*, 08/14/91, p. 9; 08/16/91, p. 4.

⁶¹ Cf. *El Cronista Comercial*, 10/21/91, p. 6.

employed in other cases: the highest cash offer was accepted. Nonetheless, local entrepreneurs were reluctant to invest and even lobbied for tax incentives and subsidies for oil exploration and exploitation activities.

VII. 4.- The Development of a "Hybrid" Policy Network

Within the three policy networks analyzed in this study (Chapters VI, VII, and VIII), the privatization of YPF can be considered an intermediate case for its temporal and policy implementation characteristics. It took over three years to develop, not fitting exactly into either the first or the second stage of the privatization program (see Section V.2.). Consequently, it shares some elements with both the ENTel case (as a prototype of the first set of privatizations carried out) and with more recent ones, such as the reform of the social security system. Yet it also presents some particular features derived from the issue-area itself: it concerns the exploitation of a non-renewable natural resource; it involves the economic interests of both the national state and the provinces; and it affects an issue that had been considered a key factor in economic development and in politico-strategic considerations by most nations to the point that its management was ideologically linked to the exercise of national sovereignty.⁶² So, the policy network arising in this case amalgamates

⁶² Though it was plausible to expect some opposition from the military to the privatization of such a strategic resource, no evidence was found. Given that the military had notably lost power resources and

common and different characteristics of the others and, for that reason, has been labelled "hybrid".

As in ENTel's case, this policy network revolves around key nuclei of interactions and decisions within the government: some bureaucratic agencies (YPF, the Ministries of Public Works and Economy, the Secretariat of Energy) and individuals (Frigerio, Estenssoro, Dromi, Rapanelli, González, Cavallo, Manzano, Bauzá and, of course, the President himself). But it is evident that the extension in time of the privatization process and the frequent replacement of officials implied the participation of a larger number of public actors than in the telecommunications issue-area. Besides, this characteristic was reinforced by the fact that the Executive sent the project to Congress --a point in common with the social security case-- and a difficult negotiation with deputies and governors from oil producing provinces began (see next section). That meant the formation of a new circuit of interactions revolving around an important nucleus of the network: the one formed by the legislators opposing the Executive's initiative.

The number of private actors was also greater than in the case of ENTel since the privatization of oil-related activities not only included an enterprise but also several other activities, many of YPF's assets, and a very long list of petroleum areas. So, numerous domestic and international companies and banks of varying sizes participated in the policy network (e.g., through the bids) and the focus of action did not center exclusively on YPF's sale. The fact that most of them represented already established economic interests in the oil sector for many decades led to a relatively high organizational degree of these private interests. (This feature differentiates ENTel and YPF in terms of private sector involvement.) That is, the corporate intervention of the petroleum chambers was very frequent, although not so significant

leverage over public policies at the time of YPF's privatization, I assume their possibilities of blocking the privatization process were almost null. Nevertheless, Teichman (1995:27-28) argues that they exerted an important resistance until an agreement was reached in the commissions set up to oversee the privatizations.

and formal as that of corporate associations in the case of the social security issue-area. Besides, technical advisors from several international institutions also actively participated in the policy implementation process.

Thus, several circuits for interaction developed between domestic and international public and private actors. Nevertheless, the extension of the web in time, members, and focus of action did not alter the centralized and personalized characteristics of the policy-making process, also present in other issue-areas. Menem's, Cavallo's, Estenssoro's, and even Ibáñez's styles had an important impact on policy content. And, informal interactions were constant.

As for the network dynamic and the rhythm of the policy implementation, there was a combination of elements. As in the other two cases, the government's financial urgencies shaped and accelerated the bargaining process, as well as its need to build up political credibility. The same factors largely determined policy content since the conditions of the tenders and even YPF's internal situation were completely modified in order to show how committed the government was to the reforms and to make the transactions more profitable for private investors. But unlike the ENTel case, the private actors here showed a strong economic motivation to support deregulation and privatization of the oil sector and had more individual and institutional channels (e.g., Cavallo, Estenssoro, the legislators, the operating banks) to voice their demands.

Thus, in this case the success in policy implementation depended on a combination of absolute discretion and some individuals' autonomy (as in the telecommunications issue-area) and the incorporation of organized private interests into the policy making process --a movement that placed the government closer to the implementation path that occurred afterwards later in the social security issue-area.

VII.5.- Looking for Congressional Approval

The debate over the privatization project in Congress was long, hard, and plagued by proposals to introduce changes into the Executive's project. (At that point, interactions within the policy network concentrated in that arena.) For instance, considering that the provinces might decide not to buy YPF's shares and the enterprise might then be led by a private majority, the senators proposed to keep a 35% minimum of the shares for the national state and to give its representatives a double vote on the board of directors. Some of them also questioned the source of private capital and recommended a majority of local capital. Some Peronist deputies also suggested such modifications as: a different distribution of YPF's shares, no sale of YPF's assets, and the participation of the provinces in the management of the enterprise. Besides, as time passed Radicalism hardened its position and even asked the Executive to withdraw the project.

However, Radicalism's arguments had its own limits since the Menemist oil policy followed the main guidelines designed by the Radical party just a few years before. Antonio Cassia (national deputy at that moment and president of the Energy Commission) remarked that his commission based the privatization of petroleum areas on the same lists prepared by Radicalism. This continuation in the policy left Radicals with no arguments to oppose the Peronists' initiatives.⁶³ This episode is also a good illustration of what institutional theories call "path dependence" (see Section II.2.).

Meanwhile, YPF's internal restructuring went forward. By 1991 the personnel totaled 30,617 employees after 7,000 persons had chosen early retirement. According to Estenssoro's plan, 11,000 more still had to be

⁶³ Interview with Antonio Cassia, Buenos Aires, 01/31/96.

laid off. In that sense, the labor conflict that took place in September that year was a good opportunity for the authorities to deepen the adjustment. It originated in the union's opposition to the dismantling of the Campo Durán distillery (in the province of Salta). The strike was declared illegal and between 2,500 and 3,000 employees were laid off. Only 1,000 were reincorporated using the same methodology as ENTEL had applied in its labor conflicts (massive dismissals, case-by-case consideration of reincorporations), and a small number accepting early retirement.⁶⁴

Again, the personal relationship between Menem and Ibáñez played a role in the development and resolution of the conflict, showing the importance of personal relationships in the policy-making process. Once the strike had generalized across the country, the Ministry of Labor intimated the employees to resume work on pain of losing their jobs. Menem, Cavallo, Estenssoro, and Ibáñez held a crucial meeting, and the union leader accepted the one-day truce demanded by the President, counting on Menem's promise of a quick solution and no layoffs.⁶⁵ In the meantime, YPF sent out the dismissal notices, a clear signal of the political determination to continue with the reform and of the implicit distribution of costs and benefits the reform implied.

Although at least three positions existed among union leaders, ranging from total confrontation to open compromise, Ibáñez's intermediate attitude prevailed and the strike was suspended. Notwithstanding, he was seriously questioned by the rank-and-file. He justified his decision on the grounds that the situation was critical and workers were afraid of losing their jobs. He even claimed to regret having declared the strike.⁶⁶

⁶⁴ See Página 12, 09/19/91, p. 4.

⁶⁵ See La Nación, 09/15/91, p. 4; Clarín, 09/15/91, p. 3; 09/16/91, p. 6.

⁶⁶ See Página 12, 09/19/91, p. 4.

According to Cassia, Ibáñez did not actually want to go on strike but was forced to by provincial delegations of the petroleum union. The same source indicated that the President acted firmly, despite his friendship with Ibáñez, for Menem could not have afforded to assume any other attitude because his credibility in the international sphere was at stake. These are two examples of institutional roles' conditioning of the actions fo actors. And for the same reason, some of these actions required further justification. Cassia admitted that it was difficult to "communicate downwards" about the union leaders' compliance with the Executive: "the necessary and sufficient explanations [to the rank-and-file] were not given," he argued.⁶⁷

Another significant strike emerged as a result of changes in the La Plata distillery. In that case, 1,087 workers were laid-off. After some negotiations, 390 were rehired, 104 accepted early retirement, and 583 were temporarily hired with the promise that stock companies would be created with which YPF would sign contracts for the provision of some services. Again, the government's firmness had a persuasive impact on the union: the local leader justified the suspension of resistance measures saying that "times are hard and we're better off accepting the government's proposal."⁶⁸

Regarding the congressional treatment of the privatization project, it may be said that financial urgencies largely determined the different instances of the process. The interrelation of this privatization with other policy issue-areas was also an important factor. On the one hand, as elections approached, some of the funds to be raised with YPF's sale would be used to placate pensioners via an increase in their pensions. On the other, obligations with external creditors pressed the Executive to seek cash: in July 1991, a stand-by agreement was signed with the IMF by which Argentina promised to attain a fiscal surplus of US\$ 300 million per month in the last quarter of

⁶⁷ Interview with Antonio Cassia, Buenos Aires, 01/31/96.

⁶⁸ Cf. Clarín, 09/30/91, p. 10.

that year. However, the estimates of resources available from tax collection and reduced public expenses indicated that the government would not be able to reach that goal.⁶⁹ Thus, YPF's sale became crucial, not only because it was an enterprise with valuable assets, but also because it was becoming efficient and profitable. Besides, its sale was the most important one in the privatization program because of the sum of money involved.⁷⁰

Therefore, several members of the Cabinet visited Congress (among them, Estenssoro and Manzano, the latter now Minister of Interior) and met with the provincial governors in order to accelerate the approval of the privatization law.⁷¹ By mid-1992 the bill had been passed by the Senate, but it experienced several delays in the Chamber of Deputies, especially because the Radical deputies did not provide the necessary quorum. They denounced YPF's tender as a ruinous sale of the national patrimony, carried out only to please external creditors but without guaranteeing the federalization of oil basins, which should have been effective rather than declamatory. It neither created a truly competitive market nor established appropriate regulations.⁷² The strong Radical opposition threatened to undermine the whole project since future buyers were reluctant to invest unless guarantees existed that YPF's privatization would not be revised later by a Radical government.

Finally, after several attempts had been made to reach the necessary quorum, the law was approved in late September 1992, with only the Peronist votes and those of some allies, but with the absence of the

⁶⁹ See *Página 12*, 09/08/91, p. 6.

⁷⁰ The national treasury had already collected around US\$ 1.28 billion in 1991 (430 for the tender of marginal areas and 850 for four central areas). During 1992, US\$ 400 million was expected for the sale of refineries, ships, equipment, etc., and US\$ 8 billion more for the sale of YPF's shares on the domestic and international stock markets. See *Clarín, Suplemento Especial*, 12/13/91.

⁷¹ See *Ambito Financiero*, 09/21/92, p. 12.

⁷² See *Clarín*, 11/22/91, p. 18; 11/26/91, p. 22; 04/22/92, p. 20; 09/24/92, p. 14.

Radical block.⁷³ In that way, Law 24.145 (09/24/92) legitimated the dispositions of Decree # 2778 and put into practice the Estenssoro-Manzano privatization plan.

VII. 6.- The Actual Transfer of Main Assets and Shares

The tender for oil basins continued. By the end of 1992, US\$ 1.41 billion had been raised for the privatization of the central oil basins (the richest ones).⁷⁴ Also in June that year, out of a package of 29 of

⁷³ See *Ambito Financiero*, 09/25/92, p. 1; *Clarín*, 09/24/93, pp. 2-3.

⁷⁴ By mid-1991 part of the basins of Neuquén and Mendoza were sold at the following prices: 60% of Puesto Hernández US\$ 313 million (bought by a consortium led by the local Pérez Companc group); 70% of Huemul US\$ 188.2 million (by Total from France); 90% of Vizcacheras US\$ 176.2 million (bought by a consortium formed by Astra and Repsol); 90% of The Tordillo US\$ 193.3 million (awarded to Tecpetrol and Santa Fe Energy). The Austral basin was divided into three areas: Santa Cruz I, sold in December 1991 at US\$ 55 million to Compañía General de Combustibles (CGC, belonging to the Soldati group); Tierra del Fuego, sold in January 1992 at US\$ 143.5 million to Bidas (Argentina)-Chauvco Resources (Canada); Santa Cruz II, sold in March 1992 at US\$ 141.5 million to Pérez Companc-Astra-Inter Río. The Noroeste basin, which represented 10% of total oil reserves and 25% of the total gas reserves was sold in November 1992; it included 70% of a distillery (Campo Durán, conceded to a consortium formed by Pérez Companc, Astra, Pluspetrol, and Isaura for the sum of US\$ 64.1 million) and two oil areas: 55% of Aguaragüe sold at US\$ 143.7 million to a consortium formed by Tecpetrol (belonging to Techint), Ampolex, and CGC, and 70% of Palmar Largo sold at US\$ 36 million to a consortium formed by Pluspetrol, Norcen International (Norway), CGC, and Dong Won (Korea). Cf. *Clarín*, 11/25/92, pp. 7-8; *Página 12*, 09/04/91, p. 7.

the so-called secondary areas offered, 22 had been sold to the sum of US\$ 48 million.⁷⁵

The first stage of the Plan Argentina (August 1992) attracted investments totalling US\$ 63.6 million to be used over three years in the exploration of 10 of the 41 areas offered. In this case, the bidding conditions were relaxed in order to attract more investors and build up economic viability for the policy.⁷⁶ In the second stage (September 1992), 62 areas were offered but only five were awarded.⁷⁷ The national treasury collected US\$ 48.1 million altogether.

It was expected that the government would also offer some incentives to private investors in the future. The investors suggested using tax exemptions to encourage investments. However, in the third stage of the plan (November 1992) 146 areas were offered but only seven bids were received from five enterprises (Petrolera Santa Fe, Pluspetrol, Norcen International, YPF, and Pérez Companc); they agreed to invest a total of US\$18 million. Two remaining packages of 153 and 26 areas were bid for in April 1993 and June 1994; nonetheless, few bidders appeared.⁷⁸

⁷⁵ These were small areas of low production. They represented only 0.5% of total production. The prices were higher than expected probably because the investors were interested in incorporating more exploration areas near the basins they were already exploiting. Among the buyers, Tecpetrol (belonging to the Techint group) and Petroquímica Comodoro Rivadavia presented the highest bids and obtained six of the areas.

⁷⁶ For instance, the obligation to invest was reduced by 50%, that is, for only US\$ 750,000 any private enterprise would have access to the areas and, in case of an oil discovery, the production would be theirs without having to pay any compensation to the national state. See Clarín, 08/12/92, p. 23.

⁷⁷ The enterprise Vitrix Petroleum (belonging to Petrolera San Jorge), in association with others, was granted three of them; the consortium formed by YPF and Pluspetrol was awarded the other two.

⁷⁸ In the first case, only YPF and a consortium formed by four subsidiaries of the American group Hinton and the local Pet-Ja applied. In the second, four areas were conceded to Bridas Sapic and one to YPF.

Moreover, between mid-1992 and mid-1993 the commercialization of oil derivatives was also privatized, that is, around 15 licensees began to mediate between YPF and other oil producers and almost 1,500 gas stations (out of a total of 2,800), a function that YPF itself had previously performed.⁷⁹ Licenses were awarded on a ten-year basis for a regional division of the territory; they produced a profit of 2 or 3% of YPF's turnover and implied an obligation to invest in the renovation of gas stations and carry out quality and security controls. The business appeared to be extremely attractive because it involved not only the sale of oil by-products and the exploitation of traditional gas station activities (car washing and service, etc.) --a business that already involved US\$ 300 million monthly-- but also that of new services (e.g., the installation of convenience stores in the gas stations). Investments of around US\$ 15 million were expected during the licensee's first three years.⁸⁰ As in other instances of the privatization process, the government modified the tender's specifications in order to increase the future rate of return to be obtained by the private licensees.⁸¹

During the first months of 1993, several of the YPF's assets were also sold. These included the Allen-Puerto Rosales oil pipe line⁸² and oil pipe lines with access to it, the Dock Sud distillery,⁸³ an aerosols

⁷⁹ Up to then, oil commercialization activities were shared with YPF (59% of the market), Shell (18%), Esso (17%), and a few others such as Isaura, Puma, and Astra (6%). Neither Shell nor Esso were allowed to participate in the commercialization bid.

⁸⁰ See Clarín, 03/09/92, p. 3; 11/03/92, p. 7; *Ambito Financiero*, 11/09/92, p. 4.

⁸¹ See Clarín, 01/18/93, p. 27.

⁸² A mixed corporation formed by YPF (30%) and a consortium led by Pérez Companc is now in charge of its exploitation. The private partners paid US\$ 77 million.

⁸³ It was bought by Dapsa (belonging to the Soldati group) at US\$ 11.7 million.

mill,⁸⁴ seven ships, perforation equipment,⁸⁵ the San Lorenzo distillery,⁸⁶ and the sea terminal stations Puerto Rosales and Golfo San Jorge.

Although the national treasury raised a considerable amount from these sales, new financial urgencies occurred when tax collection fell and additional funds were required for the electoral campaign. Minister Cavallo considered carrying out an early sale of around 20% of YPF's shares, that is, to obtain some money from the sale of that 20% before launching the sale of the entire package of shares. Simultaneously, in March 1993 Estenssoro started negotiations in New York with international banks in order to obtain a loan of US\$2.5 billion the return of which would be paid for with the future sale of YPF's shares. These intervening banks would handle the sale and would receive a 1% commission. Cavallo did not agree with Estenssoro's actions and that triggered a serious confrontation between them, a fight to control the negotiations with the banks and every aspect of YPF's privatization process.⁸⁷ Again, direct access to the President was a key resource in the dispute.

Meanwhile, though many aspects of the sale were undefined, the government decided to give priority to deadlines. This situation (the prevalence of deadlines and politico-economic considerations) resembles

⁸⁴ It was bought by a consortium formed by the workers and a transportation company for US\$ 1.6 million.

⁸⁵ Of the 31 offered, only 21 were sold at US\$ 6.1 million. The old and badly maintained equipment raised little interest among private oil companies.

⁸⁶ This was an attractive asset for several reasons: a good level of maintenance; processing capacity of 5000 cubic meters daily; excellent location as recipient of inputs from other provinces; and pole of distribution of the surrounding area and other countries. It was bought by a consortium formed by CGC, Pérez Companc and PASA for US\$ 12.2 million.

⁸⁷ To that purpose, Cavallo sent two of his closest advisors to New York: Tomás Liendo (Secretary of Coordination) and Daniel Marx (Secretary of Financing). See Clarín, 03/14/93, p. 20.

the ENTEL case. In that sense, it made every effort to complete the privatization before the October 1993 elections.

Consequently, the conditions for the sale of YPF's shares were discussed and implemented as the process advanced. The focus of action thus alternatively moved to the international financial markets. The mechanism selected was the so-called "Book-Building", that is, a previous consultation by the banks in charge of the placement in order to determine the amount of shares that could be sold at different prices; then, a demand curve was elaborated and the so-called "cut-off" price defined at the point the demand began to fall. In that way, a certain "unsatisfied" demand was kept until a second offer was launched.⁸⁸

One of the implications of the use of this mechanism is that the banks in charge of the financial operation played an important role in the process. They were led by the Crédit Suisse-First Boston (working with the North American markets) and Merrill Lynch (working with the European and Asian markets); at the local level, five consortia of banks were formed (among these, Río, Galicia, and Valores stand out). The banks would receive a 4% commission (around US\$ 190 million, if the total 60% of YPF were sold), to be assigned in the following way: 0.25% for the global coordinators mentioned above; 0.55% for the regional coordinators; 0.80% for the "underwriter" banks (those who risked selling a certain amount of shares and if not were obliged to buy them);⁸⁹ 2.40% for the selling banks (mere mediators between the public and the government).

Once the consultation was completed, the banks argued that no more than US\$ 6 billion would be paid for YPF, that is, much less than the expected price. It is worth remembering that YPF's valuation had been a

⁸⁸ For details, see Roiter, 1994.

⁸⁹ Obviously, these banks had the opportunity to increase their commission since they knew beforehand that YPF's shares would not be sold at the highest price but at a lower one and they could acquire shares and wait to sell them when the price went up.

source of multiple controversies and never respected the Law of the Reform of the State's requirements. The McKinsey report estimated only the key assets (that is, excluding the idea of a functioning enterprise) at US\$8.3 billion. By mid-1993 Minister Cavallo talked of US\$7 billion, though a year before Estenssoro and other technicians had foreseen that YPF would be worth around US\$12 billion after the restructuring. Besides, the firm Buenos Aires Stock (BAS) produced a report on YPF's value to be used for its clients, estimating the price of the shares at US\$23.29, that is, US\$8.22 billion for the whole enterprise (US\$1.51 billion more than the price actually paid). Herold Institutional Research (HIR), an important American consulting agency, estimated the cut-off price of shares at US\$31.54, which meant a total value of US\$11.14 billion (US\$4.43 billion more than what the government received).⁹⁰

Nevertheless, the reasons given by the banks for such a low estimation (US\$6 billion) were: one, the relatively low future rate of return of the business, surprising comment, given YPF's recent balance-sheets and the promisory estimates of several experts about future profits,⁹¹ and two, the uncertainty about who would actually control the firm.⁹² This point was shared by the oil entrepreneurial sector, which was complaining about the possibility that YPF would continue to be managed by public interests since, at that point, the national state, the provinces, and the oil union, all together held the majority of YPF's shares and could eventually appoint the top managers.

Meanwhile, some time was spent on the elaboration of a new YPF statute, in order to make it comply with the private investors' requests. For example, the appointment of the members of YPF's board of directors was used as a signal to future investors, specially

⁹⁰ Cf. Página 12, 06/26/93, p. 8; 07/04/93, Suplemento Cash, pp. 2-3.

⁹¹ See *Negocios*, Agosto 1993, pp. 36-50.

⁹² See *Clarín*, 05/06/93, p. 8.

Estenssoro, Ibáñez, some experienced technicians, and a merely formal representation of the United States, Japan, and Switzerland. In fact, Estenssoro's presence provoked mixed reactions: local oil entrepreneurs were pleased with his commitment to the reform and privatization program but they questioned some of his decisions (e.g., the methodology used for the sale) and, particularly, his increasing prominence. They actually feared that he would still make the key decisions even after the privatization.⁹³

It is worth noting that at that moment Horacio Liendo (Secretary of Legal, Technical, and Administrative Coordination at the Ministry of Economy) warned Cavallo of the enormous power Estenssoro would concentrate by the new statute. He said: "... the only regulation is the statute; the Law of Hydrocarbons as a general framework and nothing else, no bidding conditions nor contract clauses with the state in the new society".⁹⁴ Apparently, that was what Estenssoro wanted, as well as some changes in the board of directors by which he procured especial power in crucial decisions (e.g., the possibility of breaking a tie vote, and of choosing his successor). Menem's personal support allowed Estenssoro to manipulate the elaboration of the statute. (As in Alsogaray's case, he had leeway to exert a great deal of autonomy.) Minister Cavallo, eager to improve relations with YPF's president and to privatize YPF, accepted.

As was expected, the new statute (approved by Executive Decree # 1106, 05/31/93) provided the board of directors with much room for manoeuvre and was very relaxed in its norms about the management, while leaving crucial points in the hands of the state (e.g., lock out, mergers, licenses). Some provisions were included to prevent certain investors from concentrating too much power and thus dominate and bias the enterprise's decisions in particular interests.⁹⁵

⁹³ See Clarín, 05/28/93, p. 22.

⁹⁴ Cf. Página 12, 09/22/93, p. 9.

⁹⁵ See Clarín, 06/02/93, pp. 20-21.

Another crucial moment of the sale occurred in April 1993, when the Minister of Economy and the governors of the main oil provinces made an agreement by which the national state would initially be the only one to sell shares and the provinces would receive cash instead of bonds by August 1993 --just before the elections-- for their oil royalties (around US\$3.2 billion the national state owed the provinces).⁹⁶ The agreement was later redefined and the governors accepted either cash or different bonds; they ratified the decision to keep only 10% of YPF's shares and let the national state decide what to do with the other 29% of the shares. Thus, the maximum of YPF's shares to be privatized was 60%.⁹⁷

In late June 1993 the banks closed the reception of bookings and some disputes arose over the establishment of the value of the shares. The demand from wholesale investors was too high, that of small investors too low, and the bookings indicated that the value of the shares could climb to US\$23. However, Cavallo's intention was not to repeat the experience of the Telecom case⁹⁸ so he insisted on a relatively low price (around US\$20) in order to keep some unsatisfied demand that would raise prices in the future. The banks in charge of the financial operation also pushed the cut-off price down in an attempt to attract as many big foreign institutional investors as they could. The banks knew those investors would not pay more than US\$19 per share. Finally, rumors about discrepancies between Cavallo and President Menem

⁹⁶ See Página 12, 04/23/93, p. 5; Clarín, 04/28/93, p. 3.

