

Rise and Collapse of Neoliberalism in Argentina

The Role of Economic Groups

Miguel Teubal*

ABSTRACT

The present crisis in Argentina, the worst crisis in Argentine history that reached rock-bottom levels in 2001–2, can be considered a crisis of neoliberalism, particularly of the severe structural adjustments applied in the 1990s and the beginning of the new millennium under the Menem and De la Rúa administrations. It was in this period that wholesale privatizations, deregulations of all kinds including those tending to the fully-fledged ‘flexibilization’ of labor markets, and an indiscriminate ‘opening’ to the world economy took place. This was also the period in which the foreign debt continued, increasing substantially until the recent default became inevitable. This article analyzes the way economic policy systematically favored the various large economic conglomerates operating in Argentina. In agro-industry, petroleum, telecommunication, electricity, water, and banking, both large national and transnational conglomerates were favored by measures related to structural adjustment programs of successive governments. In the midst of the present crisis these large conglomerates or grupos económicos are once again showing their muscle, pressuring the government to pay the foreign debt, increase public rates, compensate the banks for their losses due to capital flight, etc. In effect, the crisis itself shows the bare anatomy of the economic structure in which these large conglomerates reign supreme while being increasingly contested by numerous popular organizations of civil society.

Keywords: Argentina, concentration of capital, Convertibility Plan, economic groups, neoliberalism, regime of accumulation

The recent crisis in Argentina, one of the first major economic crises of the new millennium, has been dubbed a crisis of neoliberalism (Giarracca and Teubal, 2004); a crisis that reflects the collapse of the neoliberal model drastically implemented in the 1990s. In many ways this sets aside the Argentine case from the Brazilian, Asian or Russian crises of the decade, all of which occurred in the wake of state-led ‘developmentalist’ and/or export-oriented economic

* University of Buenos Aires, Argentina.

strategies. In Argentina, the Convertibility Plan of 1991 was a response to the economic coup and crisis that induced the hyper-inflationary spurts of 1989–91. It marked the beginning of a new era in the political economy of Argentine society with the implementation of a severe structural adjustment program (SAP) that was to become an important showcase for international financial interests thereafter (Teubal, 2000/2001, 2001).

Different aspects of the policies adopted in the 1990s by the Argentine government as well as some of their consequences have been analyzed elsewhere. Succinctly, some of the main aspects of the structural adjustment program included: an extreme privatization program; deregulations of all kinds, in particular with regard to the ‘flexibilization’ of labor markets; and a new ‘opening’ to the world economy, in particular concerning financial interests. As pointed out in this article, the SAP was preceded in the 1970s and 1980s by policies and mechanisms enhancing international and local financial interests next to reducing wages and worsening income distribution, all of which were associated in one way or another with the increased foreign debt contracted mainly by the elite economic establishment and which thereafter was transferred to the state and society at large.

But what has not always been sufficiently discussed is that since the mid-1970s and in particular in the 1990s this SAP and associated measures related to increased foreign indebtedness responded in many ways to elite economic interests, having led to the consolidation of an economic and financial establishment based on a power block of large companies and so-called *grupos económicos* (Azpiazu et al., 1989) some of which are transnational. Thus, during the present crisis and especially after the default of part of the foreign debt in late 2001 and the devaluation in early 2002, with the economy reaching rock-bottom levels, this role of economic groups was clearly brought to light. The anatomy of Argentine society was suddenly reflected in pressures exerted on the government by large companies and economic groups for the purpose of redressing their profitability, affected by post-devaluation measures, the run on the banks, capital flight, and the crisis itself.

Large economic groups have traditionally had an important say in the development of the Argentine economy, but since the mid-1970s when a new ‘regime of accumulation’ was set in place they acquired an increased and renewed significance leading to a dominance they had not had up to then. Under the import substitution industrialization (ISI) strategies of the 1940s, 1950s and 1960s, their importance was circumscribed to some large banks, industries and exporters, for example in the automobile, steel, petrochemical, and food and textile industries, apart from the traditional petroleum and cereal export conglomerates. Nevertheless, they operated in an environment characterized by the relative predominance of small and medium-sized business. Needless to say under ISI some of the largest companies were public services or producers of what were considered to be strategic goods (petroleum, steel or coal), all of

which were public companies or entities that were state operated. In this context large conglomerates and economic groups did not have the hegemony they were to acquire later on under neoliberalism. Thus, since the mid-1970s large companies – forming economic groups and/or conglomerates – acquired an increased significance, but they sustained greater importance still in the 1990s when the SAP was implemented.

On the whole policies having a special significance for the new elite establishment of large companies had to do with three major developments. First there is the foreign debt that increased significantly under the military dictatorship, and continued doing so thereafter, in particular in the 1990s after the Argentine government adhered to the Brady Plan. Second, the privatization program, deregulatory measures, and ‘opening’ to the world economy in the 1990s favored substantially the new and old conglomerates. Third, the overall dynamics of the Argentine economy in the 1990s led to a substantial concentration and centralization of capital and to the consolidation of large firms excluding small and medium-sized business. While some measures favoring large companies and economic groups began in the 1970s under the military dictatorship it was under the Menem administrations of the 1990s that they consolidated their economic and political power. And this process continued thereafter under the De la Rúa and succeeding administrations.

According to Minsburg, ‘foreign indebtedness and (the associated) capital flight was the culmination of a long process for the purpose of strengthening the alliance between domestic economic groups, the (agrarian) oligarchy and transnational capital’ (Minsburg, 1987: 105, author’s translation). Policy measures adopted during the military dictatorship (1976–83), known as ‘*proceso*’, were designed to favor financial and speculative activities associated, in one way or another, with foreign debt contracted in this period. The financial reforms of June 1977 ‘flexibilizing’ financial operations were instrumental to this effect. A new era of foreign indebtedness began and foreign debt increased from about US\$7 billion in 1976 to over US\$46 billion in 1983 at the conclusion of the dictatorship. The bulk of this indebtedness was contracted between 1978 and 1982. Foreign indebtedness also acquired a renewed significance in the 1990s under the fully fledged SAP of the Menem administration increasing from about US\$61.3 billion in 1991 to US\$139.3 billion in 1998. In these latter years foreign debt was combined with an important privatization program and became complementary to an intense process of concentration of capital. These factors led to the emergence of new social actors among the economic establishment: local and foreign banks, new privatized firms, and concentrated conglomerates in industry and the services, all forming part of a new structure of Argentine society.

Under ISI large companies coexisted side by side with medium and small business that represented an important part of the economy. However, under the new regime of accumulation that began in the mid-1970s and in

particular during the 1990s this situation changed substantially. Large companies increased their share of the market in almost every sector of the economy, marginalizing small and medium-sized business. In previous periods there had been conflicts between the two main business syndicates: the Unión Industrial Argentina (UIA), representing highly concentrated business; and the Confederación General Económica (CGE), representing a wide range of small and medium-sized firms, many from the interior of the country. Under the new regime of accumulation the UIA gained substantial power, as did some new syndicates representing new participants of the business establishment, while the CGE lost out almost completely.

Foreign Debt and Economic Groups: the ‘Proceso’ and Alfonsín Years

In the early 1970s Argentina was one of the highest income per capita and most industrialized countries of Latin America. It also had one of the more advanced scientific-technologic infrastructures, for example, its electronics industry at the time was said to be on the par with that of South Korea. In this context a more export-led industrialization strategy was in the making, something that appeared to be similar to what was occurring with the NICs of Asia. It was thought that such a strategy could be much more employment-generating than the traditional strategies based on the export of primary goods – agriculture and livestock commodities and petroleum. Nevertheless, this strategy was soon set aside. Since the mid-1970s an important role was assigned to foreign indebtedness and to local and international financial interests, a strategy that increasingly diverged from the industrial exports strategy concocted in the early years of the decade. Why was this strategy adopted? Apparently a growth policy that implied increasing industrialization would have favored a national bourgeoisie and its alliance with labor, something that could have been confrontational with the traditional alliance of agrarian oligarchic interests with foreign capital (Minsburg, 1987; Teubal, 1993).

Foreign indebtedness became a core aspect of the economic policies adopted during the military dictatorship, which led to a restructuring of the economy. Ninety percent of the new indebtedness corresponded to finance activities, that is, operations not associated with imports or exports of commodities or capital goods. From the end of 1976 to the end of 1983 total foreign debt increased by almost US\$39 billion, and interest on foreign debt rose from US\$515 million in 1976 to US\$ 5.4 billion in 1983. The mass of accumulated interest in this period amounted to US\$19 billion, most of which was paid while only a minor proportion was rolled over. ‘This drastic increase in indebtedness had a clearly defined purpose (. . .) to integrate Argentine finances into international financial markets, freeing exchange rates and establishing the full mobility of capital’ (Minsburg, 1987: 101, author’s translation).

Several were the mechanisms used to enhance foreign indebtedness in

this period. Government enterprises in certain public utilities were induced to finance themselves via foreign indebtedness; this indebtedness was considered more 'genuine' because, as was claimed, it tended to be less inflationary. In fact, during the crisis of 1981 state companies were not permitted to make use of the funds provided by their indebtedness for their own operational needs, or to carry out required investments. These funds were appropriated by central government and put to other speculative uses by transferring them to foreign exchange markets. In essence, this mechanism was used to provide the government with the necessary foreign exchange to finance capital flight, something that occurred notably during the crisis of 1981–2. Needless to say, funds that could have been used to increase investments in public services enhancing their efficiency were not carried out. This aspect of public policy was also related to the political need to show that public companies were 'inefficient' and the main cause for fiscal deficits. Thus, the necessary scenario for the massive privatization of the public services was deliberately created.