⁹⁷ The provinces would keep 10%, as well as the workers and, according to Law 24.145, the national state had to keep 20% or require a special authorization from Congress to sell it.

⁹⁸ The sale of Telefónica and Telecom's shares was made by using the mechanism called "Dutch Auction". That is, bookings were received at different prices and the cut-off price was set at a level that would guarantee the placement of the whole offer. The result was that the tender process raised the prices significantly. Prices fell to reasonable levels after the sale, generating losses to Telecom's buyers. To some extent, this episode affected the reputation of the privatization process. As a result the government tried to avoid repeating it in the YPF case.

over the establishment of the cut-off price were denied and the President himself announced it to be fixed at US\$19, which meant YPF's value stood at US\$6.71 billion.⁹⁹

Consequently, US\$3.04 billion was collected for the sale of 160 million shares.¹⁰⁰ Institutional foreign investors bought most of the shares (US\$1.70 billion). The balance was divided among small American investors (US\$600 million), individual Argentine private investors (US\$400 million), and Argentine institutional investors (US\$300 million).¹⁰¹ Almost 60% (US\$1.70 billion) of that amount was used by the national state to pay the debt with pensioners, although they received \$250 million less than had been stipulated because the government decreed (Decree # 1253) that it would pay neither a part of that debt nor the interests on social security bonds.¹⁰² The rest went to the oil-producing provinces in payment for their oil royalties.

The banks who were responsible for the operation received a commission of US\$121.6 million. And as expected, the day after the sale, YPF's shares rose around 14% on the Buenos Aires stock market and 15% in New York, generating profits for financial agents of around US\$60 million.¹⁰³ There were important speculative movements and shares changed hands within a few days.

In July 1993 a second package of 46.2 million shares was offered. Again, the interrelation of this privatization with other measures

⁹⁹ See Página 12, 06/29/93, p. 4; La Nación, 07/03/93, p. 8.

¹⁰⁰ Owing to excess demand, this meant that a larger amount than the one originally offered was placed. Initially, 140 million shares (around 40% of YPF's capital) had been offered (35 million in Argentina, 65 million in the USA, and 40 million in the rest of the world), and 20 million had been reserved, using the so-called "Green Shoe" mechanism. See Roiter, 1994, pp. 112-113.

¹⁰¹ Cf. La Nación, 07/07/93, p. 7.

¹⁰² See Página 12, 06/29/93, p. 4; 06/30/93, p. 5.

¹⁰³ Cf. Página 12, 06/29/93, p. 3; 06/30/93, p. 6; La Nación, 06/30/93, p. 5.

affected policy outcomes. By then the pensioners' situation had become dramatic and was a source of public unrest. Therefore, the government expected to cancel a considerable amount of the social security debt by placing these shares among pensioners in exchange for their bonds (the so-called *Bocones*). This offer was made on the condition that buyers agree to keep the shares for a year in order to avoid negative effects on the current price on the stock exchange. As a result, 17.7 million shares were sold to pensioners and the remaining 28.5 million were placed among other holders of social security bonds.¹⁰⁴

Nevertheless, the anticipated sale of the reserved shares was authorized in March 1994 by a special decree of the Minister of Economy (Decree # 350). Again, CS First Boston and Merrill Lynch & Co. acted as global coordinators, an episode that raised serious disputes within the economic team.¹⁰⁵ The performance of the coordinators was objected to and the sale appeared to be a complete failure: only 500 applications were received out of an expected total of 86,000.

In the meantime, the Radical party continued questioning the celerity of the process, the methodology, the price (given the demand for shares received; the cut-off price was said to have been intentionally depreciated to favor the interests of investors and banks), and some irregularities (e.g., the fact that a valuation of YPF had never been made).¹⁰⁶ The Radical party also accused the government of imposing a certain kind of policy instead of engaging in dialogue and consensus. This is illustrated when the deputies called Cavallo in for a formal questioning. A resonant scandal followed Cavallo's admittance

¹⁰⁴ See Roiter, 1994, p. 115.

¹⁰⁵ The president of the Comisión Nacional de Valores (National Securities and Stock Exchange Commission), Martín Redrado, disagreed with Minister Cavallo about the banks' intervention and the impact the sale of those shares would have on pensioners holding social security bonds. He was forced to resign. See *Página 12*, 03/23/94, p. 5; *La Nación*, 03/30/94, p. 7.

¹⁰⁶ See *La Nación*, 07/01/93, p. 10; 07/03/93, p. 8.

that the price of the shares had been set at US\$19 because most foreign investors were willing to pay only that much.¹⁰⁷

In fact, as in other cases of privatization, numerous irregularities existed. Another example was the article published by Clarín newspaper that a few firms had been benefitted with a special package of YPF's shares that was not included in the prospectus: these were Pérez Companc (with 4,750,000 shares at US\$90.25 billion), Citibank and Argentine Private Development Trust (both bought 3,150,000 shares at US\$59.85 billion).¹⁰⁸ Neither the government nor the firms responded to the press's inquiries.¹⁰⁹

It is worth mentioning that for union leaders --at least, in Cassia's opinion-- the price at which YPF was sold was a good one, "given its obsolete structure." In fact, taking into account that YPF was by then a very profitable enterprise, this comment can only be understood in terms of his awareness of the government's political constraints. Indeed, he emphasized that "there was no time, the government needed the funds, [so that] the equilibrium attained by Estenssoro [between government and investors' interests] was acceptable."¹¹⁰

¹⁰⁷ See Clarín, 07/09/93, p. 18.

¹⁰⁸ It is worth noting the connections between these firms. Compañía Naviera Pérez Companc is the leader of an Argentine holding company with investments in several economic sectors, such as, agriculture, finance, services. Its main activity is oil exploitation, being the biggest private local producer. Citibank is one of the main foreign banks operating in Argentina; it makes investments through its subsidiary Citicorp Equity Investment. APDT, one of the most important Latin American investment funds, has its headquarters in the Cayman Islands; Banco Río is its major shareholder. At the same time, Banco Río is the financial branch of the Pérez Companc group.

¹⁰⁹ Cf. Clarín, 07/09/93, p. 18; 07/16/93, p. 8.

¹¹⁰ Interview with Antonio Cassia, Buenos Aires, 01/31/96.

VII. 7.- Immediate Effects and Results

It is worth mentioning that YPF's sale did not put a stop to the disputes between the sectors involved in its management. New dismissals, a certain deficit in the refining and commercialization activities, the reduction in the number of contracts with firms managed by the union, and the license of an oil pipe line network¹¹¹ triggered a conflict between Estenssoro and the union. According to the latter, all these decisions were taken by YPF's president without a prior discussion with the other members of the directorate.¹¹² As a result, Ibáñez and Cassia resigned. However, according to Cassia, the real motivation for their leaving was that they knew that further adjustment --including more future massive dismissals-- would be applied, and they could not consent to that.¹¹³

Also, some events cast doubts on the effects of the privatization and deregulation of oil-related activities in terms of producing the structures and processes that characterized a free competitive market. A detailed study of all oil-related activities concluded that the combination of the deregulation and tax policies implemented in the sector meant that the state would have to resign its possibility of capturing important resources and, in that way, generate a positive impact on fiscal accounts.¹¹⁴

¹¹¹ SUPE expected to get that license, but Estenssoro was not in favor of a direct contract. Techint appeared to be the best positioned in case of a tender.

¹¹² See Página 12, 12/11/93, p. 6.

¹¹³ Interview with Antonio Cassia, Buenos Aires, 01/31/96.

¹¹⁴ See Roca and Karakachoff, 1992.

In addition, the oil market became increasingly oligopolistic: by the beginning of 1993 around 32 private firms were operating but only seven accounted for the 80.3% of the total oil production. They were the local Pérez Companc (26.6%), the American Amoco (13.3%), the French Total (11.5%), the Argentine Bridas, from the Bulgheroni group (8.3%) and Astra (8%), the U.S. Occidental (6.6%), and the local San Jorge (6%). Most of the others produced less than 1000 cubic meters daily and entered the business through the offer of the secondary areas. The big ones were also absorbing small ones through mergers with the purpose of diminishing costs in the exploitation of secondary basins. In that way, the resulting oil market structure and the companies' strategies served to increase concentration.¹¹⁵

Moreover, free competition and the laws of supply and demand were not always respected. Immediately after YPF's privatization, serious conflicts about oil and gasoline prices arose: as a reaction to changes in taxes, YPF and other private enterprises increased their prices at their discretion. The government accused them of monopolistic behavior and initiated an investigation. However, after six months, it decided not to fine them because no evidence had been found.¹¹⁶ Nonetheless, it was obvious that those firms could take advantage of their dominant position in the market to control prices, as well as to block regulations. For instance, in September 1993 they opposed the approval of the Law of Hydrocarbons (the law that would regulate the activities of the entire oil sector) on the basis of potential damage to their interests; likewise, in June 1994 they asked for the repeal of a norm on accident prevention and control of environmental deterioration.¹¹⁷

¹¹⁵ On the market shares and the details on associations and mergers, see Clarín, 04/04/93, pp. 24-25.

¹¹⁶ See La Nación, 09/16/93, p. 5; 09/17/93, p. 7; Clarín, 04/19/94, p. 9.

¹¹⁷ See Clarín, 11/27/93, p. 24; La Nación, 06/12/94, p. 14.

Finally, other events also cast doubts on the relative importance of normative considerations about the role of the state in the new deregulated and privatized economy and about the ultimate objectives and benefits of privatization. Some recent data may illustrate these points.

On the one hand, looking at YPF's privatization from a long-term perspective, what appeared to be strong arguments against privatization and a source of serious disagreements within government circles (e.g., keeping state involvement in the oil market and in YPF's management to a minimum), later became an irrelevant factor in the face of a different juncture. For instance, in February 1995 Minister Cavallo, in an attempt to cope with the financial crisis while complying with the conditions of external creditors, announced his intention to use the remaining national state's shares (20%) to support the privatization of provincial enterprises and banks by creating a fiduciary fund that would serve as a guarantee on loans. The measure was thought to be temporary, aiming to compensate for the lack of financing from the World Bank and the Inter-American Development Bank. Once an agreement with these agencies was reached and their financing resumed, those YPF shares would pass over to private hands. The initiative met the opposition of the Radical party and also that of some Peronists like Jorge Matzkin (president of the Peronist block of the national Chamber of Deputies) who was planning to use YPF's shares in a similar way but to finance the construction of housing for the lower-income sectors. Nevertheless, the disputes over the adjustment conditions delayed the agreement with foreign creditors, so Cavallo pushed for the approval of his initiative in Congress.¹¹⁸ He sent some of his close advisors and even resorted to asking the Secretary of the Presidency (Eduardo Bauzá) to personally negotiate with legislators --a method often used by the Executive to accelerate the passing of important economic and social reforms. In that way, he urged the senators to pass a law authorizing the use of YPF's shares. The senators finally did so without the necessary quorum, in the midst of

¹¹⁸ As was mentioned above, according to the law that authorized YPF's privatization, the remaining 20% of public shares could only change hands if the National Congress approved it through a special law.

irregular procedures. Using the same pressure mechanism, Cavallo won the final approval of the law in the Chamber of Deputies in March 1995, so that the Executive could dispose of a package of 72 million public shares. The national state was left with almost no participation in YPF's capital (only one share).¹¹⁹

On the other hand, recent indicators of YPF's performance showed that an adjustment process was feasible under public management and that the firm became highly profitable and efficient in a few years, no matter who held the ownership. For instance, by mid-1992 YPF had reduced 51% of its personnel in two years (19,348 persons at that moment), had doubled the production of oil per employee in two years (11.2 barrels); its net sales reached US\$4.06 billion in 1991, 1 billion more than in 1990, showing a positive balance of US\$300 million in 1992, that is, 260 million more than the previous year.¹²⁰ The adjustment of personnel continued and by 1994 88.6% of the original 52,500 employees had been dismissed or retired, at a cost of only \$1 billion.¹²¹ Moreover, a confidential internal report estimated YPF's 1993 net profits at 624 million,¹²² while the local stock exchange's report informed that YPF's net profits for the last three months of 1994 were \$154 million, that is, an estimate of more than \$600 million yearly.¹²³ In other words, as had happened in the ENTel case, efficiency and profitability were not the consequences but rather the preconditions of privatization in order to capture the interest of potential investors.

¹¹⁹ On this issue, see Clarín, 02/18/95, pp. 16-17; 02/24/95, p. 20; 03/10/95, pp. 8-9; 03/23/95, p. 12.

¹²⁰ Cf. Clarín, 08/17/92, p. 19.

¹²¹ Cf. Página 12, 05/18, 94, p. 9.

¹²² Cf. El Cronista Comercial, 04/28/93, p. 2.

¹²³ Cf. Clarín, 02/08/95, p. 17.

Conclusions

The hybrid character of the policy network that developed in the oil sector is a good illustration of policy adaptation over time. It emerged from both the particular characteristics of the issue-area and the Executive's strategy. On launching YPF's privatization the government was trying to improve the first years' performance and to make the privatization process more orderly and transparent (a goal that was absent in the ENTel case). The time accorded to the discussion of several proposals and the formal incorporation of technical advice were in line with this attempt and anticipated the path followed in the social security area. However, as in the other two case-studies, credibility and financial problems continued to mark the path and content of economic reforms. For these reasons, the oil policy network lies somewhere in between the other two.

The expansion of the network made interactions more complex and prolonged them over time because successful policy implementation required some changes in actors' strategies and more negotiations and compromises in order to make different interests compatible. The increasing participation of Congress in the policy-making process had a crucial effect on policy outcomes. It opened several circuits of interaction (e.g., between officials from national and provincial bureaucratic structures, between them and different business organizations) and policy content was altered because legislators introduced some modifications in the Executive's initiative. This feature did not appear in the ENTel case, though it became one of the most relevant traits in the social security area. Something similar occurred with another important explanatory factor: the participation of organized interests and technicians was more active and formal than in the case of ENTel, though not so much so as in the policy network developed in the reform of the social security system.

Therefore, discretionary decisions and personalism appeared to be ameliorated, in this case, by the search for congressional approval and the active participation of corporate interests in the policy-making process. Nonetheless, several concrete aspects of the process remained in the hands of a few individuals and their unilateral decisions (e.g., Cavallo, Estenssoro). The success of policy implementation was thus determined by the progressive adaptation of policy-making mechanisms to the slower dynamic of this hybrid policy network (larger and with an incipient organizational or institutional component, although certain facets were still very personalized).

Chapter VIII

The Reform of the Sistema Nacional de Previsión Social (National Social Security System)

Introduction

The reform of the national social security system is a most recent one within the privatization program. It shows how a particular policy network, which will here be called "organizational," was formed (see Section II.3.). A large number of actors participated in the process, mostly through their institutional affiliation and the corporate representation of their interests. In addition, a tightknit team of experts designed the initial reform proposal, which set the tone and content of the interactions.

The network nuclei were basically: the Executive (the President and the Minister of Economy functioning as the main axis) and the Legislature (especially the opposition group in the Chamber of Deputies). Several interest groups participated both formally and informally in the discussions of the congressional commissions. From the beginning, the Executive pushed for a switch from a public to a private system. The sources of this decision were inspired in the need: to regenerate public finances by transferring the responsibility for social security benefits (a historical source of public deficit); and to further demonstrate executive commitment to market-oriented reforms (the development of a private capital market). The private sector comprised of economic groups, banks, insurance companies, business associations generally shared this view and actively participated in its implementation.

The process advanced in a slow stop-and-go fashion because congressmen, especially some members of the Peronist block itself, sought to introduce some modifications into the Executive's initiative. They agreed on the reform but believed that any social security system had to pay due attention to the social welfare aspects of the benefits. That is, the system had to guarantee future benefits and a fair level of pensions. This premise had guided past state and union intervention in

the social security sphere. Opposition legislators and union representatives tried to prevent the private sector from taking the lion's share of a business that promised to be very profitable. Partial compromises were reached and a new mixed (public and private) system was introduced. However, although this was one of the most negotiated reforms, the implementation of some specific aspects was largely determined by the Executive's ability to impose unilateral decisions.

VIII.1.- The Origins and Evolution of the Social Security Benefits

The antecedents of the Argentine social security system are found in the early XXth century when public policies on this issue were implemented as a way to cope with a highly combative labor movement.¹ The massive immigration into Argentina at that time had brought along with it an ideological wave of anarchism and socialism. Those ideas were embodied in the strong union organizations that were emerging.

During those decades unions established a most difficult relationship with the state, which first responded with repression and only later promoted new legislation on social matters. This was a public initiative by government elites who were eager to appease the persistent social conflict and the radical character of the labor movement. It formed the base of a national social security system. As it developed,

¹ During the XIXth century only the military, some high-ranking officials, and public school teachers were benefitted with pensions.

the workers themselves demanded access to the benefits, especially those who were better organized and were trying to "imitate" the pioneers.

In that way, in 1904 retirement benefits were extended to the entire public administration. During the following three decades social security institutions (*Cajas de Jubilaciones*) were created for different public and private groups of workers, such as those in the train, gas, electricity, phone, and insurance companies, as well as those in banks, the army, and the air force. The number of workers on social security was progressively increasing, although they only represented less than 10% of the labor force by the 1940s.

The creation of several social security institutions organized by economic sectors led to the fragmentation and heterogeneity of the system. To a large extent, it created problems of inefficiency and irrationality. These social security organizations differed with respect to the contributions they required, the age levels and other requirements, as well as the sources of their financing, and the quality of the benefits they provided. Lax mechanisms for the distribution of benefits, the low level of contributions, and the establishment of an early retirement age generated a serious deficit in several *Cajas*.

In 1943, with the advent of the first Peronist government, the national social security system entered a new phase. Massive in size and with new benefits, it formed part of the government's decision to give priority to public policies with high social content. Several *Cajas* were created; social security benefits were extended to almost all economic sectors;² and new benefits were incorporated, such as paid holidays, health coverage, severance pay, pensions to the disabled, an annual bonus (*aguinaldo*), and extra payments for spouse and children.

There was also an attempt to centralize the system and make it more homogeneous. To that end, the *Instituto Nacional de Previsión Social* (National Institute of Social Security) was created whose main

² The number of beneficiaries climbed from 428,000 in 1944 to 2,328,000 in 1949. Cf. Isuani y San Martino, 1993, pp. 14-15.

purpose was to coordinate all social security institutions and unify criteria. However, the initiative failed in great part because the *Cajas* resisted the measure. In the end, the approval of Law 14.236 (1954) renewed their administrative autonomy.

The first Peronist government also introduced a new approach to social security. Until then, the Argentine system was guided by the "capitalization principle", that is, contributions were deposited into a fund where capital accumulated. This guaranteed benefits upon retirement. Following the approval of Law 14.370 in 1954, social security institutions adopted the so-called "distribution system". It unified the mechanism by using a scale to calculate benefits that were unrelated to the accumulation of contributions paid or to the capitalization obtained.³ The underlying rationale was the belief that social security was a social rather than a private benefit that the state provided, as well as a mechanism to redistribute income. It was supposed to increase the salaries of the worst paid and maintain the living standard of pensioners. The distribution system came to be a kind of implicit pact between generations by which the active workers supported those who had either reached the retirement age or were disabled, or the families of the deceased. Unlike the "capitalization" scheme, the state guaranteed the "distribution" system and its financing was closely linked to the robustness of public finances.

³ Law 14.499 (1958) suppressed the scale and the amount of the pension was determined by a percentage (an 82% mobile) of the salary received at the time of retirement or of the highest salary earned. In this case, the pensions were related to the income received in the past and there was no redistribution effect.

VIII.2.- Sources of Trouble and Previous Attempts to Reform the System

As time passed and the system entered its maturity phase,⁴ financial problems arose. These problems had at least four sources: 1) the excess funds had evaporated largely because of the effects of high inflation rates and investments with a low rate of return; 2) the evasion rate was considerably high; 3) the benefits were higher than the actual contributions the actuaries had calculated; and 4) the age limit to qualify for the benefits was low. Besides, such financial difficulties and the consequent nonfulfillment of the social security provisions resulted in the initiation of numerous lawsuits by the beneficiaries, a situation that added instability to a system that was already under pressure.⁵

Faced with virtual collapse, the 1967 reform of the system was implemented to curb evasion, unify the administration and the regulations of the system, and eliminate the presence of trade unions from the administration of social security institutions, which had become part of the growing public sector. Some of the measures taken were: the compulsory registration of all workers and a new moratorium for debtors; the increase in the retirement age; the unification of all Cajas into only three, which would function under the direction of an official appointed by the Executive; the creation of the Social Security

⁴ In general terms, the financial evolution of any social security system follows two periods: an initial one with a large number of contributors and a low number of beneficiaries, when high surplus is generated; and a second one of maturity, when the number of contributors increases at the same rate as the active population and the number of beneficiaries increases rapidly, thus forcing the system to make use of the accumulated surplus.

⁵ In 1966 this situation forced the government to declare that the Cajas were not subject to embargo.

Secretariat (*Secretaría de Seguridad Social*) to oversee the general management and supervision of the system; the modification in the calculation of pensions, now based on the last three most favorable salaries and updated according to a certain index established by the Executive. Two laws were approved (# 18.037 and 18.038) containing the new dispositions for the so-called "dependent" employees (those working for someone else or an institution/firm/etc.) and the autonomous (self-employed) workers.

Further changes were introduced during the last military government concerning the collection mechanism of contributions and, specially, the participation of the unions in the management of the system. In addition, throughout the 1970s, the most significant events were the extension of social security benefits to rural workers, the approval of Law 21.118, which established new benefits and diminished some requirements, and the increase in the level of contributions paid by workers in general (from 5% to 11%).⁶

By the 1980s the social security system had shown a permanent increase in the number of beneficiaries, the existence of mostly low pensions, and a persistent global deficit from 1978.

One of the variables that usually affects these developments is the demographic dynamic. the lower the relationship between workers and retired people, the higher were the contributions the active workers had to pay in order to assure the pensioners their purchasing power. Besides, a higher life expectancy rate and a low birth rate indicated an aging population. In the case under consideration, we observed that the number of 65-year olds or up doubled between 1960 and 1980, while the total population only grew 40% in that period. The birth rate decreased notably, and the life expectancy rate rose. As was mentioned above, the increase in the number of benefits *vis-à-vis* the population of potential

⁶ For details on this period, see Feldman et al. (1986).

pensioners⁷ was very significant. It climbed from 12.6% in 1956 to 61% in 1990, although the growth rate of social security coverage in the 1980s tended to equal that of the population with access to the benefits.⁸ In other words, around 40% of the population over the established age limits did not have social security coverage.⁹

However, the demographic factors do not fully account for the expansion in benefits. The creation of several social security institutions (Caja de Comercio, 1944; de Industria, 1946; de Autónomos, 1954) and the incorporation of rural and household workers largely explains this expansion. Even more, part of the expansion in the social security system corresponds to the significant increase of women in the system. It is interesting to note the low number of contributors that have been supporting it. Out of an economically active population of around 10 million in 1986, only 8 million were obliged to contribute.¹⁰ Nonetheless, evasion reached 48% in that year.¹¹ All these factors endangered the financing of the system.

This financially unstable situation was evident by the end of the 1970s. The system was unable to finance its services with its own resources. In the early 1980s, the contributions made by the employers were replaced by resources from *coparticipables* taxes.¹² Employers'

⁷ That is, women over 55 and men over 60.

⁸ Cf. Isuani and San Martino (1993), p. 20.

⁹ It is worth noting that the national media underestimate important geographic differences: the coverage is higher in Buenos Aires City and in the provinces of Buenos Aires, Santa Fe, Córdoba, Mendoza, Tucumán, La Pampa, and Entre Ríos.

¹⁰ The rest were either unemployed or were below the age limit. Some of them were even counted as contributors to social security systems other than the national one.

¹¹ Cf. Isuani and San Martino (1993), p. 24.

¹² Federal *coparticipación* (co-participation) has been one of the main organizing principles of the Argentine tax system since 1935. It means delegating tax collection faculties of the provinces to the national state. Once collected, those (*coparticipables*) revenues are

contributions were later restored, but they still did not suffice to finance the benefits, even together with workers' contributions. So, in the eighties other fiscal resources were often used to prevent the bankruptcy of the system. Notwithstanding having to resort to these additional sources, the system has been unable to deliver the level of benefits that had been established by law.¹³

The system reached a critical point during the last Radical government when the gap between the legal benefits and the ones actually paid became unacceptable, giving rise to numerous lawsuits against the state. Most of these were won by the contributors. Then, in 1986, the social security system was decreed "in emergency". The implementation of sentences was suspended and the initiation of new suits was not allowed. Other measures were taken to update the level of benefits, to set a schedule for payment, and to increase the sources of financing. In other words, the social security issue already constituted a policy problem and called for resolution. However, a complete reform of the system -- much less its becoming private-- was not yet part of the government's agenda.

Indeed, the structural problems went unresolved and financial difficulties were exacerbated during the current Peronist administration since the Convertibility Law obliged the state to use only genuine fiscal resources. Thus, on an initiative by the Executive, Congress passed Law 23.983 (1991) which consolidated the public debt, including that of the national social security system. In that way, creditors, i.e., retired people, were forced to choose between bonds or the receipt of cash benefits over a 15-year period.

distributed between both levels of government (national and provincial) and among the provinces themselves. The national state is also responsible for managing the whole tax system and legislating on tax matters.

¹³ The 1992 data indicate that there was a 43.7% relationship between the average pension and the average salary, while the law established that it should be between 70% and 82%. See Isuani and San Martino (1993), p. 30.

VIII.3.- The Role of Technicians

During the 1980s several proposals for the partial reform of the system had been elaborated, such as those designed by the Social Security Secretariat in 1986 and 1990, by FIEL (Fundación de Investigaciones Económicas Latinoamericanas) in 1987, by Eduardo Del Río (national deputy) in 1989, and by ADEBA (Asociación de Bancos Argentinos) in 1989.¹⁴

Nevertheless, for the purpose of this work, the most relevant events in the privatization of the national social security system occurred after mid-1991. The appointment of new officials to the Social Security Secretariat, such as Walter Schulthess, one of main architects of the official project, implied a shift in policy orientation. The discussion about partial changes was set aside and the decision to carry out a deep and global reform of the system was taken up instead. Thus, marks the starting point of the social security policy network.

Indeed, although several proposals had been elaborated, they had not had relevant impact in terms of either bringing the issue to the government agenda or generating an agitated public debate. The government's initiative triggered a debate and the mobilization of interest groups. Only then did they begin to clarify their objectives and strategies and to position themselves in relation to the reform process.¹⁵ In addition, as was true in other cases of privatization, the

¹⁴ On the details of each proposal, see Isuani and San Martino (1993), Chapter II.

¹⁵ As a result of their interviews, Isuani and San Martino (1993) comment on the limited and, in some cases, lack of knowledge social security organizations had of the reform proposals, as well as the absence of their own projects.

accommodation of interests and the actions of all actors involved was brief and occurred simultaneously with policy implementation.

Schulthess was called to the Social Security Secretariat by Minister Cavallo. His Secretariat became a crucial nucleus of the policy network. Like other cases of privatization, an important degree of power was delegated between the Minister and the Secretary, based on the latter's specific expertise and this technical capacity to design the reform. Schulthess is an economist from Córdoba, who specialized in public finances and microeconomics (see Section IV.3.3.3.). He had worked on the social security issue for some years as Mario Brodershon's (president of the BANADE) advisor during the Radical administration, and as a free-lance economist for several institutions (IBD, WB, Fundación Mediterránea, etc.). Indeed, the World Bank had supported a detailed study of the Argentine social security system in 1989.

Upon arrival, Schulthess had only a handful of advisors. The Secretariat was small and the new team faced no opposition there. However, the "social security world" had been traditionally run by lawyers and actuaries and they were likely to resist an economist's reformist ideas. So, together with the system's reform, an important transformation of the administrative agencies was launched in an attempt to build technical viability. Schulthess himself was appointed president and later *Interventor* of the Instituto Nacional de Previsión Social (National Social Security Institute). This agency was finally dissolved, along with three social security institutions (the Cajas de Subsidios Familiares de la Industria, del Comercio y de Pesca). These were all very powerful in terms of the financial resources they moved. At the same time, some operational changes were made. Among other things, total personnel was almost halved, from 14,000 to 7,500, and ANSES (National Administration of Social Security) was created under the management of a like-minded official.¹⁶

¹⁶ Interview with Walter Shulthess, Buenos Aires, 01/31/96.

The reform team expanded the policy network and rapidly became one of its main nuclei. It was made up of a few professionals with similar profiles: Gustavo De Marco, Eduardo Rondina, Susana Maciel, Laura Posadas, and Mauricio Barassi. For instance, the latter is an actuary who had worked in the social security area for years and had acquired a technical expertise on the issue in Chile where he had studied and worked for the private sector. Before becoming a member of Schulthess' team, Barassi had been convoked by Martín Redrado, president of the National Securities and Exchange Commission and a former classmate, to elaborate a project to reform the social security system.¹⁷ The proposals proved to be largely compatible and were combined.

Indeed, according to Schulthess, one of his team's advantages was the general consensus among the members about the diagnosis; the other advantage was that "they could sell it with the numbers at hand," meaning that they backed the diagnosis with reliable statistical data and technical expertise. Dissent centered more on the "how" question. What were the concrete mechanisms to be used to carry out the reform? This originated in the political sphere, since this kind of initiatives do not generally yield electoral benefits. The same source indicated that President Menem was willing to implement the whole reform by decree, but he was advised that such a measure could be legally questioned and would run the risk of being blocked. For this reason the government decided to open a debate with different social sectors in order to build a minimum consensus.¹⁸ This is a clear indication that policy-making mechanisms had to adapt to new circumstances as the entire privatization advanced. The crisis argument would not have been so effective at that moment.

Therefore, in early 1992 the government convoked political parties and other social organizations to the so-called "Political Dialogue Table" in order to discuss some aspects of the future reform. In this

¹⁷ Interview with Mauricio Barassi, Buenos Aires, 02/20/96.

¹⁸ Interview with Walter Shulthess, Buenos Aires, 01/31/96.

way, the policy network expanded significantly with the formal incorporation of corporate actors and established institutional channels for interactions. Among others, the main items here considered revolved around the role of the state in the social security system, the range of applicability of the coverage, the sources of financing, the requirements for access to benefits, the nature and functioning of the social security institutions to be created and the mechanisms to control them. A document containing an agreement on ten basic points was drawn up.

By then, the government's preferences for a capitalization scheme that would emulate the 1981 Chilean experience had already been made public. Not surprisingly, the idea of changing from a distribution to a capitalization or a mixed system was not part of the debate. In other words, the Executive controlled the agenda for discussion and this increased the impact that institution had on policy outcomes. In addition, the reformist team did not foresee serious opposition. They knew the private business sector liked the idea, as well as the center and right-wing political parties.

Accordingly, the Executive sent Congress a reform project in June 1992.¹⁹ The document consisted of four sections: i) one dealing with the characteristics of the future system with respect to affiliation, benefits, institutions, organization, financing; ii) a second one referring to some modifications in the old system (e.g., the benefits to be conceded and received during the transition from one system to another); iii) a third on the financing mechanisms that would support both systems; and iv) a fourth section that focused on the norms of a new benefit, the retirement insurance, and its development.

The government proposed the creation of the so-called *Sistema Integrado de Jubilaciones y Pensiones* (Integrated System of Retirement

¹⁹ See a detailed version of its contents in Schulthess and Demarco (1993), Chapter VII. For alternative and contrasting views, see Cetrángolo, 1994; Cetrángolo y Machinea, 1992; Demarco y Posadas, 1993; Demarco, 1993.

and Pensions). This is a mixed system composed of a basic public regime based on a distribution mechanism and a capitalization regime based on the funds created by individual contributions. It would cover all employees and self-employed workers, unifying the norms that had determined their benefits. The enrollment of those under 45 would be compulsory and access to benefits would be raised to 65 for both women and men.

The set of social security benefits would include: a) retirement pensions for those 65 and over and having regularly contributed for at least 30 years; b) disability pensions for those who do not meet the retirement requirements but are unable (totally or in more than 66% of their capacities) to continue working; and c) pensions to the heirs of the deceased, an equivalent of the retirement pension to be paid to the rightful claimants.²⁰

So, under the new system, the retirement benefits would have three features: 1) the so-called *Prestación Básica Unica* (PBU), to be paid by the state (through the ANSES)²¹ on the basis of the number of years contributions had been paid;²² 2) an additional supplement from the capitalization of contributions paid from the enrollment in the new

²⁰ Private insurance companies would be in charge of insuring -- and eventually paying-- contributors against disability and death risks; they could also offer the benefits of life-time pensions.

²¹ ANSES is the National Administration of Social Security, the entity in charge of the administration, control, and supervision of the distribution regime of social security. As part of its functions, it collects revenue, transfers it to the AFJPs, pays the PBU and PC, and manages the old system's remaining benefits. Its funds are financed from the contributions paid by the employers (16% of the salaries of dependent workers), contributions made by self-employed workers (16% of the salary of each category), special taxes, and the national treasury's resources.

²² For those who have paid contributions for 30 years, the PBU would be one and a half times the average compulsory contribution. For those who have contributed for more than 30 years, the PBU would increase by 2% per year of payment, up to a maximum of 45 years.

system,²³ to be paid by private institutions specially created to that end, the *Administradoras de Fondos de Jubilaciones y Pensiones*: AFJPs²⁴ (Administrators of Retirement and Pensions Funds); 3) the *Prestación Compensatoria* (PC), a component that was incorporated during the congressional treatment of the project and tended to compensate those who had contributed to the previous system. Calculations were based on a percentage of the average updated salaries and benefits perceived during the last ten years of activity, that percentage varying according to the number of years contributions were paid prior to affiliation to the new system.

²³ Access to these benefits from the capital accumulated in a specific account could be done in three ways: i) programmed retirement (a monthly pension determined only by the balance of the capitalization account at the beginning of each year) ; ii) life-time pension (a pension equivalent to the one that could be obtained from an insurance company according to the capital accumulated at the moment of retirement); iii) fractional retirement (a monthly pension --not included in the original project, but incorporated during the parliamentary discussions-- equivalent to 70% of the maximum PBU, available only for those whose initial pension, calculated as a programmed retirement, was less than the 70% of the maximum PBU).

²⁴ The AFJPs are stock companies in charge of placing the funds from workers' contributions on the financial markets, according to a menu of investments that has to be authorized by the Central Bank. Those contributions are compulsory and represent 11% of the dependent and self-employed workers' salaries, plus any noncompulsory contribution made in order to bring forward retirement or increase the amount of the future pension. The AFJPs charge commissions to the contributors, who can freely change from one AFJP to another, and no AFJP can set restrictions on affiliations. However, the funds they receive are not incorporated into their patrimonies. (The Fund of Retirement and Pensions has no current legal entity and its patrimony is independent of the AFJP by which it is managed. Its patrimony and rights are not subject to embargo and are dedicated only to the delivery of the benefits established by law.) Additionally, each fund has to attain a minimum profitability (70% of the average profits of the system), the AFJP being responsible for maintaining it at least at that level. Finally, the AFJPs are controlled by the Superintendence of AFJP, an entity that depends on the Ministry of Labor and Social Security.

VIII. 4.- An Extended "Organizational" Policy Network

Again, Executive power was the axis of the policy network emerging in the social security issue-area. However, this time Minister Cavallo had already consolidated a crucial position within the Cabinet and, together with an important number of technicians, had positioned himself within the decision-making structures. The reform team belonged to Cavallo's ranks and thus came to constitute a key nucleus of the policy network. As was mentioned in the previous section, by designing the main guidelines of the reform initiative beforehand, the reform team actually determined the agenda for discussion and, consequently, largely determined policy content. This feature contrasts with the previous two cases.

In addition, in the political sphere it was decided that the issue would be open to debate. In this way, the Executive also determined the arenas of discussion, the channels for demands, and the boundaries of the policy network (that is, who would be convoked to participate). This search for a consensus obviously broadened the limits of the network and increased the number of actors. Indeed, it created another strong nucleus in Congress where implementation was somewhat blocked (see Section VIII.5.). This attempt was made as the Executive's capacity to impose its criteria on the Legislative Power, and even on its party block, was decreasing (see Section IV.3.3.3.). Consequently, a circuit of conflicting interactions within the government sphere developed.

In contrast with the other two cases, this was the most extensive web and the one in which most actors were organized around corporate institutions (e.g., chambers, associations, councils). A large portion of the population was indirectly involved just by their belonging to these organizations. Private economic agents were convoked and participated in the reform discussion through their institutional

representatives. Moreover, the most serious disputes revolved not only around individuals (as had happened in the other cases) but also around two crucial national institutions: the Executive and the Legislative Power. In this sense, of the three webs examined so far (Chapters VI, VII, and VIII), the one developed in this issue-area presents a strong organizational element and is closest to the theoretical definition of a policy network (see Section II.2.). For these reasons and to differentiate it from the other two, it is considered an extended "organizational" policy network.

Within the public sphere, the network included several actors: the President at the top, and also other bureaucratic agencies within the Executive: the Ministry of Economy, the Social Security Secretariat, and the Ministry of Labor, as well as both chambers of the National Congress. As for private actors, it included trade unions, all kinds of social and corporate organizations, and particular private economic agents that would potentially form AFJPs²⁵ (enterprises, banks, insurance companies, etc.).

However, the number of participants was not only a result of the political goals but also, as had happened in the other two cases, of the specific characteristics of the issue-area. On the one hand, social security involves the delivery of benefits that affect the population as a whole and it had been a corner-stone of populist social welfare policies for decades. Thus the issue itself necessitated a minimum consensus on the changes to be introduced.²⁶ On the other hand, the fact that the social security coverage included not only ordinary retirement and pensions but also life insurance and other types of retirement plans meant that business would somehow be linked and the prospects of the

²⁵ The Chamber of AFJPs was not created until late 1993.

²⁶ As was mentioned in Section VIII.1., the distribution mechanism in force since the 1950s implied an "inter-generation" pact by which the economically active population supported the passive population on the basis of a proportional criterion (retirement pensions, calculated to maintain a certain standard of living, which amounted to a proportion of the income received during active life).

sector promised to increase as the full reform was being implemented and developed. This was a major incentive for the private sector to participate. Because several other issues have still to be solved and different benefits implemented, it is reasonable to expect that the network will continue to expand after implementation since the focus of the action will shift from a single issue (reform) to a vast range of areas and new circuits of emerging relationships.

As for interactions and channels of communication, this case has some common features with the other two. First, interactions were intense and urged by financial problems and concern over credibility. These two points largely shaped the timing and content of exchanges since many aspects of the reform were defined by the future investors' interests and demands. Second, formal and informal linkages were used, though lobby and compliance (basically, party discipline) most often took the form of informal and personalized contacts. From the private actors' view, those contacts involved a constant and sometimes obscure negotiation in which "one often did not even know what was being negotiated."²⁷ In the Executive-Legislative relationship, they worked as ordinary pressure mechanisms between party members.

Nevertheless, as had happened in the case of YPF, the horizontal extension of the pyramidal network in the social security issue-area did not ameliorate the Executive's tendency to use extraordinary decision-making mechanisms (e.g., the veto and decree faculties) to overcome opposition and impose certain policy orientation. That was the case of the controversy generated over Article # 40 of the law to reform the social security system, that is, the clause which introduce a public guarantee on profits (see Section VIII.6.).

Thus, as will be described in the following sections, the broadening network did not undermine the Executive's capacity to impose its criteria and goals. New sources of conflict arose, and a more nuanced process of negotiation began with Congress playing a much more

²⁷ Interview with Horacio Canestri, Buenos Aires, 01/15/96.

active role than in the other cases. This undoubtedly delayed the implementation process and required a rearrangement of the actors' positions and strategies. However, as agreements were not respected and modifications in the bill were annulled or reversed, the policy content was not altered substantially.

Once again, the success of the policy implementation was the result of a highly personalized exercise of discretionary and vertical authority emanating from the Executive. Yet now it was "supported" by a clear and detailed technical design of the reform project that shaped the limits and content of the bargaining process.

VIII.5.- From Consultation to Compromise

The official project was discussed in detail by the parliamentary commissions (Social Security and Finance Commissions), with the participation of a wide range of interest groups (e.g., professional associations, entrepreneurial chambers, the stock market, bank representatives, pension organizations, social security institutions, business and union corporations such as UIA, Sociedad Rural, Federación Agraria, and the CGT). At this point, interactions within the web concentrated on this discussion. As a result of this initial round of consultations, it was evident that the Executive's project did not raise great adhesion.

Opposition came from Radicalism, left-wing political parties, social security organizations representing the retired, some institutions from the agricultural sector (e.g., the Federación Agraria) and the CGT. The union leaders saw the reform as a threat to their long

acquired prerogatives. Not only had the social security institutions been organized by sector, following the division of unions and establishing a close relationship with them, but also some unions had obtained especial social security benefits that signified privileges for both workers and the union organizations themselves.²⁸ According to the Executive initiative, the social security question would be in the hands of private operators and would rely on individual's options. Thus, unions perceived the reform proposal as a potential threat to their leverage on their sectors' affairs and, consequently, to their share of economic and political power.

Though most actors consulted agreed on the need to reform the social security system and on the convenience of creating a mixed system, there was certain reluctance to establish a mechanism, called capitalization, that had almost no antecedents.²⁹ Several criticisms and doubts were raised about the high costs, risks, and troubles the future system would generate, as well as about the state's capacity to control it.³⁰

²⁸ On the economic and institutional sources of unions power, see Bunel, 1992, Chapter III.

²⁹ Besides the technical objections, there was a significant consensus on the idea that the new system had to preserve, at least, part of the solidarity principle embodied in the public aspect of the old one (see the end of Section VIII.1.). For that reason, the mixed option appeared to be the most suitable. See Isuani y San Martino, 1993, pp. 109-111.

³⁰ For instance, the UIA representatives doubted that the state could collect the necessary revenue to fulfill the legal requirements of the level of pensions (82%). The Federación Agraria signaled the low prospects of any system in an economic context characterized by precarious monetary stability and stagnation. Some other criticisms concentrated on the type of mechanism proposed (capitalization). In that sense, Radical legislators and the Federal Council of Social Security (COFEPRES) remarked that such a system would be based on private savings --leading to "individual" security-- that had nothing to do with social security, which had to be based on social solidarity. The organizations representing beneficiaries objected to the latter's exclusion from the decision-making structures of the future system, while the bank association was concerned with the high administrative costs it would generate. For details, see Isuani y San Martino, 1993, pp. 95-109.

From the beginning, the government pushed for a fast approval of the official initiative on the grounds that it would increase pensions to the level established by law. Most other blocks (Radicalism, provincial parties, UCeDé, Federal Party, dissident Peronists, and some Peronist deputies representing the unions) preferred to first consider the aspects related to the future system's financing, to resolve the problem of current beneficiaries, and to later analyze all the other aspects of the reform and the design of the future system. However, party discipline within Peronism prevailed and, at the moment of voting, unionist deputies tilted the scale in favor of the first position. Adding more pressure, officials from the Ministry of Economy and the President himself ruled out problems on the financial viability of the future system. They manifested that the question of ongoing pensions would be solved as soon as the social security reform and YPF's privatization were approved. After some years, in the light of the present dramatic financial situation of the pension system (see Section VIII.7.), those comments proved to be wrong or were merely driven by political intentions.

However, it seems that the Executive's perception at that time included some concern over the impact of the pension problem on fiscal accounts and the growing focus of opposition that was developing outside institutional structures. In other words, the government had been checked not only by numerous lawsuits and a considerable accumulated debt, but also by accusations of insensitivity towards old pensioners who constituted a large proportion of the electorate. Public opinion had been shocked by the pensioners' spontaneous demonstrations. Their significant and massive mobilizations brought their dramatic situation to the center of public debate. So, along with the reform negotiation, the government had to devote some resources³¹ to pay that debt and to improve some services of the pensioners (e.g., health).

³¹ Some of those resources came from YPF's privatization and the mechanisms designed to sell its shares. See Section VII.6.

At the same time, the debate on the reform project advanced in Congress. As a result of the prevalence of the above Peronist position, the financial viability of the future system was largely ignored. Parliamentary commissions fruitlessly carried out meetings with representatives from the institutions in order to discuss the Executive's project. Some months later, the Executive sent Congress a new project that greatly resembled the initial one. It incorporated some of the concerns manifested during the commissions' work.³² However, this second project also met with strong opposition, specially from some deputies representing the unions.

The discussion of the conflicting aspects of the reform then moved to another institution: the recently created *Consejo Nacional Económico para la Producción, la Inversión y el Crecimiento* (National Council for Production, Investment, and Growth). This forum was formed by delegates of the government and intermediate organizations representing the labor and entrepreneurial sectors and worked under the control of the Ministry of Economy and Public Services. The agreement reached was set down in a document sent to Congress in late 1992 in an attempt to incorporate some modifications into the reform project.

Among other things, these modifications made it possible for diverse organizations --unions included-- to form AFJPs. Most people interviewed agreed that this was a key point in the negotiations because it legitimated union participation in the business. Once the union representatives in Congress had agreed on this clause, the whole process was unlocked. This fact suggests that union behavior was not motivated by long standing ideological considerations but by the maximization of economic and political short-term benefits.

³² The PC (*Prestación Compensatoria*) was incorporated at that moment as a result of the strong claim by some deputies and the public in general about the need to contemplate the contributions made by those under 45, a point that had not been considered in the original reform project.

The Council's modifications gave rise to a new round of meetings between congressional commissions and some of the organizations consulted previously in order to discuss the new clauses.³³ The new project was not ready until late December 1992. However, the legislators did not achieve the necessary quorum for its approval by the majority of the commission members, and thus its treatment by the chambers was again delayed until the end of February 1993.

By that time, the discussion had concentrated on a particular article (# 39, later # 40) of the reform project. It was introduced on the initiative of some deputies³⁴ and endorsed by the Minister of Economy in order to have the law approved sooner.³⁵ That article referred to the participation of a public institution in the future social security system, the existence of a guarantee by the national state, and a minimum rate of return for the contributions and deposits made in the national public bank's AFJP (Banco Nación's).

Indeed, in the original project, the state guaranteed contributions in only two cases. One, when the funds invested by an AFJP did not offer the established minimum rate of return (see Section VIII.3.), the state would support the latter until the workers were affiliated to a new AFJP. Two, the state would also guarantee pension payments, disability pensions, and pensions to rightful claimants when an insurance company declared bankruptcy. According to the new article under discussion, the Banco Nación would become a public administradora and the national state would guarantee that contributions made to it

³³ On those modifications, see Isuani y San Martino, 1993, pp. 119-120.

³⁴ In particular, the idea was conceived by Deputy Juan González Gaviola, one of the members of a Peronist party's dissident wing. He broke from Peronism in 1994 and formed a new political party: PAIS, led by Senator José Octavio Bordón. Gaviola had even presented his own reform proposal based on a study elaborated by COFEPRES.

³⁵ Indeed, Horacio Liendo himself (Legal Secretary of the Ministry of Economy, one of Cavallo's closest advisors) wrote the article, which the deputies had previously agreed on. Interview with Liendo, Buenos Aires, 01/26/96.

would never be inferior to either a) the deposits in pesos plus the interest rate paid by Banco Nación to peso-savings account holders; b) the deposits in pesos, converted into American dollars according to the buyers' rate of exchange offered by Banco Nación the day of the deposit, plus the LIBO rate on 90-day time deposits.³⁶

Given the enormous amount of money to be held in private hands and the high volatility that historically characterized Argentine financial markets, the deputies insisted that this article to be included. Some degree of certainty in the future social security system had to be established. Nevertheless, it also implied that the state would take over AFJP Nación's obligations if there were to be a devaluation. This would implicitly mean the end of the Convertibility Plan.³⁷ Obviously, this possibility was inadmissible to Minister Cavallo³⁸. Besides, the existence of that clause could have at least two other implications. All investments from the social security funds would tend to concentrate on dollarized options, thus blocking one of the main goals of the reform: the creation of a flow of internal savings that could go to the domestic financial market. On the other hand, the rate of return on contributions, which was the main source of attraction to affiliates, would be low because dollar deposits have usually low interest rates.

The general objection that underlied these considerations was the fact that the new system would embody a purely economic rather than a social security conception of the matter (i.e., one that would take care of the redistributive aspect of the benefits). For instance, Gaviola argued that the government's motivations were based mainly on their desire to throw off the social security burden and on their intention to encourage the creation of a private capital market. He and other

³⁶ See Clarín, 02/27/93, p. 14.