Most of private foreign indebtedness in this period was endorsed or guaranteed by government, permitting local companies to have access to international loans at lower interest rates. As a matter of fact this was one of the reasons for the substantial indebtedness in this period. The government eventually paid many of the private loans that were not honored. However, a fully fledged investigation of this situation was never made. While many foreign loans were canceled with funds provided by the national treasury, 'neither the Banco de la Nación Argentina nor the Banco Nacional de Desarrollo, as entities that had taken charge of these loans, (...) initiated investigations tending to recuperate the sums paid by the state' (Cafiero and Llorens, 2002: 134). Key measures tending to make foreign indebtedness profitable were related to the Financial Reforms of 1977 and 1979 when controls on finance activities and mobility of capital were eliminated, full liberalization of financial transactions took place, and an absolute guarantee of the state for these operations was established. Furthermore the Central Bank established a mechanism whereby interest was to be paid on the funds immobilized by the banks by law, in accordance with declarations made by the banks, a factor that was thereafter subject to illegal claims.

Government policy thus provided numerous incentives for foreign indebtedness. In 1978 government established a pre-determined exchange rate system, a 'crawling peg' whose increase tended to be lower than the domestic rate of inflation, thus becoming a mechanism that contributed to a trend towards balance of payments deficits. Through this mechanism foreign indebtedness was guaranteed: while government made sure that local interest rates in pesos transferred into dollars were higher than international interest rates, financiers were induced to invest in the local financial money markets. Exchange rates were managed so as to guarantee the profitability of these loans on the basis of the maintenance of differences in domestic and international interest rates. This

guaranteed substantial profits for local and international money markets. Much of this foreign debt was fictional because funds provided were based on funds deposited in international banks abroad by Argentines as a consequence of previous capital flight. These funds also provided a collateral to foreign banks for local indebtedness. These aspects of foreign indebtedness are what made Argentina's foreign debt essentially illegitimate (Basualdo, 2001: 43).

But this highly speculative scheme was soon to end in disaster. By the early 1980s balance of payments deficits were increasing and funds began pouring out of the country. The government responded by obliging public utilities and state firms to increase their foreign debt and to transfer funds thus obtained to the foreign exchange market for the purpose of financing capital flight. Nevertheless, a run on the banks led to a series of bankruptcies, making this scheme untenable. In 1981 a 500 percent devaluation was carried out. But the interests of the large economic groups were safeguarded by an exchange rate insurance, contracted after the fact. Private foreign debt was eventually transferred to government, that is, was wholly 'nationalized'. During the Alfonsín administration, the whole scheme was legitimized when a new stabilization program was signed with the IMF with no critiques concerning the legitimacy and legality of this enormous increase in foreign debt and its transference to government during the military dictatorship was made. 'The *Plan Austral* [of the Alfonsín administration], fully supported by the bankers, had as one of its implicit conditions that the foreign debt would not be investigated or questioned, which originated a famous debate in Congress' (Cafiero and Llorens, 2002: 97, author's translation). The Alfonsín government did not heed to numerous critiques made at the time concerning this foreign debt, nor did it question its legality, something that at the time was being contested in the judiciary.

This enormous indebtedness had nothing to do with industrialization or investments; on the contrary, it was contracted in a context of overall stagnation and deindustrialization. It was used: a) to finance military and repressive expenditures and operations; b) for the construction of several highways and a gas pipeline; c) to finance the 1978 world football cup played in Argentina; and d) the bulk of this indebtedness was used to finance speculative financial activities and capital flight. This period saw the beginning of a correspondence between the increase in foreign debt and deposits abroad of Argentine nationals that continues up to today (Basualdo, 2000: 49, 2001: 37). The Morgan Guaranty Trust estimated that between 1976 and the end of 1982 capital flight in Argentina amounted to US\$28 billion (Minsburg, 1987: 102). And World Bank estimates register a capital flight in 1978-81 of more than US\$31 billion (Basualdo, 1994: 32).

While capital flight has been usual in Argentina, it was enhanced significantly during the military dictatorship. This was related in part to indebtedness in dollars by the public enterprises that brought foreign exchange into the

country with no restrictions, and then sold it in the local money markets to people who were interested in withdrawing from the local economy their speculative profits or the liquidity they obtained in financial operations. In a second phase new external credits were obtained with the guarantees provided by government, as well as on a basis of funds deposited abroad that were taken as a collateral (Basualdo, 2000; Cafiero and Llorens, 2002).