³⁷ See Página 12, 03/19/93, pp. 4-5.

³⁸ As was explained in Section III.4., the Convertibility Plan established a fixed exchange rate and eliminated the use of devaluation as a monetary policy instrument.

deputies claimed the state had to take an active participation in social security matters as part of a broader public intervention in social welfare policies, and not be guided exclusively by the economic rate of return.³⁹ This suggests they had an underlying concern to redistribution mechanisms, so typical of the Peronist "social justice" ideology. This idea lay behind the legislators' insistence on introducing some modifications into the original project, particularly those concerned with a public guarantee on contributions to the Banco Nación's AFJP and with the establishment of a minimum pension that was 40% of the average national salary.

Consequently, because of the controversies Article # 40 generated, its introduction became crucial to the very existence of the law. On the one hand, several deputies conditioned their vote to the inclusion of this article. A new nucleus of the policy network formed around González Gaviola since his actions became the channel of the demands and interests of the provincial social security institutions (*Cajas Provinciales* under the Consejo Federal de Previsión Social, COFEPRES). COFEPRES actually provided Gaviola with technical advice to elaborate his own reform proposal and lobbied intensively within the Chamber of Deputies. Gaviola then brought forth data and estimates that differed with those of the reform team's. This fueled the discussion in Congress and delayed the entire process.⁴⁰

On the other hand, private domestic and foreign banks who were interested in this privatization based their opposition to the inclusion of this article on the inequality of competitive conditions it would generate. First, it would grant a special privilege to AFJP Nación (the above guarantee). Second, to be competitive the other AFJPs would have to limit their investments mainly to dollarized options. The AFJPs undergoing formation lobbied intensely. They toyed with the possibility

³⁹ Interview with González Gaviola, Buenos Aires, 02/20/96.

⁴⁰ Interviews with Walter Shulthess, Buenos Aires, 01/31/96, and González Gaviola, Buenos Aires, 02/20/96.

of pressing the Executive to veto or implement the decree mechanism if the reform were indefinitely delayed in Congress or the deputies insisted on including that modification.

The President neither openly refused nor accepted this possibility. The decree was said to have been elaborated by Schulthess. Actually, some members of the Cabinet were contradictory. Cavallo would accept its use as a way to avoid further delays in the reform's approval, while Eduardo Menem (president of the Senate) and Jorge Matzkin (president of the Peronist deputies' block) opposed it.⁴¹ Besides, one of the sources of these apparent contradictions was the fear among high officials and legislators of losing their privileged pensions. (That is, their pensions would no longer be granted by the state but determined by the capitalization of their pension funds.) That fear was particularly true in the case of the Judicial Power. Therefore, discussion of the issue continued on government circles for several months.

Meanwhile, the differences between the opposition and Peronist blocks in the Chamber of Deputies delayed treatment of the project and precluded its approval. Internal disputes within the Peronist block had a like effect and it was difficult to meet the necessary quorum to pass the project. Schulthess remarked that they were always working with a minimum of legislators to attain the reglamentary quorum. In that way, anyone could force negotiations in exchange for a vote. He also remembered that he personally attended thirty-two meetings in Congress in order to explain different aspects of the reform project and accelerate the process. Those were either informal contacts or formal meetings within parliamentary commissions. At times, he had the support of Eduardo Bauzá (Secretary of the Presidency), Enrique Rodríguez (Minister of Labor), and Eduardo Amadeo (a Peronist senator working on social policies).⁴²

⁴¹ See *Ambito Financiero*, 03/26/93, p. 2.

⁴² Interview with Walter Shulthess, Buenos Aires, 01/31/96.

Some other factors also complicated the approval. Both the political wing of the Peronist party and the divided union wing manifested their disagreement with the project. Those supporting the government's orientation (the CGT leaders) would vote in favor, while those belonging to the 62 Organizations (led by Lorenzo Miguel) and UTA (Argentine Workers Union) voiced their opposition.⁴³ The social conflict created by the pensioners' massive street demonstrations seemed to have made union acquiescence more costly. Their demand for a reasonable level of pensions and the payment of social security debts (see Section VIII.2.) was a constant reminder of the dramatic situation they were undergoing. Besides, the Peronist block needed the support of at least half of the representatives of the provincial parties to meet the necessary quorum. As a result, the discussion also revolved around the national state's debt with the provinces and their access to the funds collected by the Banco Nación.

Moreover, studies by private consultants at that time generated further objections and doubts on the advantages of the future system. For instance, it was estimated that the new system would require around US\$3.1 billion during the first year to compensate for the disappearance of contributions previously paid into the old social security system. On this point, the studies drew on the Chilean experience where the new social security system represented an important fiscal burden for it absorbed around 5% of the GNP. This figure was not likely to decrease substantially over the coming decades.⁴⁴ It was unclear how the Argentine state would be able to carry such a financial burden, but the Executive eluded this discussion in an attempt to prevent further delays. Moreover, the flows of money to be generated within the future social security system would likely go to the national treasury to fill the financial needs during the transition from one system to another. Therefore, the reform would not reap the positive effects foreseen by

⁴³ See Página 12, 03/19/93, pp. 4-5.

⁴⁴ See the details of the studies made by Macroeconómica, Harteneck, López y Cía, and Banco Río in La Nación, 04/16/93, p. 14; also Prensa Económica, January 1993, pp. 10-19.

Minister Cavallo, that is, a significant increase in the supply of credit to the private sector.

Although the entrepreneurial sector (economic groups, banks, financial institutions, insurance companies, etc.) agreed on the need to reform the national social security system in general terms, they were seriously concerned about the possibility of an alteration in the original features of the future system. Their doubts reflected a fear of lost profits and of the consequences the application of Article # 40 would provoke. These concerns may be summarized in four points that legislators were then discussing: a) the introduction of a public guarantee in favor of one of the future operators (the Banco Nación), which could undermine the AFJPs' profits; b) the costs generated by the PBU, which was equivalent to a fixed monthly amount to be paid to those who retire under the new system (the dissident deputies argued that the level of the PBU should be increased); c) the possibility that part of the funds collected be used to finance some needs of the provinces; d) the possibility that contributions to the private AFJPs be declared noncompulsory and, consequently, affiliations diminish.⁴⁵

To a large extent, the IMF shared these concerns and clearly transmitted them to the government. They signal the fiscal impact on public accounts (i.e., a potential increase in public expenditures) of the modifications being made to the reform project.⁴⁶ These considerations undoubtedly affected the Executive's strategy and the timing of the reform process since the economic team had promised to implement the new social security system by March 31, 1993.

⁴⁵ See La Nación, 04/26/93, p. 7.

⁴⁶ Cf. La Nación, 04/26/93, p. 10.

VIII.6.- The Tug-of-War between the Executive and the Legislature

These comings and goings of the reform process became one of the first manifestations of discrepancies within the government. Although Menemism had already faced serious criticisms and even a schism within Peronist ranks (see Section VIII.5.), this questioning was no obstacle to the Executive's advancement. However, Congress was now delaying and introducing modifications into reforms. Roles and strategies within the social security network, therefore, had to adapt to the new situation.

According to González Gaviola (leader of the opposition group in the Chamber of Deputies), the political context was propitious for dissent, because times of crisis were apparently over. Gaviola stated, "*nos corrían con la vaina*" ("They bullied us into it", in reference to the emergency discourse which was to a certain extent an empty threat). However, he argued that party discipline was difficult to achieve and operated through diverse mechanisms. On this point, he shares the president of the Peronist block's (Jorge Matzkin) opinion. He believed that there were basically three mechanisms: "Some legislators can be disciplined with an envelope [meaning buying their votes with bribes], others with a blow, like 'either you shut up or the whole party structure will come down on you', and others with just rational arguments". He positioned himself in the third group and mentioned that Minister Cavallo had called him a few times in an attempt to make him change his mind.⁴⁷

Likewise, Palermo gathered some information about the give-and-take between the Executive and dissident deputies. For instance, the provincial government exerted pressure on legislators from Tierra del

⁴⁷ Interview with Juan González Gaviola, Buenos Aires, 02/20/96.

Fuego where an agreement with national authorities on the construction of a gas pipe-line had been previously reached.⁴⁸

During this period, Schulthess continued to speak for the Executive. It is interesting and relevant to describe actors' perceptions of each other at that time. Most people interviewed agreed that Schulthess had become almost inflexible. This was partly a combination of his own personality; of the negotiating strategy (i.e., the knowledge that changes would later be introduced); and of his lack of experience in political affairs. However, he believed, along with the business sector, that the legislators' opposition was driven by their personal ambitions of becoming popular. That would explain their use of a demagogic or populist discourse towards potential losers and future voters. This factor may have worked in the case of González Gaviola, who was then a prominent member of an opposition force --the recently created political front (Frente País Solidario, FREPASO). It is also important to underline his view that there was no chance of making "macro-agreements" on economic reforms. "*Concertación* is either a gift or you just buy someone", he argued. In other words, votes and compromises always had to be rewarded in some way.⁴⁹

In this context, the Chamber of Deputies failed to reach the necessary quorum to treat the project several times. This was largely because the legislators were not convinced of the Executive's commitment not to veto the modifications introduced and because this policy cut across others. The agreements with the provincial parties proved to be fragile, while the support of union representatives was undermined by the launching of other measures. These were the labor reform and the deregulation of the health insurance plans (*obras sociales*), which threatened several workers' rights (see Section III.4.) and union

⁴⁸ See Palermo, 1995b, p. 23.

⁴⁹ Interviews with Horacio Canestri, Buenos Aires, 01/15/96, and with Walter Shulthess, Buenos Aires, 01/31/96.

prerogatives, most of which had been promoted and institutionalized by Peronism some decades before.

Finally, on May 6, 1993, after difficult negotiations, the official block managed to get the Chamber to address the project and pass it. This half-approval by the Chamber of Deputies signified several modifications in the Executive's original project.⁵⁰ In other words, the extension of the network and the new circuits of interactions that developed around the nucleus of dissident legislators had an impact on policy outcome.

The most important and controversial modifications were: i) as union representatives had demanded, the registration in the capitalization regime would be optional rather than compulsory so workers could choose to remain in the distribution regime;⁵¹ ii) the Banco Nación could form an AFJP, under which contributions would be guaranteed by the state; iii) contributions could not be deducted from income taxes;⁵² iv) women could retire at 60, but they could opt to work an additional five years during which they could pay into a capitalization fund --a modification imposed at the last minute by seven female deputies; v) the PAP⁵³ (*Prestación Adicional por Permanencia*) was increased from 0.5% to 0.85% of the salary per year of service as a way to make the public system more attractive; vi) the highest pension was kept at the current figure (\$1899); the Executive

⁵⁰ On the details of the changes introduced into the original bill, see Clarín, 05/07/93, pp. 2-3; 05/07/93, pp. 4-5.

⁵¹ According to Palermo (1995b) deputies representing the unions supported this modification and to some extent turned it into their "own" demand because they needed to justify their shift in position.

⁵² To effectively reverse this modification, Minister Cavallo used an indirect mechanism. Senators would present a project modifying the Income Tax Law, making contributions tax deductible. As a consequence, he expected around four million workers, who had never paid, to be incorporated into the new social security system.

⁵³ The PAP is a special benefit conceded to those who decide to stay in the distribution (public) regime, instead of switching to the capitalization (private) regime.

was unable to lower or annul it; vii) those on the verge of retirement could do so within a period of 60 days (not the day after the promulgation, as the original project suggested).

This format greatly modified the conditions in the original reform project and thus obviously pleased neither Minister Cavallo nor the private AFJPs being formed.⁵⁴ The bill was sent to the Senate for consideration. In the Executive's view, two possibilities and two different strategies surfaced. One, a quick approval by the Senators, after it had been passed by the Deputies. Two, a detailed analysis from all angles in order to introduce changes. In the first case, Cavallo hoped to implement private social security as soon as possible and prevent new modifications (which would have meant sending the project back to the Chamber of Deputies). Changes could later be introduced by decrees or complementary laws. In the second option, he hoped that the Peronists would respect party discipline and that the Senate would eliminate or change the modifications introduced by the deputies.

Meanwhile, the policy network had already expanded considerably into the private sphere. More than 100 potential domestic and foreign investors showed interest, these being several economic groups, public and private banks, corporate associations related to rural and industrial activities, unions, and provincial states. Around 30 of them, mainly led by the banks, soon started negotiations to assess the possibility of forming AFJPs and to study the prospects of the activity. They were encouraged by the Chilean experience where the rate of return of the business proved to be extremely high.⁵⁵ However, they all questioned the modifications and even threatened to halt their investment plans.

⁵⁴ On the objections made by the banks and also by potential Chilean investors, see *La Nación*, 05/07/93, p. 8; *Ambito Financiero*, 07/06/93, p. 2.

⁵⁵ Towards the end of 1992, only 18 Chilean AFJPs moved investments for around US\$ 4.7 billion, an amount equivalent to about 14% of the Chilean GNP (estimated at US\$ 34.3 billion). Cf. *Clarín*, 03/18/93, p. 20.

In August 1993, contrary to Cavallo's expectations, the privatization of the social security system met with another stalemate. The government was becoming increasingly concerned over the failure to resolve the retirement issue and how this might impact on the results of the October elections. However, as will be explained below, the senators' resistance to the Executive's pressures made it very difficult to pass the project.

On the one hand, Minister Cavallo insisted on its approval as soon as possible. From his point of view, this privatization, together with the labor reform, was essential to decreasing industrial costs --one of the standard measures an adjustment program uses to encourage the private sector development. It would also serve to attract long-term investments and to liquify the deficit in the *Cajas*. This, in fact, summarizes the government's motivation to push the reform: to improve the fiscal situation and to favor the development of a private capital market. This last point obviously coincided with the entrepreneurs' interests. It well illustrates the convergence of public and private interests and their tacit agreement on the distribution of costs and benefits of the reform. Therefore, using this common objective as argument, Cavallo appealed to businessmen and bank representatives to lobby in Congress. He argued in favor of a "practical" approach. He urged them to desist from their demands which would send the project back to the Chamber of Deputies and delay it further; instead, changes could later be introduced with the regulation of the law.

Regarding the business sector's participation, Schulthess pointed out that this sector, especially the UIA, had always supported the initiative and had always called for a rapid implementation of the reform. They also expressed some doubts about the content and lobbied intensely in Congress and in the mass media. Once passed, it had an important impact on the international sphere.⁵⁶ As had happened in all

⁵⁶ Interview with Walter Schulthess, Buenos Aires, 01/31/96.

other cases of privatization, the construction and maintenance of political credibility was an important aspect of policy implementation.

Mauricio Barassi (a reform team member) and Horacio Canestri (president of the AFJP's Chamber) agreed that modifications in the original project did not genuinely affect its substance. Although businessmen probably sought more benefits, those changes did not undermine their interests and the reform was nevertheless very good business. The same sources also acknowledged that the business sector's claim about legal security was largely rhetorica, specially the domestic entrepreneurs' who were used to dealing with a considerable degree of uncertainty. They perceived the use of the decree and veto mechanisms to be a minor issue.⁵⁷ In Schulthess' view, legal security was not truly at stake since "any law can be modified by another" and that would not cause entrepreneurs any trouble because "all the modifications introduced tended to facilitate their business".⁵⁸

On the other hand, it took some time for the Senate to reach the necessary quorum to address the issue. Some members of the official block did not agree with the reform⁵⁹ and so they continued to demand a commitment on the part of the Executive not to veto or modify the law in the future. The interactions again centered at the top of the network, at the presidency. According to Schulthess, Menem's role was crucial in the Peronist block's final alignment, which led to the approval of the law. From the start, the President was fully convinced of the need to reform the social security system. His strategy was to "let the

⁵⁷ Interview with Horacio Canestri, Buenos Aires, 01/15/96, and with Mauricio Barassi, Buenos Aires, 02/20/96.

⁵⁸ Interview with Walter Shulthess, Buenos Aires, 01/31/96.

⁵⁹ One of them was an important party leader, Senator Oraldo Britos. He had said, "As a Peronist, I cannot endorse this law." However, Menem intervened to accelerate the process and convoked Britos to a personal meeting. Responding to party discipline, Britos agreed to step aside in order to pave the way for the reform. Cf. Clarín, 08/27/93, p. 25; 09/22/93, p. 20.

legislators do it until they got tired [and] it was he who settled the question."⁶⁰

Some other legislators were, in fact, more concerned with the ongoing political debate over a constitutional reform that would allow President Menem to run for a second term. In early September 1993, four months after the law received half-approval in the Chamber of Deputies, the Senate's commissions produced a bill which did not differ substantially from that of the Deputies'.⁶¹ Indeed, the crucial article about the public guarantee on the rate of return and the free exchange risk insurance on contributions collected by the Banco Nación AFJP was maintained. Some major aspects of the future system, such as the self-employed workers' regime and the pre-affiliation and affiliation-choice mechanisms, were left to be determined by a regulatory decree.

Despite the opposition of the Radicals and a few provincial party blocks, the Senate finally approved the reform on September 22, 1993 by a very narrow margin (Law # 24.241). It took fifteen months of parliamentary debate. From then on new discussions about the modifications evidenced that the approval of a law was, to a certain extent, a mere formality.

The legislators were reluctant to accept a veto of the clause that had turned around the vote of the union representatives or a regulatory decree that would contradict the spirit of the law. The Minister of Economy had a hard time persuading Congress and even some members of the Cabinet to pass another law that would modify the recently approved one.⁶² He also reconvened the *Consejo Nacional Económico* in order to discuss the social security system reform. He suggested the possibility of reducing employers' contributions and urged the *Consejo* lobby in favor of modifications in the law. This intentional shift of

⁶⁰ Interview with Walter Shulthess, Buenos Aires, 01/31/96.

⁶¹ See Clarín, 09/23/93, pp. 2-3; 09/24/93, p. 22.

⁶² See Clarín, 10/12/93, p. 17.

interactions from an institutional arena to another is perhaps the clearest manifestation of the use of the policy network itself as a tool to increase policy viability.

On this occasion, President Menem eluded taking an open part in the dispute. This can be interpreted as another effect of the extension of the policy network and the meshing of the issue with other policy-areas. The President ratified his support of Cavallo's initiatives but also advised him that the issue should not generate further trouble in the Executive-Legislative relationship that might affect his reelection plans.⁶³ This shows how the Executive's priorities changed over time. After some years in office, and once monetary stability had been attained, economic affairs had lost their sense of urgency and other issues (e.g., the possibility of staying in power) became more important.

Besides Cavallo's actions, the Executive approached the reversal of Congress's modifications by both gradually regulating and modifying the law. It was promulgated by the Executive in mid-October and the partial presidential veto affected only formal aspects. At the same time, a new project revoking Article # 40 was elaborated and sent to the Senate. The fact that it entered Congress *via* the Senate was not by chance. The new bill was expected to be sent and treated by the Chamber of Deputies towards the end of the year, once that Chamber had renewed half of its members and opposition was weaker.

In the meantime, Minister Cavallo won another inter-government dispute and strengthened his control over the reform process by appointing one of his collaborators (Felipe Murolo) as president of the *Superintendencia de AFJPs* (SAFJP). This is another manifestation of the personalized and discretionary mechanisms that still prevailed in this network. Cavallo's actions continued to respond to the business sector's interests and demands. For example, some of the controversies arising in

⁶³ On the details, see Clarín, 10/12/93, p.17; 10/13/93, pp. 20-21; 10/14/93, pp. 22-23; 10/16/93, p. 19.

this new phase of the reform resulted from the first SAFJP's decisions that regulated the AFJPs' activities. For instance, AFJPs were forbidden to advertise until they had been officially authorized to operate. That was scheduled for May 1994; thus, the period of affiliation became very short.⁶⁴ In fact, towards the end of 1993 around 20 AFJPs⁶⁵ were ready to launch their affiliation campaigns. It was a competition that sparked a very promising business. To target a potential market of approximately five million contributors, the AFJPs were required to invest around US\$5 million and an additional amount on equipment. They could charge

⁶⁴ See Clarín, 01/24/94, pp. 14-16; La Nación, 01/28/94, p. 6.

⁶⁵ There were many comings and goings among possible investors trying to form AFJPs. By April 1994, investors had formed the following AFJPs (Cf. Negocios: "Quién es quién en las AFJP", November 1993, pp. 36-44; La Nación, 04/24/94, p. 15; Ambito Financiero, 09/20/93, p. 6; Mercado, February 1994, pp. 14-28; Apertura, Informe Especial: "El Megabusiness de las AFJP", May 1994, pp. 57-82):

- Activa: Banco Mariva, Habitat, Banco Mercantil, Jupenhold, Nat. Netherland Group;
- Anticipar: Acindar, Banco Medefin, Banco Holandés, Bandmédica, Banco Ciudad, Cargill y Seguros Paraná;
- Arauca Bit: OSDE, Banco Interfinanzas, and others;
- Claridad: Cenit Seguros, Banco Social Pcia. de Córdoba, Emarsa S.A., UOCRA, Fatsa, ITT, and others;
- Consolidar: Bancos Galicia, Francés, Crédito Argentino;
- Fecunda: Bancos de Mendoza, de Previsión Social, San Juan y Caudal, Metro Inv., Inversiones y Desarrollo, and others;
- Futura: Banco UNB and several unions (Luz y Fuerza, Seguros, Sanidad, Smata, Obreros y Empleados Municipales);
- Generar: Banco Sudameris, Seguros Generali;
- Jacarandá: Seguros Rivadavia, Bamerindus Seguros, Bancos Austral, Buen Ayre;
- Liderar: Bancos Exprinter, Indosuez, Bisel, Seguros La Segunda, Mañana;
- Máxima: Bancos Roberts, Deutsche, Quilmes, La Buenos Aires Seguros, Docthos;
- Nación: Banco Nación, Fundación C. Pellegrini;
- Orígenes: Bancos Pcia. de Buenos Aires, Santander, Metropolitan Life.
- Previnter: Bancos Boston, del Sud, American International Group;
- Prorenta: Banco Federal, Cenit Seguros de Retiro and other provincial banks;
- Previsol: Bancos cooperativos, Compañías de seguros, and CNP Assurances;
- San José: Apen S.A. and several unions (Utedyc, Mudynda, Utgra, Faticypp, Upsra, Uti, and others);
- Savia: Banque Paribas, Sudamérica Seguros, and others;
- Siembra: Bancos Río, Citibank;
- Unidos: Sancor Coop. y Asoc., Mutual Sancor.

commissions of between 1% and 3% on each contributor's salary, the average monthly salary being \$550. It was estimated that the new social security system would move around US\$3.5 billion yearly, would provide employment for 15,000 persons, and would yield benefits in six years.⁶⁶

VIII. 7.- Initial Developments of a Mixed System

From January 1 until June 30, 1994 workers had to decide whether they preferred to stay in the public regime or to switch to the private one. They had to inform their employer of their decision, or else they would automatically be affiliated to the private AFJP that had gathered most affiliations within that office or enterprise. Once they had registered in the private regime, they could not return to the public one; yet, the reverse was possible.

As was mentioned above, some other aspects of the regulations generated controversies and tough competition. For example, according to an SAFJP resolution, AFJPs were not allowed to use the name of their group members to attract future affiliates. What is more, they could not use slogans offering either the best service or the best rate of return because they had no previous performance to show. So, marketing strategies gave priority to individual interviews, personal mailing lists, and the use of all banks, insurance companies, union headquarters, and any other agencies' branches of the group members to subtly promote the AFJP they formed.

⁶⁶ See *Negocios*, Buenos Aires, November 1993, pp. 36-44; also *Página 12*, 01/29/94, p. 6.

Now, when the competition was fully launched, some aspects of the new social security system were defined along the way. Procedures did not always follow the rules and new sources of dispute arose. In reference to this Barassi remarked that the give-and-take between Congress and the Executive just before the law had been approved produced many rushed changes. Given the complexity of the issue, this made a careful adaptation of norms difficult and complicated the reform implementation.⁶⁷

First, the Secretariat of Social Security published a bulletin explaining the characteristics of the new system and the workers' options. The fact that it omitted several details, misinformed the workers, and biased the reader in favor of the capitalization system generated a public dispute.⁶⁸ Some deputies even presented lawsuits against the publication. The Ministry of Labor staff admitted to some errors and Secretary Schulthess decided to withdraw three million bulletins from circulation. He argued that the problem was a lack of up-to-date information since changes introduced into the reform content had not been included in the publication.⁶⁹ Nevertheless, the dispute continued because these bulletins were the only source of official information and the decision was taken precisely when workers had to opt. It was also at that time that surveys indicated that one-third of the population did not know about the new system and most of those who did had not yet taken any decision.⁷⁰

⁶⁷ Interview with Mauricio Barassi, Buenos Aires, 02/20/96.