What also made these operations profitable was the fact that they were based on a pre-ordained exchange rate, on the one hand, and local interest rates being higher than international rates, on the other. These operations were dubbed the '*bicicleta financiera*' ('financial bicycle'). Thus, the 'perverse' Argentine debt (Calcagno, 1986) became associated clearly with the economic strategy of the military dictatorship. Its main beneficiaries were government officials, the military and the elite economic establishment, via the enormous profitability guaranteed to local and international financial activities. Some of the names representing newcomers of the economic establishment were Pérez-Compagné, Rocca, Macri, Soldati, and Bulgheroni. Of course foreign creditors also acquired an enormous leverage over local policy measures, to a large extent via what were to become IMF conditionalities.

The role of the state was fundamental in this model of *financial valorization*. First because local state loans of public utilities were instrumental in the maintenance of high local real interest rates relative to international rates. Second because foreign indebtedness was what provided the foreign exchange that was to finance capital flight. And third, by assuming losses during devaluation and by transferring to the state this foreign debt the elite private sector was substantially subsidized. Thus foreign debt transferred to the state was thrust upon the shoulders of the population at large (Basualdo, 2000: 29–31). As mentioned above the 'solution' to the crisis adopted by Domingo Cavallo, at the time President of the Central Bank, was implementing an exchange rate insurance to 'facilitate' local private debtors to pay their foreign debts. Thereafter this debt was transferred to the state, a process that continued throughout the 1980s. All this implied a transfer of public funds to the more concentrated segments of capital. It was estimated that only 28 local economic groups and 102 transnational corporations concentrated at the time 64 percent of private foreign debt (Basualdo, 1987; Kulfas and Schorr, 2003: 23). According to Basualdo private debt representing more than US\$10 billion was transferred to the state in this period (Basualdo, 2000: 24).

Another means whereby large economic groups and foreign capital were subsidized by transferring their debt to the state in the period 1981–9, had to do with the capitalization of this debt via the redemption of foreign debt via exchanges for net worth pertaining to the public services in the process of being privatized. In Argentina this 'capitalization of foreign debt' was devised in 1985, though initially it was not associated with privatizations but with the transfer of private debt to the state, which had not been done before, when the exchange

insurance regime was applied. Added to this were other subsidizing schemes of large companies, such as state overvaluation of purchases of goods and services, and other mechanisms. It is estimated that total state transfers to the more concentrated capital amounted to US\$105 billion in the period 1981–9, a magnitude similar to the total yearly GNP of Argentina. The main beneficiaries of these subsidies were economic groups or conglomerates such as Pérez Companc, Techint, Siemens and FIAT (Basualdo, 2000: 24–5). During the Alfonsín administration the enormous foreign debt contracted during the military dictatorship and then transferred to the state was legitimized. The critique made by Olmos, the lawyer who initiated legal proceedings with regards to the foreign debt, declaring it illegitimate precisely because it was on the whole based on monies deposited abroad by Argentineans and the fact that it was contracted during a military dictatorship (odious debt) was not considered.

The power acquired by the elite economic establishment was enormous. This is reflected in the ‘economic coup’ of 1988–9, which appeared to have been as a response to the Alfonsín administration that had momentarily stopped servicing foreign debt. Wholesale capital flight induced the hyperinflation of 1989 leading to a chaotic social situation and to Alfonsín’s resignation, six months prior to the end of his term in office. According to some studies, this ‘economic coup’ also reflected conflicting interests of foreign creditors vis-à-vis local economic groups (Basualdo, 2001: 54). In 1991, under the Convertibility Plan of Cavallo, these diverse interests were finally reconciled. Thus, the ‘economic coup’ of 1989 induced by an economic establishment led to wholesale capital flight, to an accelerating devaluation, and hence to the hyperinflationary spurts of the 1989–91 period. This then led to a need for new ‘disciplinary’ measures to be imposed on a large part of civil society in the 1990s.

The Menem Years: Convertibility and Structural Adjustments

In many ways the Menem years have become emblematic with regard to the importance acquired by national and international economic groups, banks and financial interests in Argentina. In this period the interests of these groups were enhanced by the continuing indebtedness of government combined with a vast privatization program and widespread deregulatory measures, which formed part of the severe structural adjustments adopted throughout the decade. The legitimacy of the structural adjustment program was initially based on the success of the so-called Convertibility Plan of 1991 that managed to bring down inflation and inflationary expectations that had characterized the 1989–91 period. With the Argentine peso fixed on a par with the dollar devaluation expectations were controlled. This was combined with the adoption of measures such as the full liberalization of capital flows to and from the country. The new-found price stability and growth process of the early 1990s were instrumental in paving the way for the adoption of a fully fledged SAP.