⁶⁸ As a matter of fact, this was not the only method the government used to bias choices. Minister Cavallo and President Menem himself made clear statements recommending the private social security system. In the context of the developments being described here, it is plausible that their attitude was motivated, once again, by the intention to send signals to the business sector about the government's commitment to the reform and to the establishment of a framework of action that favored the interests of the economic groups. Cf. Clarín, 05/05/94, p. 22; Página 12, 05/25/94, p. 10.

⁶⁹ See Clarín, 05/14/94, pp. 20-21.

⁷⁰ Cf. Clarín, 05/14/94, pp. 20-21; 05/15/94, p. 20.

Second, apparently because the first months' level of affiliation with AFJPs was still low, the AFJPs themselves urged that some changes be made in the social security law. In particular, they suggested that the affiliation from one regime to another be a two-way process. In other words, once affiliated to the capitalization/private regime, a worker had one opportunity (until July 15, 1996) to return to the distribution/public system. They thought this flexibilization would capture more affiliations during the first stages.⁷¹ The CGT also supported the initiative. The idea was taken up by some Peronist senators and deputies and finally embodied into a regulatory decree (# 816) signed by the Executive in late May, 1994.⁷²

Third, the above modification was only one of several contained in some ten parliamentary bills concerning the reform of Law # 24.241.⁷³ By the end of May 1994, the discussions revolved around the reform of 22 of the 194 articles in the social security law. This shows that the consensus leading to the approval of the law was quite narrow and the existence of a norm was perceived as a mere formal framework. The main sources of discrepancy were: a) the change in the calculation of the benefits to be provided by the state; b) the possibility of working beyond retirement age without losing one's pension; c) the amelioration of penal sanctions and even being cleared of some crimes for AFJPs that misused contributors' funds or did not deliver the benefits accorded; and d) the legal ratification of the presidential decree that had revoked Article # 40 which publicly guaranteed pension funds (see below).

Fourth, as had happened in other cases of privatization, regulations were very relaxed and often worked in favor of the private sector. One example was the crisis within the SAFJP in mid-May 1994.

⁷¹ See the interview with the president of the Chamber of AFJPs at that time, *La Nación*, 05/20/94, p. 9.

⁷² See *Página 12*, 05/25/94, p. 10.

⁷³ See *La Nación*, 05/17/94, p. 4; *Clarín*, 05/30/94, p. 21.

Three of the president's closest advisors⁷⁴ resigned within short time. They argued that the institution was working inefficiently and subject to political claims (e.g., responding to the Ministry of Economy's discretionary indications) rather than performing its main task to closely supervise the AFJPs' action.⁷⁵ There had been several denunciations against AFJPs which had not complied with the SAFJP's rules, but no sanctions had been applied. Top officials, including the Minister of Labor, downplayed the charges and explained away the SAFJP's crisis as a question of internal restructuring. The AFJPs' representatives also supported Murolo's administration.⁷⁶

Fifth, the discussions over Article # 40 continued for some months. When affiliations opened in May 1994, the legislators had not yet passed the bill modifying this norm. Consequently, there was a strong probability that the AFJP Nación would concentrate most of the affiliations. In response to complaints by the other AFJPs, the Executive once again made use of the concentration of power. It resorted to the decree mechanism and modified the article through a *Decreto de Necesidad y Urgencia* # 660/94 signed by President Menem on May 3, 1994. The dollar guarantee was eliminated while the guarantee of a minimum rate of return that was equivalent to the interest rate paid on savings deposits was upheld.⁷⁷

Obviously, the decision pleased the AFJPs but was not well met in Congress.⁷⁸ At the last minute senators decided to address the treatment of the bill, but the Peronist block was able to control party discipline and impose its position by putting off the debate. The matter was

⁷⁴ They were Oscar Rabinovich, Horacio Kruger (both Associate Superintendents), and Jorge Rachid (in charge of the health coverage within the new social security system).

⁷⁵ Cf. *La Nación*, 05/12/94, p. 8; 05/13/94, p. 9.

⁷⁶ Cf. *La Nación*, 05/14/94, p. 7.

⁷⁷ See *Clarín*, 05/04/94, pp. 18-19.

⁷⁸ See *Clarín*, 05/05/94, pp. 22-23; *La Nación*, 05/04/94, pp. 7-8.

postponed once again. The other Chamber was irate; the measure meant that the Executive had chosen to ignore the fact that it had pledged its word. Deputies used tough terms in rejection of the decree and continued to work on a new project that would preserve the spirit of the norm. However, the opposition wing within that Chamber had apparently lost force and could not impose its position.

Other objections were made on the grounds that the decree mechanism was unconstitutional. Contributors who were already affiliated to the AFJP Nación had been deceived and had acquired rights that entitled them to certain benefits, i.e., the ones established by the original law. However, Minister Cavallo justified the use of the decree mechanism as part of the Executive's powers. He argued that it was supported by Argentine legislation and would work, paradoxically, as a means "to generate certainty" among workers. It was said to be a way to establish a norm and not to promote false expectations. In his view, legal rights could be acquired only after July 15, 1994, when the social security system was fully in force.⁷⁹

Sixth, in late June 1994, in the midst of all these controversies, Congress approved the above modifications. It extended the deadline 90 days more so workers could choose between the distribution and the capitalization regimes.⁸⁰ This last clause was negotiated as a "compromise formula" with official legislators who opposed the reform in order to reach a majority. Minister Cavallo publicly admitted to this, saying that it was only a trick to get legislators' hopes up. According to his interpretation, it meant no change at all.⁸¹ The episode is a

⁷⁹ Cf. La Nación, 05/04/94, p. 7.

⁸⁰ See La Nación, 06/17/94, p. 8.

⁸¹ Despite the extension, those who did not choose before July 1 would automatically be affiliated to the capitalization regime and those who had not chosen any AFJP would be affiliated to the one that had most affiliations. Both clauses were already included in the original law. The difference is that under Law 24.241 undecided workers would be affiliated to an AFJP and had to wait six months before changing to another. The new norm allowed them to change twice during a 90-day

clear illustration of his awareness of the prevalence of discretionary decision-making mechanisms and his use of them.

On this issue, the AFJPs which had received few affiliations criticized the original criteria, saying it would benefit those who had concentrated the most affiliations. They lobbied for an extension in order to gain time to improve their performance. The latter claimed that modifications created uncertainty and confusion and undermined investors' confidence in the country. What was actually at stake were monthly commissions of around US\$60 million.⁸²

Further manifestations claimed that the government was acting in consonance with the AFJPs' interests and demands. Minister Cavallo's comments (see point sixth) raised so many criticisms that he had to retract. He could not count on a decree because the Executive had promised not to use its veto power and President Menem was avoiding conflicts with the Legislature in an effort to gain support for the constitutional reform. Thus, Minister Cavallo had to modify his original position and accept the legislators' suggestion to register undecided workers in the Banco Nación AFJP for 90 days. After that time, those who had not yet chosen would be affiliated to the AFJP which concentrated most affiliations in each enterprise or institution. This modification was finally embodied in regulatory Decree # 1012 and signed by the Executive in late June 1994. Face with the AFJPs' demands, Minister Cavallo gave instructions to the Banco Nación's president to consult with the AFJPs' representatives on the implementation of this regulation and thereby not favor the Banco Nación AFJP.⁸³

Finally, in late 1994 the financial situation of the public social security system was chaotic. The deficit amounted to \$1 billion a year.

period following July 1. Cf. Página 12, 06/24/94, pp. 2-3; La Nación, 06/25/94, p. 9.

⁸² Cf. Página 12, 06/18/94, p. 5; 06/24/94, pp. 2-3; 06/28/94, p. 8.

⁸³ Cf. La Nación, 06/29/94, p. 9.

Over two million pensioners were receiving monthly pensions of less than \$250.⁸⁴ In addition, numerous sentences in favor of the the passive sector were issued, exerting more pressure on national accounts and leading the state into further debt. Therefore, Minister Cavallo pushed for a modification in the national budget for that year so as to confront the cost of those sentences. He also presented a project to: a) stop the legal claims by modifying the judges' interpretation of social security laws; b) grant him extraordinary decision-making powers to adapt norms to fiscal urgencies without prior congressional approval; and c) set limits on pension increases.⁸⁵

The initiative raised new disputes between the Executive and the Legislature, specially because legislators were unwilling to concede the so-called "super-powers" (extraordinary decision-making powers) to Cavallo. In fact, nobody within the political wing of the government was. Though Cavallo again resorted to personal contacts by sending his speakers to the Chambers⁸⁶ in order to accelerate the bill's approval, negotiations within the official block and between Peronists and Radicals were long and hard.⁸⁷

However, the law was finally passed in March 1995, establishing two key norms: i) the national state guaranteed payment of social security benefits up to the amount of resources apportioned by the annual national budget, and the maximum benefit was fixed at \$3100; ii) legal instances and proceedings for social security lawsuits were modified so as to limit the judges' sphere of action and avoid a

⁸⁴ 35% of that population (around 850,000 persons) received less than \$ 150. Cf. Clarín, 10/29/94.

⁸⁵ See Clarín, 10/18/94, pp. 20-21; 10/28/94, pp. 2-3; 10/29/94, pp. 2-3.

⁸⁶ Secretary Schulthess, José Luis Tagliaferri (chief of advisors at the Ministry of Economy), Armando Caro Figueroa (Minister of Labor), Eduardo Bauzá (Secretary of the Presidency), and Cavallo himself took part in the negotiations.

⁸⁷ See Clarín, 11/02/94, pp. 2-5; 11/03/94, pp. 6-7; 12/09/94, p. 23; 02/09/95, pp. 2-3; 02/10/95, p. 8.

worsening of the fiscal balance by court decisions.⁸⁸ In this way, all other adjustment mechanisms on the level of benefits were repealed, as well as the principles that had characterized the public social security system for decades --solidarity and proportionality that linked the salaries of active workers to pensions. Social purpose was subjected to economic goals.

Conclusions

This case shows the end result of a process of policy adaptation over time. It corresponds to one of the latest privatizations carried out during the second stage of the program. By then, the politico-economic context within which the privatization policy developed had changed considerably. Various reforms had already produced important transformations; others were in their early stages; and some others had not yet been initiated. However, the reformist orientation of the economic policy was beyond question. In addition, there was a rearrangement process of political forces (between and within parties).

In this context, the Executive promoted a new strategy: a) having a previous policy design of the reform at hand; and b) to submitting it to the consideration of other actors. This, together with particular characteristics of the issue-area itself (e.g., the involvement of many sub-issues) produced a horizontal expansion of the base of the pyramidal policy network.

⁸⁸ See Clarín, 11/02/94, p. 8; 02/16/95, pp. 2-3.

Consequently, technicians designing the reform project acquired a relevant role within the policy network --a feature that had not been present in the previous two cases. Also, the design clearly established the agenda for discussion and negotiation. The submission of the reform initiative to public discussion had two main consequences: a) a delay in the implementation phase; b) the modification of some points of the original project.

Although the debate did open the door to the voicing of opposition and did make negotiations more difficult, policy content was not altered substantially. What is more, whenever important modifications were introduced, they were later reversed or annulled by Executive actions. Several factors influenced these actions. The characteristics of the social security network (especially, the active role assumed by Congress); the nature of the issue (i.e., its social content); and the need to avoid a conflict with Congress in order to make this reform compatible with other policy goals (e.g., reelection, labor reform) led the Executive to temporarily postpone the use of extraordinary mechanisms of policy making (e.g., the decree and veto power). However, like other privatization cases, highly discretionary and personalized decision-making instruments continued to have an important bearing on policy outcomes.

Thus, the degree of success in policy implementation in this case was determined by the adaptation of the Executive's policy style and policy-making mechanisms. This adaptation served to reach an equilibrium between two trends --governing by imposition and governing by consensus-- which enable the Executive to achieve its goals.

Chapter IX

Conclusions

IX.1.- Successful Implementation of Economic Adjustment

The successful management of an economic structural adjustment process while consolidating democratic institutions has been the major challenge to emerging democracies in the last decade. The end result of these complex and interdependent processes is still uncertain in many countries. An assessment of the conditions that would help to consolidate changes in both the economic and political dimensions requires a close examination of specific historically grounded national contexts.

This work has researched the sources of successful economic policy implementation in the domestic and international politico-economic variables that shaped economic policy making in Argentina in the 1990s. The study points out the factors appearing in other national experiences as well as some variables which apply solely to the Argentine political system.

First of all, the findings signal the early 1990s as the turning point in the country's socio-economic history, a crossroads where long-term trends and specific junctures met and created the conditions for policy innovation. The existence of a deep economic crisis and, most importantly, the generalized perception of the seriousness of that crisis and the need to solve the chronic economic problems that had caused it, made a policy shift possible. In this respect, economic policy making in Argentina in the nineties well exemplified one of the axioms of institutionalism: institutional processes and structures tend to consolidate, persist, and resist change, while major crises serve to break with the past and establish of new settings.

Indeed, Peronism took office when the state-centered model in force for five decades had been totally exhausted and its replacement

was unavoidable. The fact that it was the Peronist party that won the 1989 elections, and not another, was a key factor that influenced the success of the economic policy implementation.

As some comparative studies suggest, the structure of the party system has an impact on the organization of either supporting or opposition coalitions, thus indirectly affecting the prospects of reforms.¹ However, little work has been done to link implementation problems to the specific features of political parties with an overwhelming presence in that system. For instance, it is useful to relate the efficacious implementation of reforms with patterns of political representation and leadership within the governing party, internal mechanisms of discipline, and the construction and evolution of party identity, together with the definition party members give to it.

This study has touched on some of these aspects. The historical record shows the crucial role Peronism played in forging the class alliance that established and consolidated society's and economy's state-centered organization, as well as the role the party now plays in their complete dismantling (see Chapter III). In 1989 the government faced a constraining context characterized by a deep economic crisis, which was clearly manifested in the state's lack of material resources and political capacities. Peronism pragmatically adapted to the new circumstances and produced a policy shift. This was partly possible because, like all other actors, it had undergone a transition over the last decades, and partly because of its own internal characteristics.

After a long series of internal confrontations and disarray, a new leadership emerged from the renovation process that the party had undergone in the second half of the 1980s. Just as Perón had favored the coexistence of opposite factions within the same loose party structure, so did Menem. Soon after becoming the electoral candidate, he disowned the *Renovadores's* institutionalist postulates and built his own line of support based on the traditional practices and ideas of the old

¹ See, for instance, Haggard and Webb (eds.), 1994.

political movement. So, in some respects, the Menemist administration shared common features with the Peronism of the 1940s.

Indeed, as was explained in Chapter IV, the policy style imposed by the current government also gave the party new features. It amalgamated old with new trends and articulated context, ideas, and power resources to produce a policy style that enabled it to confront the crisis and implement structural adjustment. From the point of view of a policy-making analysis, the combination of these three elements -- context, ideas, and power-- helps to explain the relative success in economic policy implementation of the last two democratic administrations.

Unlike the context of democratic transition under which Alfonsín governed, the context of economic emergency was particularly relevant in creating policy viability for the Menemist initiatives. Undoubtedly, the context of crisis represented a serious objective limitation to policy choice. Nevertheless, it also opened a window of opportunity for policy innovation because it had generated a sense of urgency and emergency that called for drastic solutions. Moreover, context became a policy instrument in itself since it provided content to the political discourse that justified the use of extraordinary policy-making mechanisms.

Again, in contrast to the Radical party, the Peronist ideology and party dynamics largely facilitated this policy shift and the creation of a justificatory discourse. Menemism could rely: on a loose party structure that traditionally amassed different (and even opposite) streams, on a pragmatic doctrine that enabled ideological changes, and on a particular understanding of political representation that conferred upon the leaders a great deal of autonomy and prevented internal indiscipline.

In addition, the technocratic economic team Menem appointed in 1991 differed from the group of economists Alfonsín selected in 1985. The former was fully committed to the neoliberal fundamentals promoted by the international financial agencies. It provided the technical

interpretation of the economic problems and of the appropriate solutions. As time passed, this had an important impact on the realm of ideas. As Gerchunoff and Torre argue, just in a few years the government altered the terms of the economic debate, making the tenets of the Convertibility Plan, that is, fiscal discipline and structural reforms, the focus of a generalized consensus that opposite political forces can hardly ignore or defy.² In fact, no alternative approaches to economic problems have been elaborated or discussed.

With respect to power resources, capacities to govern were increased during the Menemist administration through the discretionary use of some institutional mechanisms. The most important of these were: the centralization and concentration of decision-making power around few bureaucratic structures and individuals; the replacement of top bureaucratic cadres with like-minded technocrats and the conferral on them of a considerable degree of autonomy; the selective incorporation of key actors into the policy-making process; the by-passing of democratic deliberative mechanisms; the emptying of the republican division of powers of its real content and function; and, as was mentioned above, the conversion of the contextual limitations into a justificatory discourse of all these actions.

The importance of these mechanisms in creating viability for reforms becomes even more evident when one sees the micro level of policy implementation (see Chapters VI, VII, VIII). It is there where these elements proved to be crucial to facilitate the advancement of the reforms. In this sense, the Argentine experience seems to confirm one of the conclusions inferred by Williamson from several case-studies: "If external conditions create the opportunity for policy change, the internal conditions --those that pertain to the character and structure of the government itself-- are what make the changes viable".³

² See Gerchunoff and Torre, 1996, p. 24.

³ Cf. Williamson (ed.), 1994, p. 462.

Besides, compliance with the international financial agencies' policy prescriptions signified an additional source of external support. As in many other national experiences in developing countries, the acceptance of conditional lending facilitated the implementation of reforms. This international influence had a material dimension that was crucial to bankrupt and ill-equipped new democracies: it guaranteed them the necessary financial support and technical advice to carry out reforms. However, it also had a symbolic dimension since it helped to build credibility within the international business community and to legitimate the new economic orientation in the domestic sphere.

Personal attributes also mattered as power resources. President Menem and Minister Cavallo added individual characteristics and sources of support to the new administration's policy style. The combination of the two was a key factor in building a positive image for a Peronism whose policy orientation was always suspect and who could generate little credibility at home and abroad. In this aspect, the evidence confirms the rule for most cases of successful implementation of structural adjustment: the combination of power concentration in the Executive and a technocratic team that occupies key posts in the decision-making structure.⁴

In contrast to Alfonsín, Menem fully represented the pragmatic leader, free of dogmatic considerations, prone to embrace new trends, and eager to go down as the one to have changed history. He showed a certain disregard for *concertación* experiments and no reluctance to bypass democratic deliberative mechanisms in order to discipline social forces and his own political party. He also played his role of leader by combining the emotional and irrational elements of old-style Peronism with a new approach to the people and his uses of the mass media. His defiant attitude towards opponents, his inflexibility before resistance, and his ability to compromise with party members and other sectors prevented the formation of a counter-reform opposition.

⁴ On this point, see Williamson (ed.), 1994.

In addition, his use of ambiguous attitudes and of the "surprise factor" allowed him to gain time and take advantage of other actors' confusion. In fact, he managed to convert apparent ambiguity and contradictions into a successful strategy, the immediate effect of which was to confuse and paralyze the interlocutors. Giussani put it this way, "It has been said that Menem basically believes in "show-business politics". And this is, if not the whole truth, a good part of it. The limit between being his friends and his adversaries tends to be, at times, a question of enjoying or being bored with a show. The common denominator between the two groups lies in the fact that both believe they are witnessing a work of fiction".⁵ I would add with respect to the successful implementation of economic reforms that the only unambiguous meaning Menem transmitted was that nothing would deter him from his course.

On the other hand, Cavallo himself was a key piece in building the business sector's confidence and support. By the time he was appointed Minister of Economy he had elaborated a clear cut economic program and had formed a cohesive technocratic team. They backed his actions and reached an important degree of executive ability that facilitated reform implementation. Cavallo's personal reputation in the business circles and his management of a dominant economic discourse allowed him to achieve a considerable degree of autonomy from political power for at least four years. There is probably no other minister before him who was ever so autonomous, and this was precisely when the bulk of reforms were being implemented.

Now, it is important to remember that a structural adjustment program could not be applied during Alfonsín's mandate, because the articulation of context, ideas, and power resources worked against that initiative. Also, it took too long for institutions and men to incorporate it on the government agenda. Structural reforms never crystallized as the Radicals' main goal, and thus did not generate the

⁵ Giussani, 1990, pp. 11-12.

necessary political will and capacity to build a coalition of support and risk the costs of potential opposition.

On the contrary, structural reforms became economically and politically viable in the 1990s because Menemism rapidly translated a new convergence of public and private interests on the distribution of the reform's benefits and costs into policies. This convergence was the reflection of a new configuration of forces within society and a stronger pressure from international actors. The Menemist administration, aware of these changes and of the fact that its stability depended on generating confidence in its own orientation, rapidly adopted a pro-business approach that was clearly manifested in the content of the reforms.

In other words, the reformist process unveiled long-term changes in the domestic socio-economic structure. On the one hand, by the 1990s few economic groups had consolidated a hegemonic economic and political position and had increased their participation in and veto power over the economic policy-making process. On the other, the labor movement, following its loss of organizational and ideological cohesiveness, as well as its loss of a privileged position within the party structure, had to face a continuous deterioration of economic and working conditions. In addition, by the end of the 1980s the country's dependence on foreign economic and political support had significantly increased. The state's fiscal crisis made conditional lending a strong pressure instrument in the hands of international financial agencies.

Within this framework, the new administration had few policy options and little time to act. It had to offer a solution to the economic emergency. On this point, it was caught up in past experiences. Given the failures of previous attempts, the only option left was an orthodox economic program. And as the fate of the economic program and even of government itself was closely linked to convincing others of its real commitment to orthodoxy, the Executive "overacted" its conversion to the neoliberal principles.

Thus, the Menemist government used economic reforms not only as a means to produce deep changes in the organization of the economy, but also as a political tool to build a coalition of support. The privatization policy, which legitimated a new form of state protection of the economic activities of a hegemonic social stratum, is the perfect example.

In sum, there is no unicausal relationship that explains the achievement of success in policy implementation Menem's government attained. It is precisely the interplay of old and new organizational and institutional mechanisms, of economic and political variables, and of the international and domestic realms that established the parameters within which economic policy making developed and made structural adjustment viable in the 1990s. In this framework, the Menemist policy style could articulate context, ideas, and power resources and make them functional to the new configuration of forces within society and to the country's position in the international system.

IX.2.- Privatization as a Politico-Economic Tool

The implementation of the privatization program fully reflected the above structural configuration of forces and the distribution of costs and benefits established through economic reforms. In fact, privatization was one of the most important instruments used to symbolically and materially legitimate this situation.

Undoubtedly, the Argentine government followed a world-wide policy movement towards lesser state intervention in the economy and its withdrawal from social welfare functions. Since the late 1970s numerous

industrialized and less developed countries have been seeking to reduce fiscal deficits by diminishing public expenditures, privatizing public companies, and limiting state involvement in economic and social welfare activities. The neoliberal attack on the state has gained generalized acceptance and became a policy dogma, even in Latin America.

For many less developed countries, the privatization wave has also been closely linked to the debt problem since it was a way to raise funds to face fiscal problems and debt service, alleviating external pressures, and obtaining access to new financing. In the Argentine case, this did not become an alternative until the early 1990s. The two previous governments' privatization initiatives sharply contrast with that of the current administration. Menemism faced almost no effective opposition and rapidly carried out a very broad privatization program.

Therefore, international sources of policy have to be analyzed hand in hand with domestic ones. As was shown in Section V.1., recent privatizations in Argentina have had deep domestic roots. State involvement in the economy goes back at least one century and has increased steadily under all regimes. As in other countries, state expansion intensified in the postwar period, when both Keynesian and Latin American structuralist approaches recommended an active state role in the economy.

As a result, the Argentine public sector grew considerably and the state came to control key economic industrial sectors and services. Because of its role as one of the main sources of investment, it pushed economic growth and also shaped the productive profile of the economy. However, in the 1950s most public enterprises revealed signs of inefficiency, overly bureaucratic structures, balance-sheets showing a deficit, and declining productivity. To continue functioning, they represented a constant drain on the national treasury's financial resources. In addition, as in most developing countries, state-owned enterprises had become the hunting ground of bureaucratic agencies and a source of prebends for unions and the private sector, especially, for state providers. Consequently, the entire public administration acquired

very slow and complex dynamics and a reputation for incompetence and corruption.

Therefore, criticisms on state intervention arose from time to time. During the last four decades, partial attempts to privatize some public enterprises were made. Nationalizations and re-privatizations alternated. They were both part of a historical process driven by both public and private interests. This arose because state expansion in many economic sectors simultaneously fostered the development of public and private economic activities revolving around the state-centered structure. A local bourgeoisie emerged and grew out of state expansion.

In that way, a complex network of public-private economic relationships cutting across different economic sectors developed. In the political realm, these relationships were channelled through and served to reinforce the clientelistic and prebendary ties so typical of the local political system. Those successive waves of state intervention and partial withdrawal should, therefore, be understood not only as the direct result of governmental elites' preferences but also as a consequence of some private interests, strategies, and demands.

In other words, there was a point where public and private interests and objectives met, creating a mutual dependence. By the end of the 1980s, public enterprises were blamed for the excessively heavy burden they were on the fiscal accounts while delivering poor services. Once again, privatization appeared to be an initiative that could garner a general consensus. This time the state's fiscal crisis offered public and private actors no alternative. A bankrupt state was bad business for anyone. What actually happened under the Menemist administration was a redefinition --not the dismantling-- of the public-private sectors' relationship through privatizations.

Nevertheless, to become politically and economically viable this policy required a redistribution of costs and benefits among those actors who had vested interests in state activities. One of the obstacles to liberalization, deregulation, and privatization initiatives during the previous administrations had been the private sector's lack

of interest of the in acquiring state assets and its reluctance to lose protection and face open market competition. Another obstacle had been the difficulties of governmental elites to give priority to and carry out privatization plans. Under the Radical administration, the Executive never committed itself and did not design a coherent strategy for the state reform. And of course, opposition arose from various sectors.

However, as was analyzed in Section V.1., these previous experiences brought the issue to public debate, included it on the governmental agenda, and paved the way for further steps. So, in the 1990s privatizations could easily be framed for the public debate within a discourse that focused on the criticism of state past performance and the need for more efficient (market-oriented) means of resource allocation. The deepening of a serious economic crisis provided the "emergency" element that demanded a complete turnabout.

For the Peronist government, pressed by financial needs and credibility problems, privatization was an important economic and symbolic tool. That is why the first stage of the program was launched so soon after coming to office. It involved the privatization of large public enterprises, mainly related to the provision of public services. The process was extremely fast and plagued with irregular procedures. Fiscal urgencies and the need to send a clear signal to the business community of the government's commitment to the new economic orientation shaped timing and content of the policy. In other words, between 1989 and 1991 implementation of the privatization program was guided by the political goal of building credibility and by the economic goal of raising funds to achieve an equilibrium in the national accounts and service the foreign debt.

During the following four years, the second stage of privatizations developed. An important number of public enterprises and services were transferred to private hands. Financial urgencies continued to mark the rhythm and content of policy implementation. However, as monetary stabilization consolidated and corruption scandals associated with reforms proliferated, the government intentionally tried to follow clear procedures, to establish regulatory frameworks, and to

obtain the congressional approval before proceeding with the bids. Nevertheless, at some points speed also mattered because revenues from the sale of public assets were used to balance national accounts and because concrete achievements could strengthen the economic plan and the government's position at home and abroad.

One of the consequences of these government urgencies was that the prior restructuring of public enterprises was carried out in only a very few cases. In fact, the first stage had to proceed as fast as possible. The Executive's direct delegates were appointed to handle the tenders. Decisions were concentrated to a limited number of bureaucratic structures. This helped to modify at discretion the conditions of the bids when the demands of future owners so required it. Processes of internal restructuring developed only in those cases where it was necessary to assure enterprises profitability or make them attractive to private investors.

To a certain extent, these procedures were a clear manifestation of the "overacting" strategy mentioned in the previous section. They were related to the government's objectives. Despite the fact that the rationale for privatizing was publicly framed in the fashionable neoliberal arguments, the Menemist administration clearly sought two main goals: one, to carry out a deep fiscal adjustment in order to reduce both public expenditures and deficit and to service the foreign debt; two, to send an unequivocal message to domestic and international actors about the chosen path and the new role of the state in the reformed economy.

For the economic elite the privatization policy was a means to consolidate a power position. Within the capitalist sector, the economic impact of privatizations accentuated the trend towards a concentration of wealth in a few domestic economic groups initiated two decades before. A small number of holdings (in association with foreign companies and creditor banks) participated and were awardees in most tenders. As was explained in Section V.5., the conditions and regulations established and the economic groups' strategies contributed to reinforcing this trend.

For unions in general, however, privatization meant the loss of important sources of resources and political leverage. They could no longer rely on the state for subsidies and prebends. During the implementation phase, massive dismissals, replacement of combative leaders, cooptation of like-minded leaders, renegotiation of collective bargaining agreements, intimidation, and neglect for unions' own privatization proposals were frequent practices to discipline the labor sector. Nevertheless, the impact of the process varies across different sectors. Some unions benefited from participating in the privatization process and even became owners of some of the firms' shares through the Participatory Property Programs mechanism or became managers of the privatized services.

From a policy analysis perspective, some points stand out. First, privatization was the result of initiatives by governmental elites. In this respect, the Argentine case follows a global pattern.

Second, unlike other national experiences, the privatization program adopted an integral and nongradual path. It involved the sale of almost all public shares. The possibility of keeping a part in public hands --or a golden share, like the British experience⁶-- was not an important concern to policy makers. The bulk of privatizations were swiftly carried out within a few years' time.

Third, an all-comprehensive policy design did not exist, partly because of the lack of technical and administrative capacities and knowledge. Each case acquired its own particularities since policy implementation and content was defined along the way through the interactions between actors.

Fourth, future investors intensely participated in the policy-making process through informal and nonstandardized procedures. This facilitated the construction of economic policy viability, which was

⁶ See Suleiman, Ezra N.: "The Politics of Privatization in Britain and France", in Suleiman and Waterbury (eds.), 1990, pp. 113-136.

basically attained by adapting the policy to the interests and demands of potential investors.

Fifth, the lack of state capacities was compensated for by the use of extraordinary policy-making mechanisms and procedures that facilitated implementation. They were crucial in building the technical viability of the policy, but they also allowed the Menemist administration to either overcome or circumvent opposition and to accelerate the process.

Sixth, the high concentration of decision-making power made personalized and highly discretionary mechanisms prevail over rational or economic efficiency calculations; it also complicated negotiations and increased uncertainty because decisions were often subjected to narrow disputes between officials. Typically, the President played a hegemonic role as mediator, arbiter, and final judge. In addition, frequent changes and the high level of corruption within bureaucratic structures, as well as officials' lack of skills and knowledge also provoked delays, confusion, and uncertainty.

Seventh, disputes within the governmental circles had two main sources: one, the absence of policy design, which generated serious dissent over what steps to take; two, the definition of power shares among officials, that is, of their control over policy content and implementation.

Eighth, over the years there was a policy adaptation process. As was explained in Section V.2., the second stage of privatization revealed the redefinition of the government's goals and modus operandi. Three main facts influenced this change: one, the evolution of its relationship with other actors; two, the intersection of the privatization policy with other policies; and three, the development and impact of the entire adjustment and reform program.

Ninth, a general policy network developed around the privatization issue can be identified. It was characterized by the existence of few and dense decision-making nuclei where key individuals and agencies determined the rhythm and content of many aspects of policy

implementation. This pyramidal network expanded in different ways according to the characteristics of the issue-areas, the number of participants, and the permanence of the web over time. However, it always reflected the interaction patterns that characterized the policy-making process: a high level of discretion, concentration of power, personalism, informal and nonstructured contacts.

Finally, such interaction patterns facilitated the redistribution of costs and benefits. Undoubtedly, macro structural conditions mattered. The complete breakdown of the state-centered socio-economic model --clearly reflected in the fiscal crisis of the state-- altered the matrix of preferences and options for all actors so as to make the sale of public enterprises an economically and politically viable option. Yet, once again, the state has played the double role of "policy subject" (the actor in charge of initiating and carrying out, in this case, privatization) and "policy object" (the spoils of a struggle for the redistribution of national wealth).

In that sense, there was a new point of confluence for public and private interests in the 1990s. This time, the new rules of the game agreed upon during the implementation process, that is, the new balance between the public and the private, put into practice a new kind of state protection of the economic activities of a small social stratum.

IX.3.- Policy Networks across Issue-Areas

The process of policy implementation can also be analyzed across three case-studies. The first case related the process of granting the telephone service through the privatization of the national telephone

company. The second referred to the sale of the national oil company's shares and the transfer of most oil exploitation and commercialization activities to private managers. The third one focused on the reform of the national social security system and its transformation into a mixed system.

The insights drawn from them served to illustrate the decision-making and policy-making processes in three concrete areas where privatization was carried out. From the examination of the micro level process of policy implementation, the interaction between actors and the factors that shaped their perceptions were identified. These interactions gave rise to three different policy networks. One, a relatively small, close, highly centralized and "personalized" policy network in the telecommunications sector. Two, an extended "organizational" one with respect to the number of actors, the channelling of interests and demands, and duration of interactions over time, in the reform process of the social security system. Three, an intermediate "hybrid" policy network that shares characteristics with the other two, in the oil sector.

The national telephone company, ENTel, was one of the first two privatizations defined by the government as "leading" cases in 1989. It was the paradigm of a measure taken by a government who came to power with no credibility and made a virtue out of necessity. The symbolic and instrumental character of this privatization clearly shaped policy outcomes. Indeed, to build credibility the government largely responded to the interests and demands of domestic and foreign private actors (i.e., large economic groups, creditor banks, international financial agencies, other governments).

Speed and executive ability were achieved first, at the expense of the transaction conditions and future economic profits. The tender specifications were constantly modified in order to overcome obstacles and attract potential investors (see details in Chapter VI). Secondly, speed and executive ability were also achieved by granting some individuals a great deal of autonomy (e.g., ENTel's *interventora*, some ministers). A web of mainly informal and personalized interactions

formed around them. That is why it was called here a "personalized" policy network. It was relatively small in comparison to those in the other two cases.

This network revolved around two main nuclei: the President and the reform team led by the *interventora*. These nuclei centralized the negotiations that took place between officials within the bureaucratic structures, between the government and external actors, and in the realm of domestic politics (e.g., between the government and local business groups and the telephone union). At the top of this relatively small pyramidal network was the President who, as hegemonic actor in the policy-making process, convalidated the highly discretionary practices that characterized those interactions.

Thus, this policy network shows the prevalence of political culture variables such as the high degree of concentration in decision-making power, vertical channels of authority, and personalized and discretionary policy-formation mechanisms. In this way, general assumptions about structural conditions and the broader policy-making process already described at the macro level of analysis could be tested. This is the issue-area where congruence between policy style at the macro and micro levels of the decision-making structure is most evident. This congruence is the main factor that explains the success of policy implementation in this case.

The privatization of YPF, the national oil company, and several oil-related activities does not completely fit in with either the first or the second privatization stage. It occurred simultaneously with both of the other two cases. The kind of policy network arising in this issue-area shares elements with the other two. For this reason it was labelled intermediate or hybrid.

This network had an important component of personalized and discretionary procedures and a vertical dynamics that ended at the top in the President. As is mentioned above, these characteristics were also present in the telecommunications issue-area. Nonetheless, the oil policy network had some specific characteristics that placed it closer

to the social security one. These were: a) this privatization comprised several economic activities and thus generated a number of technical projects that were negotiated and unified during the implementation phase; b) the government sought congressional approval; c) as a result of a) and b), the network included a relatively large number of participants and issues. This expansion implied the incorporation of several actors into the policy-making process (especially, business representatives) and the formation of new circuits of interactions (e.g., between officials from various bureaucratic agencies, national and provincial powers, different business organizations, many operating banks, local and foreign technical advisors.) (See details in Chapter VII.)

The hybrid character of the policy network that developed in the oil sector is a good illustration of an incipient process of policy adaptation over time. This adaptation resulted from both the particular characteristics of the issue-area and the Executive's strategy. On launching YPF's privatization the government was trying to make the privatization process more orderly and transparent --a concern that was absent in the ENTEL case. The time accorded to the discussion of several proposals and the formal incorporation of technical advice were in line with this attempt. Also, Congress started to play a more relevant role as it consolidated in the third case and had important effects on policy outcomes. It opened several circuits of interactions, negotiations became more complex, and policy content was altered because legislators introduced some modifications into the Executive's bill.

However, to a large extent credibility and financial problems continued to mark the path and content of economic reforms. Therefore, discretion and personalism appeared to have been ameliorated in this case by the search for congressional approval and the active participation of corporate actors in the policy implementation. Nonetheless, several concrete aspects of the process still remained in the hands of some individuals and their unilateral decisions (e.g., the Minister of Economy, the *interventor*).

Consequently, this case shows the beginning of a policy adaptation process in the sense that policy making began to move from an extremely personalized network (ENTel's) towards the most organizational one (that of the social security area). In between, we find the intermediate hybrid policy network in the oil sector. The degree of success in policy implementation was determined in this case by the progressive adaptation of policy-making mechanisms to the slower and more complex dynamic of this hybrid policy network.

The reform of the national social security system is one of the most recent privatizations which concluded within the second stage of the program. It was implemented at a moment when the politico-economic context that marked Menemism's arrival to power had already changed. The economic emergency had become more manageable under the Convertibility plan and reforms were producing important changes. Political forces were also reaccommodating and disputing power shares.

Within this framework the Executive adopted a new strategy: to have a policy design prior to implementation, and to submit it to discussion with the other actors involved, including Congress. This, together with the fact that the reform concerned many issues, produced a considerable expansion in the policy network. A large number of actors participated in the process, mostly through their institutional affiliation and the corporate representation of their interests. In comparison with the other cases, this policy network showed the strongest organizational component. For these reasons, it was called an extended organizational network.

It adopted, however, a pyramidal form, like the other two. The main nuclei were: the Executive (the President and the Minister of Economy being the axis); Congress (especially, the Chamber of Deputies, where an opposition group formed); and the reform team of technicians who designed the initial reform proposal and acquired a relevant role in the negotiations --an element that had not been present in the other two cases. Their proposal largely shaped the tone and content of the discussions. (See details in Chapter VIII.)

The agenda proposed by the Executive and the reform team showed a strong preference for a switch from a public to a private system. However, its submission to public discussion delayed the implementation phase and introduced modifications in the original project. A consensus on the need to reform the system existed, as well as a serious concern with the social welfare aspects of the future benefits. The role of the state *vis-à-vis* a completely private management of the service was at stake. Several interest groups (e.g., business associations and chambers, banks, economic groups, insurance companies, pensioners' organizations, unions) participated both formally and informally in the discussions of the congressional commissions and at other fora.

Although the debate opened the door to the voice of opposition and made negotiations more difficult, policy content was not altered substantially. The extension of the network (especially, the active role assumed by Congress), the nature of the issue (i.e., its social content), and the need to avoid a conflict with Congress that could have blocked other policy goals (e.g., reelection, labor reform) led the Executive to postpone temporarily the use of extraordinary mechanisms of policy making (e.g., the decree and veto power). This provoked some delays and allowed legislators to introduce some modifications into the original initiative. However, crucial modifications were later reversed or annulled by Executive actions. Even more, highly discretionary, personalized, and informal decision-making instruments continued to have an important impact on policy outcomes.

This case shows the completion of the process of policy adaptation. The success in policy implementation was largely determined by the flexibility of the Executive's policy style in order to achieve its goals without major sacrifices. So, it was able to reach an equilibrium between governing by imposition and governing by consensus.

The identification of distinct policy networks not only serves to describe the development of policy across issue-areas, but also to test assumptions and broaden our understanding of the entire policy-making process. Some points can be inferred from the case-studies analyzed.

First, webs vary for distinct factors: a) the characteristics of each issue-area; b) the number of participants; c) the degree of concentration of decision-making power and mechanisms; d) the timing of policy implementation; e) the context of policy decision and implementation; f) the existence or absence of a policy design; g) the intersection and intertwining of different policies.

Second, some of the above factors are also interdependent. Timing and content of interactions are deeply conditioned by the economic and political context in which implementation is carried out and by the linkages across issue-areas. For instance, there is a great deal of evidence in the three cases that the fiscal crisis and external conditionality, as well as the credibility problem, strongly influenced policy timing and content. Likewise, policy options and actors' strategies were shaped by multiple negotiations related not only to the implementation of this policy but also to several issue-areas within the set of public policies.

Third, the comparison between networks highlights a process that was not assumed in the theoretical framework: policy adaptation. As time passed, the context of policy changed. Successful implementation depended on the adaptation of actors' goals and strategies to those changes and on their ability to compromise without sacrificing their objectives.

Fourth, the circuits of interactions created within these webs reflect the actors' relative power positions and their mutual interdependence. That is why, in analyzing policy-making in Argentina in the 1990s, policy networks have to be understood in the broader framework of a process to build a governing coalition. Nonetheless, key features of the political system also structure those interactions. For instance, the high level of centralization and vertical organization, as well as the crucial role of the Executive, molded interactions. Actors' relative positions were determined not only by their location in an institutional structure but also, and fundamentally, by their proximity to and leverage over key decision makers. (One of the main power resources was direct access to the President.)

Fifth, these somewhat expanded and organized pyramidal policy networks also signal that successful implementation was reinforced by the high degree of congruence between the policy style used by the governmental elites at the macro level of analysis and the mechanisms and relationship patterns that developed within particular issue-areas where policy was implemented. This congruence arises from the fact that the same type of personalistic, discretionary, and centralized practices prevailed at all levels of the decision-making structure, as well as informal contacts and noninstitutionalized channels of interaction between actors.

Finally, it is possible to conclude that the greater the congruence between the macro and micro levels of policy implementation, the easier it is to construct policy viability. Policy implementation was clearly facilitated by the context of crisis. Delay, the need to compromise, and policy adaptation were the immediate results when the context changed. This confirms the institutionalist arguments about the impact of organizational factors (e.g., policy networks) on outcomes.

IX.4.- Lessons for Comparative Studies

The assumption that no lineal, much less unicausal, relationship exists to explain the degree of success of policy implementation implies that conclusions always apply to a particular case. However, some points can be made for further research that could serve as potential elements for comparison with other national experiences.

On the theoretical level of analysis, the study of macro and micro contexts of policy formation and implementation is still underdeveloped.

Context is generally considered a framework of action, though the concept itself is vaguely defined. This definition is particularly relevant because contexts of crisis predominate in underdeveloped societies. Governments mostly deal with tremendous legacies that constrain their actions. They very often face --or say they do-- "the worst" crisis in history. So, "politics-as-usual" actually becomes the management of a permanent emergency.

Moreover, the manner and the mechanisms through which context affects the formation of policy networks and, thus, influences policy viability, require deeper examination. This study has demonstrated that context determines the correct timing to initiate reforms, provides content to the political discourse that is used to justify a policy shift, and influences the content of measures and the kind of policy network arising in a policy issue-area.

Secondly, there is a need to develop analytical frameworks that properly integrate the individual level of analysis. It is obvious that certain personal attributes of policy-makers make a difference in the adoption of a policy style. Also, as this study shows, those aspects affect the exercise of leadership, indirectly influencing policy viability (e.g., in how leaders secure the compliance of followers and opponents). Likewise, individuals' social background and institutional affiliation are related to their power resources, thus indirectly affecting policy outcomes.

Furthermore, individual variables are highly relevant in political systems where informal contacts, unwritten rules, personalism, nepotism, prebendalism, clientelism, and a high level of discretion prevail. So, it is most relevant to frame the purposive behavior of policy makers in culturally constructed organizational settings, rather than take for granted its economic efficiency or self-interest maximizer rationale. It is through personal attributes and behavior that political culture variables in which policy networks are embedded have an impact on policy making.

The historical institutionalist approach proved to be very useful. The purpose was to discover the way politics structure and identify the key formal and informal organizations, norms, rules, and practices -- broadly speaking institutions-- that shape policy outcomes in a concrete historical setting.

The Argentine case shows that some specific institutional traits strongly influence politics. The country's political economy historically reflected cleavages between social classes. The state-centered model had embodied the equilibrium these cleavages achieved in the postwar period. The dismantling of this model and the reaccommodation of class relationships in the 1990s clearly reflected the changes public and private actors experienced over the last decades. Both the structural organization of the economy and the state's role in it are undergoing modifications, as well as the way actors decide on the direction of these changes and their relative power over the outcomes.

In addition, some institutionalized features and practices also shape policy making. These are: high political instability; an accentuated presidentialism; the persistent de-legitimation of democratic rules; a weak party system in which Peronism has always had an overwhelming presence; a vertical organization of authority and disregard for deliberative mechanisms of decision making; personalized and informal relationships; the perception of the political game as a zero-sum one in which defection rather than collaboration is the best strategy; clientelism, corruption, and nepotism usually channelled through the state apparatus; and the underdeveloped and dependent character of the country and its subordinated position in the international politico-economic structure.

These factors help to explain patterns of continuity in policy making over time. Some of them also account for the degree of congruence that was found between the micro and the macro levels of economic policy implementation. However, they do not act in a vacuum. Historical institutional trends intertwined with specific junctures. So, the effect of these factors has to be understood in relation to the context of crisis and emergency that characterized the late 1980s.

This interrelation is what may help to clarify differences between governments in one country and also across countries. As was mentioned above, the impact of context depended on its articulation with a hegemonic and justificatory ideological discourse and with the relative power resources actors held at that moment. And that may vary between administrations (e.g., the Radical's *vis-à-vis* the Menemist's in Argentina) and from one society to another (e.g., the initiation and implementation of structural reforms in Argentina and Brazil⁷).

The study of privatization highlighted the state-market and state-society relationships. Structural reforms promote a new socio-economic model in which the market will be the main allocator of resources. However, in the transition towards that stage, it is the state who is the agent of change. The particular causes and consequences of privatization in Argentina, as well as the characteristics of its implementation (see Section IX.2.), suggest two main points for comparative studies. One, the outcome will be the result of a reconfiguration of previous and current institutional arrangements (including the state's role) rather than of the creation of completely new ones. Two, the process is better understood within a political economy framework, rather than following the rationale of the policy prescriptions of market-oriented approaches.

The findings also suggest that state autonomy has existed neither under the old model and nor under the new one. The Argentine state has been a mere instrument in the hands of the governing party (or faction, in the case of the military regimes). At the same time, the Peronist party has been much more autonomous than others. Owing to its particular ideology, structure, and dynamics, it has been able to generate major policy shifts.

⁷ Lourdes Sola argues that Brazil's economic reform is a case of "muddling through" rather than a "bitter pill", that is, a rapid, coherent and tightly linked sequence of market-oriented structural adjustment. See her essay in Smith et al. (eds.), 1994a, pp. 151-181; also William Nylen's piece in Campello de Souza and Boron (eds.), 1992, pp. 259-276.

For these reasons, state capacities and autonomy --and even the state concept itself-- are very difficult to grasp in reality. They are always contingent and historically relative. Moreover, the idea of embedded autonomy does not apply to the case under consideration because a coherent, efficient, and relatively autonomous bureaucratic apparatus does not exist in Argentina. This study could overcome the problem by examining capacity and autonomy through the interactions taking place at the micro level of policy implementation and using the policy network concept to infer meso-level theoretical conclusions (see the previous section).

Indeed, the concept of policy networks served to link the micro and macro processes of policy making. It highlighted the interdependence between actors, policy stages, and levels of analysis; allowed for the incorporation of informal relations that do not necessarily develop within institutional arrangements; and emphasized the dynamic and multicausal nature of the reform process. It conveyed its inherent character of "connectedness" to the explanation. By underlining the linkages, it demonstrated that none of the explanatory factors worked alone and that multicausality is grounded in reality.

Also, from the point of view of policy analysis, it proved to be a useful tool in analyzing the shifting and porous boundaries between the public and private and the actors' relative autonomy. However, the case-studies across issue-areas showed that the high degree of contingency of policy networks makes it difficult to generalize. The exploration of the linkages between different networks and the policy style of a given administration, like the one in this study, may be a starting point for comparison. Nonetheless, a greater number of case-studies is absolutely necessary before further assessments can be made.

Finally, the fact that some countries are successfully managing the implementation of reforms does not "solve" the governability issue. It is and will continue to be an important source of concern to scholars

and politicians.⁸ The main conclusion to be drawn from this empirical study is that the characteristics of the initiation of economic reforms (especially, the policy style adopted) are closely linked to how possible those changes are and the way in which they can be consolidated.