Under the Convertibility Plan of 1991 a fully convertible peso pegged to the dollar on a one-to-one basis was established, and price indexing was prohibited by law (except when applied to certain public rates after the main public services had been privatized). All money creation not backed by foreign exchange reserves of the Central Bank or by the inflow of capital from abroad (including new indebtedness) was prohibited. Having been established by a Law of Congress, the Convertibility regime had the ostensible purpose of eliminating all government discretionality with regard to monetary and foreign exchange policies. Its effect was putting Argentina on a Gold or Dollar Standard scheme, limiting the functions of the Central Bank to that of an exchange broker. In implementing this plan, Minister of the Economy Domingo Cavallo's main objective was to bring down inflation by drastically eliminating devaluation expectations. He also sought to establish a new and enduring monetary and foreign exchange regime that would permit him to apply a drastic structural adjustment program. This was part of a 'shock therapy' strategy, whose application was due in large measure to political considerations: Menem needed to let it be known that he was *not* going to apply a typically Peronist (that is, nationalistic and populist) economic strategy, despite his electoral promises (Teubal, 2000/2001).

Thus, once in power, Menem implemented this extreme neoliberal program. All prior industrial, regional and export promotion regimes were suspended and the advantages local manufacturers had in providing for state purchases were eliminated. Government finances were controlled; indirect taxes on consumption were increased, affecting mostly the middle and working classes. But some of the main measures that formed part of this structural adjustment program are related to the way new foreign indebtedness was combined with the privatization program. More than 30 state public enterprises, the bulk of the state enterprise system, were privatized. Observers noted the swiftness and thoroughness with which the Argentine government carried out this program in the early 1990s. Privatization reached such diverse areas as telephones and communications, airline companies, petrochemicals, petroleum, about 10,000 km of highways, railways and other transport systems, natural gas distribution, electricity, water, iron and steel industries, coal, a series of firms in the defense area, hydroelectric dams and other varied items such as television channels, hotels, port facilities, silos and horse-racing stadia.

By late 1993 privatization had earned more than US\$15 billion for the government, though net worth transferred was much greater. About US\$5.8 billion corresponded to the capitalization of public debt (domestic and foreign) in large measure on the basis of exchanges of bonds valued mostly at their face values for net worth (Azpiazu, 1994). However, the privatization program excluded the institutionalization of efficient regulatory boards, which in the First World are an essential part of most privatization programs. It was also carried out in the wake of much corruption, and a judiciary, including the

Supreme Court, operating according to the wishes of government, in implementing at all costs this privatization program even if many of the measures adopted were contrary to prevailing law.

The privatization of water is emblematic in this respect with regard to the overall privatization spree. The state-run National Sanitation Service (Obras Sanitarias de la Nación, OSN) created in the late 19th century, provided water services until they were privatized in 1993. The OSN functioned relatively well throughout its history until in recent years it suffered technical deterioration and a lack of government funding which caused a dramatic drop in the quality of its services in the mid-1970s. But prior to presenting the company to potential bidders, rates were increased several times: 25 percent in February 1991, 29 percent two months later, 18 percent in April 1992, another 21 percent when the VAT was introduced, and just prior to privatization another 8 percent. The terms of the bidding process stipulated that the concession go to the bidder offering the lowest base rate along with an investment plan for improved and expanded services. The government promised the population healthy and environmentally sound water and sewage services at the cheapest possible rates.

The concession was won by Aguas Argentinas, whose leading owners were Suez Lyonnaise de Eaux-Dumez and Vivendi. Nevertheless, the new company solicited an 'extraordinary revision' of rates only eight months after the concession because of 'unforeseen operating costs'. Thereafter rates continued increasing much beyond contractual arrangements. Nor did the company implement expanded services and investments providing for additional potable water and sewage services to the extent promised in the contracts signed. The profitability of the company was shown to be much greater than those of equivalent firms in Europe and elsewhere.

In December 1992 the Brady Plan agreement on foreign debt was reached. Old bonds that had been issued by private banks were exchanged for new Brady bonds with a certain reduction of interest rates. But the gist of the matter was the fact that through this mechanism the foreign banks were divested of their exposure to Argentina's foreign debt that was now transferred to individual bondholders, thus atomizing the foreign (and local) creditor universe. For this reason when default of foreign private debt was declared in early 2002, the main creditors affected were the retired and pensioners mostly of Europe and Japan that had been (ill-) advised by the banks to purchase Argentine government bonds due to their very high profitability.

Another financial deal that was to favor the financial establishment of Argentina as well as international financial interests was the privatization of a substantial portion of pensioner and retirement funds. Early in 1994 any person in Argentina had the option of choosing a private pension or retirement fund to manage the funds provided for his or her own retirement instead of the state. This implied that a substantial portion of potential government income was transferred to the AFJP, which is the private administrator of pension and

retirement funds. Money withheld from government contributed to the fiscal deficits that were to characterize the late 1990s and to the subsequent increases in foreign indebtedness.

It has been estimated that in the period 1994–2003 over US\$30 billion were transferred to these private pension and retiree funds. These companies associated with local and international banks charged US\$10 billion in commissions. At the same time the payments that employers were required to make to the overall pension system were eliminated. These factors represented additional subsidies to local firms to the tune of US\$35 billion. Thus about US\$65 billion was the amount the government did not receive due to the creation of this private pensioner and retirement funds system. This was money transferred outright to finance interests and private firms (see *Página 12*, 31 August 2004).

The ‘opening’ of the economy not only contributed to deindustrialization due to the persistence of an overvalued exchange rate that led throughout the period to balance of trade deficits, which required increased foreign indebtedness. It also was instrumental in causing a greater vulnerability of the economy to external shocks. Thus the Mexican *tequila* and Brazilian *caipirinha* crises in particular, contributed substantially to capital flight and hence to deepening trends towards depression.

Concentration and Centralization of Capital

One of the main results of the structural adjustment program in the 1990s was that it gave leeway to large transnationals, both local and international, in controlling an increased portion of the market both in industry and the services. These large economic groups, some of which participated in many privatizations, were also beneficiaries of an intense process of concentration and centralization of capital in many services and industries. Take the case of the agro-food system of Argentina, the production, processing and distribution of food and agricultural commodities. The 1990s were a period of great transformations in the agro-food system, which contributes substantially to global GNP and employment, and that provides the bulk (about 60 percent) of Argentina’s exports (Teubal and Rodríguez, 2002). One of the main agro industries of this period in terms of its contribution to exports (mainly soy) and production, though not necessarily in terms of its employment creation, was the vegetable oil industry. While the five most important oilseed industries exported 38.7 percent of vegetable oils in 1990, this proportion increased to 57.9 percent in 1998. In 2002 the five main exporters of soy exported 80 percent of this item. A similar situation occurred in other agro industries. In the 1990s the seven largest milk industries dominated mostly by two of them, SanCor and Mastellone, managed to control 80 percent of the market. As was to be expected the cereal exports in general are controlled by seven firms – Cargill, Bunge, Nidera, Vicentín,

Dreyfus, Pecom-Agra and AGD – that managed to corner 60 percent of the volume of these exports.

The 1990s was also the decade in which supermarkets increased substantially their share of the market, marginalizing or even expelling numerous small and medium-sized businesses, and thereby contributing substantially to unemployment. On the whole supermarkets (both wholesale and retail) increased their share of the Greater Buenos Aires market from about 27 percent in 1984 to over 50 percent in 1997. Eight large supermarkets carried out the bulk of these sales. A similar situation occurred with different shopping centers.

Not only was there a consolidation of the largest firms both in industry and in the distribution of food towards the end of the 1990s, this process went along with the increased foreign control, of key segments of the overall agro-food chain. Among the transnational firms that participated in these processes were Unilever, Nestlé, Nabisco, Suchard Kraft, Philip Morris and Danone in pastas, bread products, pastry etc; Heinz in pet foods; Parmalat in yogurt and other milk products; and Luksic, Brahma and Warsteiner in beer. Many of the traditional firms of Argentina, such as Bagley, Terrabusi, and Villavicencio, were bought by transnationals. An important development in Argentina in this period was the diffusion of soy and since 1997, genetically-modified soy. The seed industry has thus become dominated by Monsanto and its affiliates, which also were a licensee of Round-up, the herbicide whose sales expanded substantially as new seeds massively distributed were precisely resistant to it.

This concentration and foreign control extended to the banking system too. In January 1995 there were 205 banks in Argentina, of which 33 were publicly owned. By November 1998 this number had been reduced to 127, with only 17 publicly owned banks remaining. In 1994 foreign banks represented only 15 percent of total assets of the banking system. By December 1997, they controlled 40 percent, and at the end of 1998, 53 percent, a percentage representing a much higher share of banking than that existing in other countries. On the whole in the 1990s there was a marked trend towards the transnationalization of the economy, with large transnationals acquiring an increased share of the assets of the largest companies. During the 1990s prior to the present crisis transnational groups bought 426 firms for a total of US\$29 billion. With these acquisitions foreign companies managed to control more than half the assets of the largest 1000 companies of Argentina, representing 30 percent of GDP (Teubal, 2001: 52).

Crisis, Default and Devaluation

After 1998 Argentina's gross national product stopped increasing. Stagnation was looked upon as an omen that could easily lead to crisis. Yet despite an increase in social protest, and the change in the overall socio-political climate

that had led to the defeat of the peronist candidate Duhalde in the presidential election of 1999, the new government of De la Rúa proceeded to betray electoral promises and continued implementing strict adjustment policies. Increases in taxes, reduction of wages and additional laws for the 'flexibilization' of labor markets, were some of the measures adopted, none of which were counter-cyclical in nature with regard to the impending crisis.