From the case under consideration, as well as other Latin American cases, it is plausible that the launch of a structural adjustment program is facilitated by the surprise factor and by the radical, fast, and generalized character of its implementation. It requires a great deal of power concentration and discretion on the part of the Executive. Otherwise, deliberative democratic mechanisms and concertación attempts may delay decisions and favor the formation of counter-coalitions.

However, the the Menemist administration's ongoing difficulties to consolidate the reformist orientation cast some doubts on the potential boomerang effects of these Caesar-like trends. In 1989 the Argentine government attained a considerable degree of autonomy, thanks to the impact of a context of crisis and a policy of selective incorporation -- not of isolation, as most authors suggest-- of key actors into the economic policy-making process.⁹ Consequently, it increased its capacities to cope with the crisis. Nonetheless, it has not been so successful at building real state capacities to govern the new scenario. In particular, political credibility (a key element in the consolidation of reforms) has been tied to persons more than to institutions or new socially agreed-upon rules of the game.

If weak and dependent democracies also become delegative or just formal democracies, and if personalism and discretion are legitimated

⁸ On this point see, for instance, O'Donnell, 1996; also Alcántara Sáez, 1995; Huntington, 1996; Linz and Stepan, 1996.

⁹ In other words, a certain autonomy from some sectors of society exists --precisely those who bear the costs of adjustment-- but not from crucial actors (i.e., local and foreign economic groups) who are the only ones who can provide the necessary economic and political support.

and institutionalized as the only way to maintain and deepen processes of change, a vicious circle is created. The "emergency discourse" thus becomes a constant and is used as a permanent threat. At the same time, extraordinary policy-making devices are sustained and their application is increased and justified indefinitely.

This style of governing by imposition, by constantly justifying the use of illegitimate mechanisms, produces a feedback effect on political instability. It may be a very effective formula on launching economic reforms since it allows for a relatively high degree of success in policy implementation. Nevertheless, it also tends to consolidate the very features of underdeveloped political systems that work against the building of stable democratic regimes.

Appendix

Privatizations concluded (1990-1994)

I. - Telecommunications

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD</u>	<u>AMOUNT</u> (millions of dollars)	
			<u>CASH</u>	<u>DEBT SECURITIES</u> (at par value)
ENTel (Telephone Company) Telecom S.A.	November 1990	60	100	2,100
Telefónica de Argentina S.A.	December 1991	60	114	2,720
	<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>	
Telecom S.A.	Stet	32.50	Italy	
	Cable et Radio	32.50	France	
	J.P. Morgan & Morgan	10.00	USA	
	Cia. Naviera Pérez Companc	25.00	Argentina	
Telefónica de Argentina S.A.	Cointel			
	Citicorp Venture Capital	20.00	USA	
	Banco Río de la Plata			
	Inter Río Holding Establishment	14.56	Argentina	
	Telefónica International Holding B.V. (Telefónica de España)	10.00	Spain	
	Inversora Catalinas S.A. (Techint Group)	8.31	Argentina	
	Banco Central de España S.A.	7.04	Spain	
	Sociedad Comercial del Plata (Soldati Group)	5.00	Argentina	
	Banco Hispanoamericano	5.00	Spain	
	Manufacturers Hannover	4.30	USA	
	Bank of Tokyo	4.16	Japan	
	Bank of New York	4.16	USA	
	Bank of Zurich	4.16	Switzer.	
	Southel Equity Corporation	4.00	USA	
	Arab Banking Co.	4.31	S. Arabia	
	Republic New York Financiaría	1.50	USA	
	Centro Banco de Panamá	1.40	Panama	
	Vanegas	1.25	Panama	
	Banco Atlántico	0.75	Panama	
	Bank of Nova Scotia	0.10	Canada	

Monómeros Vinílicos	October 1990	30	9.30	26.50
Petroquímica Río Tercero	March 1992 September 1993	39 42	7.30 0.33	0.66
	<u>AWARDEES</u>		<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Polisur	Ipako		100.00	Argentina
Petropol	Indupa		100.00	Argentina
Induclor	Indupa		100.00	Argentina
Monómeros Vinílicos	Viniclor		100.00	Argentina
Petroquímica Río Tercero	Egerton Finance S.A. Safety S.A.-Procamet S.A.		100.00 100.00	Argentina Argentina

IV.- Petroleum Central Areas

<u>AREA</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD^{b)}</u>	<u>AMOUNT</u> (millions of dollars)	
			CASH	DEBT SECURITIES
Tordillo	June 1991	90	179.08	
El Huenul- Koluel Kaike	June 1991	70	170.48	
Puesto Hernández	June 1991	60	286.35	
Vizcacheras	June 1991	90	167.69	
Santa Cruz I	December 1991	70	55.00	
Santa Cruz II	March 1992	70	141.60	
Tierra del Fuego	January 1992	70	143.50	
Aguarague	November 1992	55	143.70	

b) Association contract for 90%.

		70	36.00
	<u>AWARDEES</u>	<u>PERCENTAGE</u>	<u>COUNTRY</u>
		<u>HOLDING</u>	<u>of ORIGIN</u>
Tordillo	Tecpetrol	47.50	Argentina
	Petrolera Santa Fe-		
	G. Santa Fe Energy	20.00	USA
	Energy Development		
	Corporation	12.50	USA
	Entre Ríos Inversiones		
	Grupo Pérez Companc	20.00	Argentina
El Huemul- Koluel Kaike	Total Austral	100.00	France
Puesto Hernández	Cia. Naviera Pérez Companc	57.00	Argentina
Vizcacheras	Astra S.A.	50.00	Argentina
	Repsol	50.00	Spain
Santa Cruz I	Quintana Petroleum	28.57	USA
	Marc Rich	25.00	Switzer.
	Cia. Gral. de		
	Combustibles	46.43	Argentina
Santa Cruz II	Cia. Naviera		
	Pérez Companc	40.00	Argentina
	Astra Cia. Arg. de		
	Petróleo S.A.	40.00	Argentina
	Inter Río Holding		
	Establishment	20.00	Argentina
Tierra del Fuego	Bridas Sapic	14.29	Argentina
	Valdana (Bridas Group)	38.08	Argentina
	Chauvco Resources Ltd.	33.34	Canada
	Coastal Argentina	14.29	USA
Aguarague	Tecpetrol (Techint)	35.72	Argentina
	Ampolex	35.71	Australia
	Cia. Gral. de		
	Combustibles	7.14	Argentina
	Braspetro	21.43	Brazil
Palmar Largo	Pluspetrol	29.00	Argentina
	Norcen	25.50	Canada
	Cia. Gral de		
	Combustibles	25.50	Argentina
	Dong Won	20.00	Korea

V.- Petroleum Marginal Areas

<u>AREA</u>	<u>DATE of TRANSFER</u>	<u>TERMS of TRANSFER</u>	<u>AMOUNT</u> (millions of dollars)	
			<u>CASH</u>	<u>DEBT SECURITIES</u>
First group	October 1990	Concession of 28 areas	238.0	
Second group	August 1991	Concession of 28 areas	172.0	
Third group (29 areas)	June 1992	Concession of 22 areas	48.3	

<u>AREA</u>	<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Central-East	Pet. Comodoro Rivadavia S.A. Necon S.A.	N/A	Argentina
Los Bastos and Catriel Viejo	Tecpetrol (Techint)	N/A	Argentina
Agua del Cajón	C.A.P.S.A. Exploradora S.A.	N/A	Argentina
CA-1 Campo Bremen	GLAACCO S.A.	N/A	N/A
CA-3 La Terraza	Viacó S.A.	N/A	N/A
CA-4 Moy Aike	N/A	N/A	N/A
CA-2 Laguna Los Capones	Cielmec S.A., Edivial S.A., Olmatic S.A., Quintuco S.A.	N/A	N/A
CA-6 Chorrillos	Pet. Arg. San Jorge, Operaciones Especiales Argentina S.a.	N/A	Argentina
CA-7 Los Chorrillos	Anderman/Smith Argentina Inc.	N/A	N/A
CNQ-2 El Vinalar	EPP Petróleo S.A., Bunkersud, S.A., Burwardt y Cía S.A., Cogasco S.A., Pamar S.A.	N/A	N/A
CA-5 Del	EPP Petróleo S.A., Bunkersud,	N/A	N/A

Mosquito	S.A., Burwardt y Cía S.A., Cogasco S.A., Pamar S.A.		
CNQ-1 Agua Blanca	Pluspetrol	N/A	Argentina
CNO-6 Selva María	Guapro S.A., Olmatic S.A., Inconas S.A.	N/A	N/A
CNG-18 Agua Botada	Triton Argentina Inc.	N/A	N/A
CNG-26 La Calera	Gyapro S.A., Olmatic S.A., Inconas	N/A	N/A
CNG-27 Puesto Touquet	Pluspetrol S.A.	N/A	Argentina
CNG-17 Puesto Rojas	Sociedad Internacional Petrolera S.A., Omas S.A.	N/A	N/A
Aguada Ba- guales	Pluspetrol	N/A	Argentina
El Porvenir	Pluspetrol	N/A	Argentina
Agua Salada	Tecpetrol (Techint Group)	N/A	Argentina
Agua Salada	Tecpetrol (Techint Group)	N/A	Argentina
Bloque 127 Cayadón Ledon	Astra	N/A	Argentina
Tres Picos	Astra	N/A	Argentina
Cerro Overo	Astra	N/A	Argentina
Restinga Ali	Astra	N/A	Argentina
El Sosneado	Pet. Comodoro Rivadavia	N/A	Argentina
El Chivil	Tecniagua	N/A	N/A
El Sauce	Pet. San Jorge	N/A	Argentina
Atuel Norte	Tecpetrol (Techint Group)	N/A	Argentina
El Manzano	Pérez Companc	N/A	Argentina
Puntilla Huincan	Pérez Companc	N/A	Argentina
Cacheuta	Pérez Companc	N/A	Argentina

Bajada El Palo	Pérez Companc	N/A	Argentina
Cajón de los Caballos	Cadipsa	N/A	Argentina
Meseta Espinosa	Cadipsa	N/A	Argentina
Atamisqui	Tecpetrol (Techint Group)	N/A	Argentina
Las Heras	Cadipsa	N/A	Argentina
Piedra Clavada	Cadipsa	N/A	Argentina
Cayadón Minerales	Cadipsa	N/A	Argentina
Catriel Viejo	Tecpetrol (Techint Group)	N/A	Argentina
El Santiaguero	Cadipsa	N/A	Argentina
Ipaguazú	CGC (Soldati Group) and other	N/A	Argentina
Surubí	CGC (Soldati Group) and other	N/A	Argentina
Puesto Guardián	EPP Petróleo S.A. and other	N/A	N/A
Los Tordillos Oeste	Cadipsa BG-Arg.	N/A	Argentina
Lindero la Piedra	Polarsurd S.A.	N/A	N/A
Sierra Azul Sur	Triton Argentina Inc.	N/A	N/A
Altiplano del Playón	Pérez Companc-Quitral	N/A	Argentina
La Amarga Chica	Pérez Companc and other	N/A	Argentina
Loma Guadaldsa	Pluspetrol and other	N/A	Argentina
Est. Fernández Ord.	Bridas	N/A	Argentina
Aguada	Pérez Companc-Quitral	N/A	Argentina

Villanueva			
Bella Vista Oeste	Roch-Panam Group	N/A	N/A
Caleta Córdoba	Pet. Comodoro Rivadavia	N/A	Argentina
Cayadón Ramírez	Roch-Panam Group	N/A	N/A
Barranca Yankowsky	Cadipsa BG-Arg.	N/A	Argentina
San Cristóbal	GLAACCO S.A.	N/A	N/A
Océano	GLAACCO S.A.	N/A	N/A
Palermo Ayke	O. Esp. Aut-o-gas	N/A	N/A
Faro Vírgenes	Pérez Companc	N/A	Argentina
Río Cullen	San Enrique-DPG S.A.	N/A	Argentina
Las Violetas	San Enrique-DPF S.A.	N/A	Argentina
Angostura	O. Esp. Arg. S.A.	N/A	Argentina
Caimancito	Necon S.A., Petroleos Sudamericanos S.A.	N/A	N/A
Puesto Pozo Cercano	Chañares Errados S.A.	N/A	Argentina
Vega Grande	Pet. Comodoro Rivadavia	N/A	Argentina
Cerro Doña Juana	Triton Argentina Inc.	N/A	N/A
Cerro Mollar Oeste	Tecniagua S.A.I.C.A.	N/A	N/A
Loma Cortaderal	Triton Argentina Inc.	N/A	N/A
Bajo Baguales	Tecpetrol (Techint Group), Petro Uruguay S.A.	N/A	Argentina Uruguay
Loma del Divisadero	Huayqui S.A. de Construcciones, Ing. Alpa S.A., Sebastián Maronese & Sons S.A., Hidrago S.A.	N/A	N/A

Fortín de Piedra	Tecpetrol S.A. (Techint Group) Santa María S.A.C.	N/A	Argentina
El Caracol Norte	Tecpetrol S.A. (Techint Group) Petro Uruguay S.A.	N/A	Argentina Uruguay
Veta Escondida	Cía. Naviera Pérez Companc	N/A	Argentina
Rincón de Aranda	Cía. Naviera Pérez Companc	N/A	Argentina
Loma Montosa Oeste	Pet. Comodoro Rivadavia	N/A	Argentina
Tres Nidos	Tecpetrol S.A. (Techint Group) Petro Uruguay S.A.	N/A	Argentina Uruguay
La Tapera	GLAACCO S.A.	N/A	N/A
Puesto Quiroga	GLAACCO S.A.	N/A	N/A
Cañadón Pilar	Benito Roggio & Sons S.A.	N/A	Argentina
Pico Salamanca	Benito Roggio & Sons S.A.	N/A	Argentina
Sur Piedra Clavada	Cadipsa S.A.	N/A	Argentina
Meseta Buena Esperanza	Astra CAPSA	N/A	Argentina
La Brea	EPP Petróleo S.A., Corpet S.A., Netherfield Corp.	N/A	N/A
Meseta Sirven	Chauvco Resources S.A.	N/A	Canada

VI.- Y.P.F. (National Oil Company, different assets)

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD</u>	<u>AMOUNT</u>		
			(millions of dollars)		
			CASH	DEBT	SECURITIES
Refinería Campo Durán (Refinor S.A.)	November 1992	70	64.10		

Ebytem S.A. (Puerto Rosales)	January 1993	70	19.00
Destilería Dock Sud	January 1993	100	11.70
Oleoductos del Valle S.A.	January 1993	70	77.00
Destilería San Lorenzo	January 1993	100	12.20
Interpetrol S.A.	September 1993	49	8.70
Planta de Aero- soles - Dock Sud	September 1993	100	0.86
Terminales Maríti- mas Patagónicas	October 1993	70	10.00
Transportes Marí- timos Petroleros S.A.	June 1993	70	41.80

	<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Refinería Campo Durán (Refinor S.A.)	Cía. Naviera Pérez Companc	40.00	Argentina
	Pluspetrol	30.00	Argentina
	Astra	15.00	Argentina
	Isaura	15.00	Argentina
Ebytem S.A. (Puerto Rosales)	Isaura	100.00	Argentina
Destilería Dock Sud	Destilería Argentina de Petróleo (DAPSA)	100.00	Argentina
Oleoductos del Valle S.A.	Cía. Naviera Pérez Companc	33.00	Argentina
	Bolland y Cía.	20.00	Argentina
	Bridas	17.00	Argentina
	Pluspetrol	17.00	Argentina
	Astra Capsa	10.00	Argentina
	Tecpetrol	3.00	Argentina
Destilería San Lorenzo	Cía. Naviera Pérez Companc	42.50	Argentina
	Cía. Gral. de Combustibles PASA (Petroquímica Argentina S.A.)	42.50	Argentina
		15.00	Argentina
Interpetrol S.A.	Solfina S.A.	100.00	Argentina

Planta de Aero- soles - Dock Sud	Arpetro S.A.	100.00	Argentina
Terminales Mari- timas Patagó- nicas	Cía. Naviera Pérez Companc	19.70	Argentina
	Astra Capsa	8.60	Argentina
	Bridas Sapic	6.90	Argentina
	Dapetrol S.A.	13.20	Argentina
	Amoco Andina Production Co.	29.00	USA
	Cadipsa S.A.	7.60	Argentina
	Cías. Asociadas Petroleras S.A.	4.50	Argentina
	Total Austral S.A.	10.50	France
Transportes Ma- rítimos Petro- leros S.A.	Antares Naviera S.A. (Astra)	55.00	Argentina
	Ciamar S.A.	10.00	Argentina
	Delbene S.A.	10.00	Argentina
	Ultragas S.A.	25.00	Panama

VII.- Tanker Ships

<u>SHIP</u>	<u>DATE of</u> <u>TRANSFER</u>	<u>PERCENTAGE</u> <u>SOLD</u>	<u>AMOUNT</u> (millions of dollars)	
			<u>CASH</u>	<u>DEBT</u> <u>SECURITIES</u>
Libertador San Martín	N/A	100	27.00	
Ing. Villa	N/A	100	N/A	
Flor. Ameghino	N/A	100	N/A	
Gral. Güemes	N/A	100	N/A	
Ing. Hermitte	N/A	100	N/A	
Ing. Reca	N/A	100	N/A	
Goya	N/A	100	N/A	
Medanito	N/A	100	N/A	
Puerto Rosales	N/A	100	N/A	
Cañadón Seco	N/A	100	N/A	
13 de Diciembre	N/A	100	N/A	
San Lorenzo	N/A	100	N/A	

Ing. Huergo	N/A	100	N/A
Ing. Silveyra	N/A	100	N/A
Mtro. Ezcurra	N/A	100	N/A
Puerto Posadas	N/A	100	N/A
Puerto Diamante	N/A	100	N/A
Hernandarias	N/A	100	N/A
Campo Durán	N/A	100	N/A
C. Espiritu Santo	N/A	100	N/A

	<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Libertador San Martín	Antares Naviera S.A. (Astra)	100	Argentina
Ing. Villa	Antares Naviera S.A. (Astra)	100	Argentina
Flor. Ameghino	Lunmar Naviera S.A.	100	Argentina
Gral. Güemes	Lunmar Naviera S.A.	100	Argentina
Ing. Hermitte	Lunmar Naviera S.A.	100	Argentina
Ing. Reca	Naviera Sur Petrolera S.A.	100	Argentina
Goya	Naviera Sur Petrolera S.A.	100	Argentina
Medanito	Constant Shipping Ltd.	100	Italy
Puerto Rosales	Constant Shipping Ltd.	100	Italy
Cañadón Seco	Constant Shipping Ltd.	100	Italy
13 de Diciembre	Global Marketing Systems	100	India
San Lorenzo	Global Marketing Systems	100	India
Ing. Huergo	Melton Trading	100	Panama
Ing. Silveyra	Naviera Sur Petrolera S.A.	100	Argentina
Mtro. Ezcurra	Naviera Sur Petrolera S.A.	100	Argentina

Puerto Posadas	Naviera Sur Petrolera S.A.	100	Argentina
Puerto Diamante	Naviera Sur Petrolera S.A.	100	Argentina
Hernandarias	Naviera Sur Petrolera S.A.	100	Argentina
Campo Durán	Naviera Sur Petrolera S.A.	100	Argentina
C. Espiritu Santo	Naviera Sur Petrolera S.A.	100	Argentina

VIII.- Hotels

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD</u>	<u>AMOUNT</u> (millions of dollars)	
			CASH	DEBT SECURITIES (at par value)
Llao-Llao Holding	May 1991	100	3.70	12.00
Ing. Villa	N/A	100	N/A	N/A
Flor. Ameghino	N/A	100	N/A	N/A
	<u>AWARDEES</u>		<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Llao-Llao Holding	City Capital Investment		45	USA
Ing. Villa	Choise Hotel International		10	Argentina
Flor. Ameghino	Cofica y Sur Hotel S.A.		45	Argentina

IX.- Electricity

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD</u>	<u>AMOUNT</u> (millions of dollars)	
			<u>CASH</u>	<u>DEBT SECURITIES^{c)}</u>
Centrales Térmicas del Litoral S.A.	July 1994	90	0.50	
Central Puerto S.A.	April 1992	60	92.20	
Central Cos- tanera S.A.	May 1992	60	30.00	90.1
Edenor S.A.	August 1992	51	30.00	397.9
Edesur S.A.	August 1992	51	30.00	481.0
Central Pedro de Mendoza	October 1992	90	8.50	
Central Dock Sud	October 1992	90	25.00	
Edelap	November 1992	51	5.00	134.0
Central Alto Valle	August 1992	90	22.10	
Central Güemes	September 1992	60	10.00	76.2
Central Sorrento	January 1993	90	5.00	3.8
Central San Nicolás	April 1993	90	10.00	56.1
Centrales Ter- micas del Noro- este Argentino S.A.	March 1993	90	0.40	
Centrales Ter- micas del Noro- este Argentino S.A.	March 1993	90	2.00	13.2

c) Cash equivalent.