A debate started in Argentina with regard to the persistence of convertibility and the presumed need to avoid a default at all costs in the servicing of foreign debt. Some, including the protracted hard line Menemistas, imbued with extreme orthodoxy, proposed advancing towards the fully fledged dollarization of the economy, a measure that had been adopted quite unsuccessfully in Ecuador. Others insisted on the need to end convertibility, devalue and hence induce a required export strategy, a measure that nonetheless also implied enormous social costs. Once again the establishment was torn apart with regard to alternative projects that represented different interests. Social protests were on the rise, leading to the massive rebellion of 19 and 20 December 2001.

Machinea, the first Minister of the Economy of the Alianza, and then Cavallo called upon to 'save' Argentina from the impending crisis and adopted new adjustments and schemes trying to generate 'confidence' in international financial organizations. But their actions only served to deepen the crisis: Machinea's *'blindaje financiero'* ('financial armour plate') of December 2000; the rapid passing through government of Lopez Murphy with his extremist adjustments; and then finally Cavallo supported by an 'amalgamation of banks and the media' (Cafiero and Llorens, 2002: 126) only made things worse. Nothing was to stop the run on the banks and capital flight. Cavallo's 'expertise' this time failed lamentably. Despite the great powers that were given to him by Congress (April 2001), and his *megacanje de deuda* (mega debt swap, June 2001) supported by his friend David Mulford of Credit Suisse and J.P. Morgan-Chase that implied restructuring foreign debt to the tune of US\$30 billion, the crisis could not be controlled. In this debt restructuring process 65 different types of bonds, most of them denominated in dollars, for a total of US\$28 billion were rescued. They were exchanged for five new types of bonds for a value of US\$30 billion, but with future interest rates that amounted to US\$85 billion, and of course an enormous commission paid to Cavallo's banking friends. Argentina was to pay a yearly interest of 18 percent, 13 percent higher than interest on US treasury bills. Thus Argentina's overall foreign debt increased to the tune of US\$115 billion.

But this 'magic' was of no use. A series of additional measures for the purpose of restructuring a rapidly increasing foreign debt could do nothing to stop the drain of domestic funds, pertaining in particular to the establishment. New funds available could not stop the irresistible drain of funds until in late November 2001 the 'corralito' was created, thus prohibiting the withdrawal of deposits – mostly of small operators – from the banking system. This was the

drop that overflowed the cup. The rebellion of 19 and 20 December precipitated the fall of Cavallo and De la Rúa. The latter had lasted only two years in office, but he will go down in history as being one of the most inept of all presidents in Argentine history, and also one responsible for the deaths of at least 40 people due to repression.

During the short period of Rodríguez Saa as president, default was declared; in reality this was a default on private foreign debt. Argentina continued servicing her financial obligations with the IMF and other international financial organizations. In early 2002 the peso was devalued. Convertibility finally came to an end. At that moment pressures of all kinds began to be exerted on government. Devaluation went along with the *pesification* of deposits and loans. But this pesification was asymmetrical. Deposits were pesified at a rate of 1.40 to the dollar but bank loans were considered at 1 peso per dollar. However banks had already withdrawn their funds from the country or had contracted debts with their home offices. Foreign banks did not honor local deposits, despite the fact that previous presidents of the Argentine Central Bank had declared that the financial system was 'solid' due basically to the fact that the bulk of the banking system by then was foreign owned, and that the head offices of these banks would surely honor local deposits. This, of course, did not occur, and it severely questioned the legitimacy of the banking system as a whole.

Conclusion

As was mentioned above, after devaluation the anatomy of Argentine society was suddenly brought to the fore. The newly formed privatized companies pressured the government for increases in public rates so as to redress their profitability in dollar terms, which had fallen due to devaluation. The banks did so too, because of the asymmetry in the pesification process. Foreign creditors lobbied against the default, this time supported by an atomization of the creditor field in which small pensioners and retirees were stuck with defaulted bonds. And there was the vast amount of people that were the true losers of the crisis: unemployment reached 25 percent, and if underemployment is considered this implies that over 50 percent of the population was in some way unemployed. Poverty escalated to over 50 percent of the population, 10 million of whom were extremely poor, that is persons remaining below the indigence line. Devaluation also caused wages to fall drastically. One of the responses of government was the wholesale distribution of *Planes Trabajar*, a sort of unemployment subsidy that amounted to a bare 150 pesos per family (about US\$50 at the current foreign exchange rate).

Thus, Argentine society was substantially transformed in comparison with what it was 20 years before. Income distribution worsened tremendously, access to food, employment, health, housing and security have been trampled

upon, as a consequence of the chaos created by what could be termed a system of ‘legal’ but not necessarily ‘legitimate’ *macroeconomic looting*, in the wake of the so-called process of *financial* valorization. A system that had given priority to large economic groups and conglomerates thus led to the wholesale transfer of income and wealth to these interests. The rest of society has remained devastated, lacking food, health, education, security, adequate housing, etc. This can be also visualized as part of a vast process whereby the state adopted a series of transfer mechanisms of income and wealth in favor of these ‘privileged’ sectors. These measures did not only serve to increase growth and accumulation – on the contrary, the performance of the economy in recent years has been notorious – but the social consequences and social costs they caused has created an enormous predicament for the future of Argentine society.

REFERENCES

- Azpiazu, D., Basualdo, E. and Khavisse, M. (1989) *El nuevo poder económico en la Argentina de los años 80*. Buenos Aires, Legasa.
- Azpiazu, D., Basualdo, E. and Khavisse, M. (1994) ‘La industria argentina ante la privatización, la desregulación y la apertura simétricas de la economía’, in D. Azpiazu and H. Nochteff (eds) *El Desarrollo Ausente. Restricciones al Desarrollo, Neoconservadurismo y Elite Económica en la Argentina*, pp. 41–60. Buenos Aires: FLACSO.
- Basualdo, E. (1987) *Deuda externa y poder económico en la Argentina*. Buenos Aires: Editorial Nueva América.
- Basualdo, E. (1994) ‘El impacto económico y social de las privatizaciones’, *Realidad Económica* 123, Apr–May.
- Basualdo, E. (2000) *Acerca de la naturaleza de la deuda externa y la definición de una estrategia política*. Buenos Aires: Universidad Nacional de Quilmes, FLACSO, Página/12.
- Basualdo, E. (2001) *Sistema político y modelo de acumulación en la Argentina*. Buenos Aires: Universidad Nacional de Quilmes, FLACSO, IDEP.
- Cafiero, M. and Llorens, J. (2002) *La argentina robada. El corralito, los bancos y el vaciamiento del sistema financiero argentino*. Buenos Aires: Ediciones Macchi.
- Calcagno, A. (1986) *La Perversa Deuda Argentina. Radigrafía de dos deudas con dos víctimas muy diferentes: la Erendida con su abuela desalmada y la de Argentina con la Banca Internacional*. Buenos Aires: Editorial Legasa.
- Giarracca, N. and Teubal, M. (2004) ‘“Que se vayan todos”: Neoliberal Collapse and Social Protest in Argentina’, in J. Demmers, A.E. Fernández Jilberto and B. Hogenboom (eds) *Good Governance in the Era of Global Neoliberalism. Conflict and Depolitisation in Latin America, Eastern Europe, Asia and Africa*, pp. 66–90. London and New York: Routledge.
- Kulfas, M. and Schorr, M. (2003) ‘Deuda externa y valorización financiera en la Argentina actual. Factores explicativos del crecimiento del endeudamiento externo y perspectivas ante el proceso de renegociación’, *Realidad Económica* 196, Aug.–Sept.

- Minsburg, N. (1987) *Capitales extranjeros y grupos dominantes argentinos*, Vols 1 and 2. Buenos Aires: Centro Editor de América Latina.
- Teubal, M. (1993) 'Argentina: Fragile Democracy', in B. Gills, J. Rocamora and R. Wilson (eds) *Low Intensity Democracy. Political Power in the New World Order*, pp. 33–42. London and Boulder, CO: Pluto Press.
- Teubal, M. (2001) 'From Import Substitution Industrialization to the "Open" Economy in Argentina: The Role of Peronism', in J. Demmers, A.E. Fernández Jilberto and B. Hogenboom (eds) *Miraculous Metamorphoses. The Neoliberalization of Latin American Populism*, pp. 22–59. London and New York: Zed Books.
- Teubal, M. (2000/2001) 'Structural Adjustment and Social Disarticulation: The Case of Argentina', *Science & Society* 64(4) Winter: 11–20.
- Teubal, M. and Rodríguez, J. (2002) *Agro y alimentos en la globalización. Una perspectiva crítica*. Buenos Aires: La Colmena.

Miguel Teubal is Professor of economics at the University of Buenos Aires and researcher of the National Council for Scientific and Technological Research (CONICET, Argentina). He has published widely on the political economy of food, agriculture and poverty in Latin America and Argentina. Recent books and articles include: 'Tierra y reforma agraria en América Latina' (*Realidad Económica*, December 2003), 'Soja transgénica y la crisis del modelo agroalimentario argentino' (*Realidad Económica*, May–June 2003), *Agro y alimentos en la globalización: una perspectiva crítica* (with Javier Rodríguez, La Colmena, 2002), and *Globalización y expansión agroindustrial. Superación de la pobreza en América Latina?* (Ediciones Corregidor, 1995). He has also contributed chapters to the recent books edited by Alex E. Fernández Jilberto and André Mommen and to *Miraculous Metamorphoses* of the present editors with Jolle Demmers.

Address: Washington 2839 (1430), Buenos Aires, Argentina.

Email: [teubal@mail.retina.ar]