Centrales Ter- micas Patagónicas S.A.	November 1993	51	2.00	2.2
Transnoa S.A.	January 1994	90	2.00	6.6
Transpa S.A.	June 1994	51	1.00	19.8
Transener S.A.	July 1993	65	30.00	204.1
Hidroeléctrica Diamante S.A.	September 1994	59	4.00	28.8
Hidroeléctrica Río Hondo S.A.	December 1994	98	4.10	
Hidroeléctrica Ameghino S.A.	October 1994	59	1.50	12.7
Centrales Ter- micas Mendoza S.A.	October 1994	51	2.00	8.1
Transnea S.A.	October 1994	60	1.00	2.0
Central Hidro- eléctrica Alicurá	August 1993	59	48.00	130.0
Central Hidro- eléctrica Cerros Colorados	August 1993	59	27.00	45.6
Central Hidro- eléctrica El Chocón S.A.	August 1993	59	87.00	136.9
Hidroeléctrica Piedra del Agua S.A.	December 1993	59	100.00	172.1
	<u>AWARDEES</u>		<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Centrales Térmicas del Litoral S.A.	Fed. Arg. de Trabajadores de Luz y Fuerza		100.00	Argentina
Central Puerto S.A.	Chilgener S.A.		50.00	Chile
	Cía. Chilena de Distrib. Elect. Quinta Región		16.40	Chile
	Chilectra Quinta Región		33.60	Chile

Central Costanera S.A.	Endesa	50.01	Chile
	Enersis	15.00	Chile
	Distrib. Chilectra Metropolitana S.A.	5.00	Chile
	Inversora Patagónica (Pérez Companc Group)	12.50	Argentina
	Inter Río Holding Establishment (Río Group)	12.50	Argentina
	Costanera Power Corporation	4.99	USA
Edenor S.A.	Astra Capsa	40.00	Argentina
	Electricité de France	20.00	France
	Endesa de España	10.00	Spain
	Emp. Nac. Hidroeléctrica del Ribagorzana S.A.	20.00	Spain
	Société D'Amenagement Urbain et Rural	10.00	France
	Edesur S.A.	Cía. Naviera Pérez Companc	40.50
Grupo Psi Energy Inc.		10.00	USA
Distr. Chilectra Metropolitana		19.50	Chile
Enersis S.A.		20.00	Chile
Endesa de Chile		10.00	Chile
Central Pedro de Mendoza		Acindar	75.00
	Massuh	25.00	Argentina
Central Dock Sud	Polledo S.A.	100.00	Argentina
Edelap	Inversora Catalinas (Techint Group)	51.00	Argentina
	Houston Power Corporation	49.00	USA
Central Alto Valle	Alto Valle Holding S.A.		
	Coop. Pcial. de Servicios Públicos y Comunitarios de Neuquén Ltda.	40.00	Argentina
	Dominion Generating S.A./Dominion Mgmt./Dominion Energy Inc.	60.00	USA
Central Güemes	Powerco S.A.-Duke Güemes Inc.	25.00	USA
	Soc. Comercial del Plata S.A.	25.00	Argentina
	Iberdrola Is.	20.00	Spain
	The Argentina Invest. Co.	15.00	Cayman Is.
	Tew Americas Development Ass.	15.00	USA
Central Sorrento	Malvicino S.A.	18.00	Argentina
	Iate S.A.	18.00	Argentina
	Eleprint S.A.	4.00	Argentina
	Argon S.A.	60.00	Argentina

Central San Nicolás	AES San Nicolás	81.00	USA
	Ormas Saicic	19.00	Argentina
Centrales Térmicas del Noroeste Argentino S.A.	IATE S.A.	100.00	Argentina
Centrales Térmicas del Noroeste Argentino S.A.	Fed. Arg. de Trabajadores de Luz y Fuerza	40.00	Argentina
	Giacomo Fazio	15.00	Argentina
	Horizonte S.A.	15.00	Argentina
	Atahualpa S.A.	15.00	Argentina
	Camino S.A.	15.00	Argentina
Centrales Térmicas Patagónicas S.A.	Fed. Arg. de Trabajadores de Luz y Fuerza	33.34	Argentina
	IATE S.A.	33.33	Argentina
	Eleprint	33.33	Argentina
Transnoa S.A.	Banco Feigin	45.00	Argentina
	Fed. Arg. de Trabajadores de Luz y Fuerza	23.00	Argentina
	IATE S.A.	25.00	Argentina
	Tecsa	7.00	Argentina
Transpa S.A.	Trelpa S.A.	40.00	Argentina
	Aluar S.A.	15.00	Argentina
	Grupo CG. Argentina S.A.	5.00	Argentina
	Soc. Cooperativa Popular Ltda. de Trelew	7.38	Argentina
	Coop. Ltda. de Provisión de Servicios Públicos y Vivienda de Puerto Madryn	4.06	Argentina
	Coop. de Servicios Públicos, Vivienda y Consumo de Rawson	2.46	Argentina
	Coop. de Provisión de Servicios Públicos, Vivienda y Consumo 16 de Octubre Ltda.	0.20	Argentina
	Coop. de Provisión de Energía Eléctrica y otros servicios públicos y Vivienda de Gaimán Ltda.	0.45	Argentina
	Coop. de Agua Potable y otros Servicios Públicos de Rada Tilly Ltda.	0.45	Argentina
	Camuzzi Gazometri Spa.	25.00	Italy
	Transener S.A.	Eléctrica del Plata S.A.	15.00
Sade S.A.		15.00	Argentina
Inter Río Holding Establishment		15.00	Argentina
Duke Transener Inc.		15.00	USA
Energy Transener		15.00	USA

	The International Grid Finance B.V.	15.00	UK
	The Argentine Investment Company	10.00	Cayman Is.
Hidroeléctrica Diamante S.A.	E.D.F. International S.A.	50.00	France
	Nucleamiento Inversor S.A.	42.50	Argentina
	Banco de Galicia y Bs.As. S.A.	7.50	Argentina
Hidroeléctrica Río Hondo S.A.	Apuaye-Necon S.A.-Chediak S.A.I.C.A.		
	Apuaye	33.00	Argentina
	Necon S.A.	34.00	Argentina
	José J. Chediak S.A.I.C.A.	33.00	Argentina
Hidroeléctrica Ameghino S.A.	Hidroeléctrica del Sur S.A. Argentina S.A./Camuzzi Gazometri Spa.	60.00	Arg./Italy
	Admin. Nac. de Usinas y Transmisiones Eléctricas (U.T.E.)	20.00	Argentina
	Soc. Coop. Popular Ltda. Comodoro Rivadavia		Argentina
	Coop. Elect. de Consumo y Vivienda Ltda. de Trelew		Argentina
	Servi Coop. Puerto Madryn		
	Coop. 16 de Octubre		Argentina
	Coop. Prov. E.E. Gaimán		Argentina
	Coop. de A.P.R. Tilly	20.00	Argentina
Centrales Térmicas Mendoza S.A.	CMS Operating	80.00	USA
	Ormas SAICIC	20.00	Argentina
Transnea S.A.	IATE S.A.	40.00	Argentina
	Argon	20.00	Argentina
	Fed. Arg. de Trabajadores de Luz y Fuerza	20.00	Argentina
	Eleprint	20.00	Argentina
Central Hidroeléctrica Alicurá S.A.	SEI Holding Inc.	80.00	USA
	Asoc. de Electricidad S.A.	14.00	Argentina
	17 de Abril S.A. de Inversiones	5.00	Argentina
	Resource Development Consultants	1.00	USA
Central Hidroeléctrica Cerros Colorados	Dominion Generating	85.00	USA
	Louis Dreyfus Argener S.A.	15.00	USA
Central Hidroeléctrica El Chocón S.A.	Hidroelectricidad S.A.	55.00	Chile
	CMS Generation S.A.	30.00	USA
	Vea Inversora S.A.	8.00	Argentina
	Saw Grass Limited	7.00	Spain

Hidroeléctrica	Duke Hidronor Inc.	33.33	USA
Piedra del	Transalta Energy Argentina	33.33	Canada
Agua S.A.	Hidroanales S.A.	27.83	Chile
	Emerging Markets Growth		
	Fund Inc.	5.00	USA
	New World Fund	0.51	USA

X. - Gas

<u>COMPANY</u>	<u>DATE of</u> <u>TRANSFER</u>	<u>PERCENTAGE</u> <u>SOLD</u>	<u>AMOUNT</u>	
			(millions of dollars) CASH	DEBT SECURITIES ^{c)}
Gas del Estado Transportadora de Gas del Sur S.A.	December 1992	70	100.00	256.20
Transportadora de Gas del Norte	December 1992	70	28.00	182.20
Distribuidora de Gas Pampeano S.A.	December 1992	70	18.00	217.40
Distribuidora de Gas del Li- toral S.A.	December 1992	90	14.00	89.60
Distribuidora de Gas del Centro S.A.	December 1992	90	18.00	120.00
Distribuidora de Gas Cuyana S.A.	December 1992	60	26.00	96.00
Distribuidora de Gas del No- roeste S.A.	December 1992	90	10.00	62.00
Distribuidora de Gas del Sur S.A.	December 1992	90	14.00	134.00
Distribuidora de Gas Metro- politana S.A.	December 1992	70	44.00	256.00

Distribuidora de Gas Buenos Aires Norte S.A.	December 1992	70	28.00	127.50
	<u>AWARDEES</u>		<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Gas del Estado	Cía. de Inversiones de Energía S.A.			
Transportadora de Gas del Sur S.A.	Enron Pipeline Company Argentina S.A.		25.00	USA
	Cía. Naviera Pérez Companc		25.00	Argentina
	Citicorp Equity Investment		25.00	USA
	Argentine Private Develop- ment Trust Co. Ltda.		25.00	N/A
Transportadora de Gas del Norte	Gasinvest S.A.			
	Novacorp International S.A.		25.00	Canada
	Transcogas Inversora S.A.		36.00	Canada
	Wartins S.A. (Techint)		39.00	Argentina
Distribuidora de Gas Pampeano S.A.	Sodigas Pampeana S.A. Camuzzi Gasometri Spa.- Grupo CG Arg. S.A.		100.00	Italy
Distribuidora de Gas del Li- toral S.A.	Tibsa Inversora S.A.			
	Tractebel S.A.		40.00	Belgium
	Iberdrola S.A.		20.00	Spain
	Garovaglio y Zorraquín S.A.		20.00	Argentina
	17 de Abril S.A. (Bemberg Group)		20.00	Argentina
Distribuidora de Gas del Centro S.A.	Inversora de Gas del Centro S.A.			
	Sideco Americana S.A. (Macri Group)		75.00	Argentina
	Sociedad Italiana Per Il Gas Spa.		25.00	Italy
Distribuidora de Gas Cuyana S.A.	Inversora de Gas Cuyana S.A. Sideco Americana S.A. (Macri Group)		75.00	Argentina
	Sociedad Italiana Per Il Gas Spa.		25.00	Italy
Distribuidora de Gas del No- roeste S.A.	Gascart S.A.			
	J. Cartellone Construcciones Civiles S.A.		40.00	Argentina
	Banco Francés del Río de La Plata S.A.		20.00	Argentina
	Cía. de Consumidores de Gas de Santiago S.A.		40.00	Chile

Distribuidora de Gas del Sur S.A.	Sodigas Sur S.A. Conjunto económico Camuzzi-Gasometri Spa.	100.00	Italy
Distribuidora de Gas Metropolitana S.A.	Gas Argentino S.A. British Gas Cía. Naviera Pérez Companc Astra Capsa Invertrad (Acindar)	41.00 25.00 20.00 14.00	UK Argentina Argentina Argentina
Distribuidora de Gas Buenos Aires Norte S.A.	Invergas S.A. Gas Natural Discogas (C.G.C., Soldati Group) Manra (Banco Hispano Americano)	54.00 25.00 21.00	Spain Argentina Spain

XI. - Defense

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD</u>	<u>AMOUNT</u> (millions of dollars)	
			CASH	DEBT SECURITIES
Altos Hornos Zapla Aceros Zapla S.A.	April 1992	100	3.30	29.70
Somisa	April 1992	80	140.00	12.10
Aceros Paraná S.A.				
Tandanor	December 1991	100	59.80	
Fábrica Militar de Tolueno Sintético	February 1991	100	0.79	1.84 ^{c)}
Fábrica Militar de Vainas y Conductores Eléctricos (E.G.A.)	February 1993	100	12.40	2.60 ^{c)}
Fábrica Militar de Acido Sulfúrico	March 1993	N/A	1.60	

Fábrica Militar Gral. San Martín	April 1993	N/A	8.50
Fábrica Militar Pilar	July 1994	N/A	2.80

	<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Altos Hornos Zapla	Aubert Duval S.A.	14.00	France
Aceros Zapla S.A.	SIMA (Société Industrielle de Metallurgie Avancée S.A.)	19.34	France
	Pensa S.A.	28.33	Argentina
	Pemfin S.A.	5.00	Argentina
	Citicorp	33.33	USA
Somisa	Propulsora Siderúrgica (Techint)	90.00	Argentina
Aceros Paraná S.A.	Siderca (Techint)	10.00	Argentina
Tandanor	Banco Holandés Unido	2.90	Holland
	Sud Marine	5.00	France
	Cía. Argentina de Transporte Marítimo	92.10	Argentina
Fábrica Militar de Tolueno Sintético	Rutilex S.A. e Hidrocarburos Asociados	100.00	Argentina
Fábrica Militar de Vainas y Conductores Eléctricos (E.G.A.)	Consortio Metacab Guillermo Deker S.A.	74.00	Argentina
	Ind. Eléctricas de Quilmes S.A.	26.00	Chile
Fábrica Militar de Acido Sulfúrico	Maspro S.A.	100.00	Argentina
Fábrica Militar Gral. San Martín	Talleres Sudamericanos S.A.	100.00	Argentina
Fábrica Militar Pilar	IAMP S.A.	100.00	Argentina

XII. National Grain Board

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD</u>	<u>AMOUNT</u>	
			(millions of dollars) CASH	DEBT SECURITIES
Unidad Portuaria San Pedro	May 1993	100	4.10	
Elevadores Terminales de Rosario	July 1993	100	3.50	
Elevadores Puerto Diamante	September 1992	100	2.00	

<u>COMPANY</u>	<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY</u>
			<u>of ORIGIN</u>
Unidad Portuaria San Pedro	Servicios Portuarios	100.00	Argentina
Elevadores Terminales de Rosario	Servicios Portuarios	100.00	Argentina
Elevadores Puerto Diamante	Consorcio Compañía Continental SACIMFA, Domingo Sapino S.A., Granero S.R.L.	100.00	Argentina

XIII.- Agriculture

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD/ TERMS of TRANSFER</u>	<u>AMOUNT</u>	
			(millions of dollars) CASH	DEBT SECURITIES
Corporación Argentina de Productores (CAP)	May 1994	100.00%	1.90	

Elevador de Granos del Puerto de Bs. As.	August 1992	Concession	US\$ 3/ton on board plus a royalty of US\$ 0.15
Elevador de Granos del Puerto de Quequén	August 1992	Concession	US\$ 3.50/ton on board plus a royalty of US\$ 0.40
Mercado de Hacienda de Liniers (livestock market)	June 1992	Concession for 10 years	12% of total incomes

	<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
CAP	Incopp S.A.	50.00	Argentina
	Frigorífico Bahía Blanca S.A.	50.00	Argentina
Elevador de Granos del Puerto de Bs.As.	Consortium formed by: Bolsa de Cereales de Buenos Aires; Centro de Acopiadores de Cereales; Centro de Corredores y Comisionistas de Cereales de Buenos Aires; Confederación Intercooperativa Agropecuaria Coop. Ltd.; Confederaciones Rurales Argentinas; Sociedad Rural Argentina; Sociedad Anónima Genaro García; La Plata Cereal Co.; Mercado a Término de Buenos Aires; Tagsa Transportadora y Almacenadora a Granel.		
Elevador de Granos del Puerto de Quequén	Consortium formed by: Bolsa de Cereales de Buenos Aires; Centro de Acopiadores de Cereales del Puerto de Quequén; Centro de Corredores y Comisionistas de Cereales de Bs. As.; Confederación Intercooperativa Agropecuaria Coop. Ltd.; Confederaciones Rurales Argentinas; Asociación Cooperativas Argentinas Coop. Ltd.; Bunge y Born Comercial; Sociedad Anónima Genaro García; La necochea Quequén; La Plata Cereal Co.; Mercado a Término de Buenos Aires; Nidera Argentina; Productos Sudamericanos; Tradigrain.		
Mercado de Hacienda de Liniers	Mercado de Liniers S.A.		

XIV.- Financial Sector

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD</u>	<u>AMOUNT</u> (millions of dollars)	
			CASH	DEBT SECURITIES
Caja Nacional de Ahorro y Seguro	April 1994	60	86.30	

<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Leucadia National Cor- poration	50.00	USA
W.S.A.	40.00	USA
Banco Mercantil Argen- tino	10.00	Argentina

XV.- Ocean Transport

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>PERCENTAGE SOLD</u>	<u>AMOUNT</u> (millions of dollars)	
			CASH	DEBT SECURITIES
Emprea Líneas Marítimas Ar- gentinas Río Negro II	February 1994	100	12.80	
Libertador Gral. San Martín	N/A	100	N/A	
Chaco	N/A	100	N/A	
Catamarca II y San Luis	N/A	100	N/A	
Santa Cruz II	N/A	100	N/A	
Santa Fe II y Santiago del Estero	N/A	100	N/A	

Chubut	September 1994	100	2.00	
	<u>AWARDEES</u>		<u>PERCENTAGE</u> <u>HOLDING</u>	<u>COUNTRY</u> <u>of ORIGIN</u>
Empresa Líneas Marítimas Ar- gentinas Río Negro II	Seabound Maritime Inc.	100.00		Liberia
Libertador Gral. San Martín	Prudent International Shipping and Trading Ltd.	100.00		India
Chaco	Aspen Marine Ltd.	100.00		Cyprus
Catamarca II y Sar Luis	Oceanbulk Maritime S.A.	100.00		Cyprus
Santa Cruz II	Seabound Maritime Inc.	100.00		Liberia
Santa Fe II y Santiago del Estero	Altamira Nautical S.A.	100.00		Panama
Chubut	Seabound Maritime Inc.	100.00		Liberia

XVI.- Television and Radio Stations

<u>COMPANY</u>	<u>DATE of</u> <u>TRANSFER</u>	<u>TERMS of</u> <u>TRANSFER</u>	<u>AMOUNT</u>	
			(millions of dollars) CASH	DEBT SECURITIES
LS 84 Channel 11	January 1990	Concession for 15 years	8.2	
LS 85 Channel 13	January 1990	Concession for 15 years	5.7	
Radio Stations	February 1991	N/A	N/A	

	<u>AWARDEES</u>	<u>COUNTRY of ORIGIN</u>
LS 84-Channel 11	Televisión Federal (Telefé)	Argentina
LS 85-Channel 13	Arte Televisivo Argentin S.A. (Clarín Group)	Argentina
Radio Stations LRI 450-Channel 9 Paraná (Entre Ríos)	Productores Independien tes Asociados P.I.A.	Argentina
Radio Belgrano	Radio Libertad	Argentina
Radio Excelsior	Red Celeste y Blanca S.A.	Argentina
LV3 Radio Córdoba (Córdoba)	Radiodifusora del Centro S.A.	Argentina
LU33 Broadcasting Pampeana (La Pampa)	Radiodifusora Pampeana S.A.	Argentina

XVII.- Highways

TERMS of TRANSFER

Concession of 10,000 kilometers of national highway on 34 routes

AWARDEES

Consortia formed by: Techint; Sideco Americana; Decavial, Vial del Sur Petrolera y Constructora, Necon, Chediak and SADE; Noroeste Construcciones, Empresa Constructora Delta; Estructuras S.A.; Gliksstein y Cía., Asfalsud ICF S.A., Enrietto Ec, Bacigaluppi y De Stefano, Tecsa, Cocyvial S.R.L., Bonfanti y Di Biaso, Copyc S.A., Coemyc S.A. and Néstor Julio Grerechet S.A.; Dycasa, Oerakes Aguiar; Welbers Insúa, Babic, Conevial, Codi, Eaca and Parenti Mai S.A.; Covisur (made up by Aragón S.A. and Benito Roggio & Sons); Supercemento, Dyopsa and Nazar y Cía.; Balpalá, Coarco and Equimac; Geopé S.A., Sycic S.A. and Luciano y Consorcio Virgen de Itatí (made up by Supercemento, Dyopsa, Nazar y Cía., Eacsa and Chacofi); Red Vial Centro (made up by Benito Roggio, Afema, Arvial, Boetto y Butigliengo S.A. and Romero Carrmisa S.A.)

XVIII.- Railroads

<u>LINE</u>	<u>DATE of TRANSFER</u>	<u>AWARDEES</u>
Rosario-Bahía Blanca Railroad (5.287 kms.)	November 1991	Ferroexpreso Pampeano S.A. (made up by Techint, Cía. Técnica Internacional S.A.C.eI. EACA, Empresa Argentina de Cemento Armado S.A. de Construcciones, Gesiemes S.A.C.I. y A.G., Chase Manhattan Investments Argentina S.A., Riobank International, Sociedad Comercial del Plata S.A., Iowa Interstate Railroad and Coinfer S.A.)
Mitre Railroad (5.012 kms.)	April 1992	Nuevo Central Argentino (made up by Aceitera General Deheza, Banco Francés del Río de la Plata, Román Marítima, Asociación Cooperativas Argentinas, ACA, and Montana Rail Link, Anacostia Pacific and RBC.
Delta-Borges Railroad (17,5 kms.)	September 1992	Sociedad Comercial del Plata (Soldati Group)
Gral. Roca Railroad (4.620 kms.)	December 1992	N/A
Gral. San Martín Railroad (5.196 kms.)	December 1992	N/A

XIX.- Water

<u>COMPANY</u>	<u>DATE of TRANSFER</u>	<u>TERMS of TRANSFER</u>	<u>AMOUNT</u> (millions of dollars)
Obras Sanitarias de la Nación	December 1992	Concession for 30 years	N/A

<u>AWARDEES</u>	<u>PERCENTAGE HOLDING</u>	<u>COUNTRY of ORIGIN</u>
Lyonnaise des Eaux-Dumez	25.30	France
Compagnie Generale des Eaux	8.00	France
Aguas de Barcelona	12.60	Spain
Anglian Water	4.50	UK
Sociedad Comercial del Plata (Soldati Group)	20.70	Argentina
Banco de Galicia	8.10	Argentina
Meller	10.80	Argentina
Programa de Propiedad Participada (personnel shares)	10.00	Argentina

XX.- Others

<u>COMPANY/ ASSET</u>	<u>DATE of TRANSFER</u>	<u>TERMS of TRANSFER</u>	<u>AMOUNT</u> (millions of dollars)	
			CASH	DEBT SECURITIES
Hipódromo Argentino (racetrack)	September 1992	Concession for 25 years	61.5	8.5% of the bets plus 30% of the tickets
State-owned property (surplus to requirements)	1991-1992	Sale of 529 buildings	107	

AWARDEES

Hipódromo Argentino	Information, Technology, Acquisition Corporation S.A.; Hípica Iraola S.A.; Valfinsa S.A.; Sebastián Maronese & Sons S.A.; Kocourek S.A.; Productora Kartell (Unión Transitoria de Empresas)
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N/A: non available

Sources: Ministerio de Economía y Obras y Servicios Públicos, Several Publications: "Argentina: un país para invertir y crecer", Buenos Aires, 1994; "Argentina's Privatization Programme", Secretaría de Comercio e

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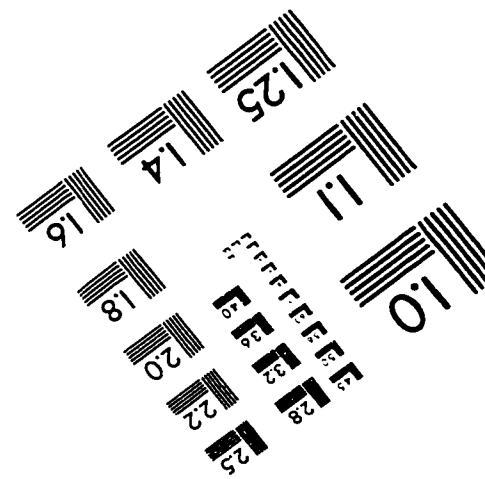
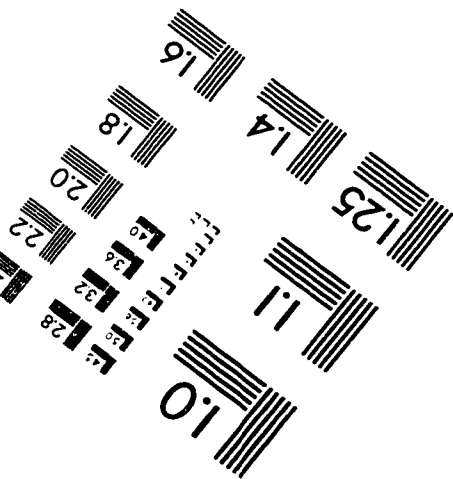
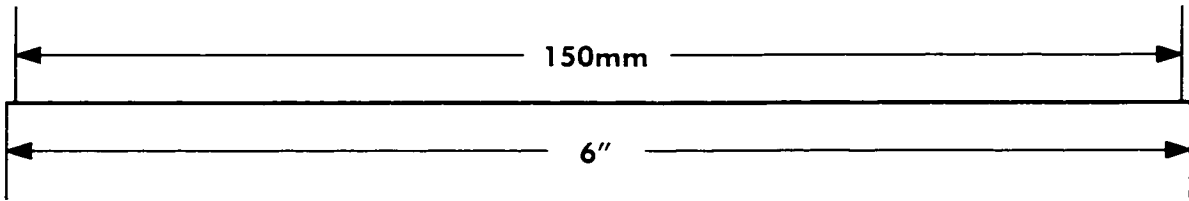
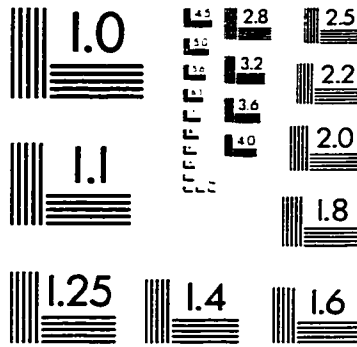
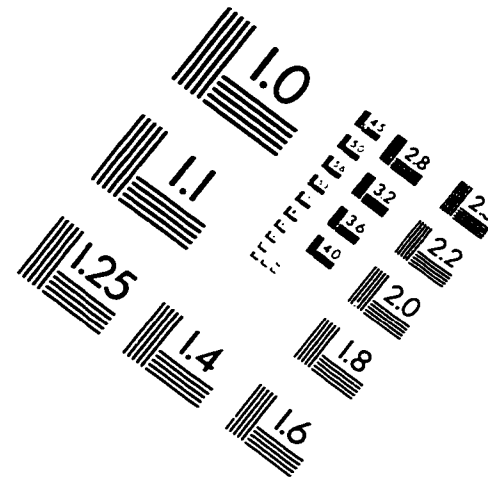
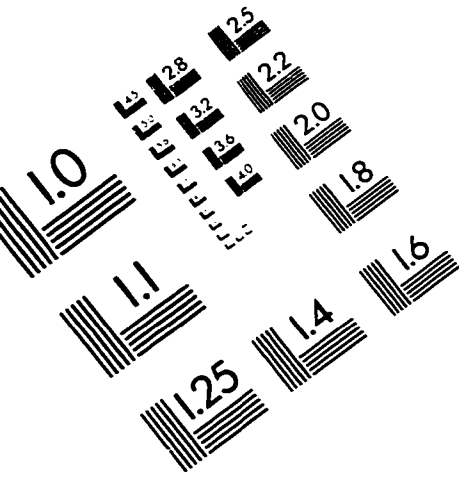
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