

FROZEN SAVINGS AND DEPRESSED DEVELOPMENT IN ARGENTINA

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1. Argentina: Sociopolitical Crisis and Debt-Devaluation Crash

In December 2001 Argentina fell into a socio-political crisis, triggered by a government freeze of savers' U.S. dollars banking deposits in order to prevent further capital flight after three years of economic depression and under an IMF-led stop to international lending.

The sudden results of frozen savings were open social turmoil by middle class savers, food riots and institutional crisis after the fall of de la Rúa/Cavallo government, with following default on bilateral lending and then currency devaluation (after ten years of Convertibility, with peso pegged to the U.S. dollar in a 1 to 1 fixed exchange rate). The fall of peso went quickly beyond control under panic behaviour in financial markets: three months later it reached level 3, being a 66% devaluation against U.S. dollars, to slide further around 3,39 level, or 70% devaluation at the end of 2002, with wide volatility swings. The huge depreciation of Argentina's currency caused several further crashes and defaults on private and public debt denominated in U.S. dollars, widening the wave of recession.

The 2002 year was catastrophic for Argentina, with its worst development crisis ever (-16% in GDP growth), while the 2003 expected stop to the fall (+1%, according to IMF estimates in September) risk to be too wishful thinking to be true. Inflation at 29% is the result of the currency crash, blocked by depression wave from an estimated 50% just after devaluation. Only current account balance, buoyed by huge devaluation, has shift from deficit to 10,8% surplus of GDP.

In order to analyse the depth of Argentina's current crisis we must keep in mind its complex dimensions ranging across space and over time.

Like other recent financial crises of the '90s (Mexico, 1994/95, Asia, 1997/98 Russia, 1998 and Brasil, 1998/99), Argentina's crisis began both from international financial markets (external widening of crisis), as production contagion by devaluation of Brazilian currency, the "real", depressed internal competitiveness, as well as country's sociopolitical turmoil (internal deepening of crisis) (see Bortot 1995/96, Soros, 1998, Bortot, 1999a, Lamfalussy, 2001).

Argentina crisis has however also specific roots into its own historical model of development.

The sequencing of events in Argentina's crisis shows a mix of global crises (Table

1) by external shock and internal impact, while further contagion has been limited till now to real economy depression waves into GDP growth in neighbouring Mercosur economies like Paraguay, Brasil (whose GDP growth has been cut from 4,4% to 1,5% in 2000/2001) and above all Uruguay (negative growth from 1999 to a -11,1% in 2002). Financial contagion has however been contained.

Argentina's current crisis is made by a mix of different crises:

- * economic crisis by recession and deflation after Brasil "real" devaluation
- * financial crisis by capital flights and public balance in deficit
- * banking crisis by frozen savings deposits in U.S. dollars ("corallito")
- * social crisis by food riots and streets turmoil ("cacerolazos")
- * political crisis by resignation of Economy super-minister Cavallo and president de la Rúa
- * debt crisis by IMF deny of further lending and Argentina's default on foreign bilateral debt
- * institutional crisis by president/governors of Provinces clash on economic policy
- * currency crisis by devaluation of peso against U.S. dollar after socio-political collapse.

The following analysis will not focus on specific socio-political issues: we must however not forget the effects of food crisis in a primary agro-exporter country (supermarkets assaults by rioting people, child deaths by malnutrition) and judicial crisis (government/Supreme Court conflicts over the constitutionality of "corralito", frequently successfully questioned in lawsuits actions by wealthy private savers).

The time roots of Argentina's current crisis can be highlighted by the approach of French historian Ferdinand Braudel, (1969) about different types of histories (and crises):

- * crisis "événementielle": Argentina's sensitivity to Brazilian "real" devaluation, 1999/2002
- * crisis "structurelle": rise and fall of Argentina's convertibility-led stabilization, 1991/2001
- * crisis "longue durée": Argentina stop/go development in XIXth century and after 1929.

Argentina crisis can give a better understanding of the role played by internal savings for a long-run development as a counter-example of what cannot be done in

policy-making and social development strategy. It shows how an emerging high income country can "underdevelops" over time and collapse when its internal development weakness are exposed to international capital markets volatility as financial subjects behaviour shift from euphoria to panic.

We can therefore examine at first the latest crisis (1999/2002) in its twin element of economic production (with depressed development) and financial resources (hit by capital flight and frozen savings, with following debt default and devaluation), and the role played by a poor credibility in policy-making, due to a change in economic and political situation but linked to historical roots.

Then we shed some light on Argentine's currency and debt policies by examining the structural results of Convertibility Plan (1991/2001) according to its key elements, focused on increased role played by financial expectations in macro-stability and development:

- * stabilization with growth years (1991/98)
- * external shock sensitivity to tequila effects (1994/95) and samba effects (1998/99)
- * declining political consensus to Convertibility Plan (after 1995 crisis).

We highlight the origins of Convertibility by analysing it as a last resort stabilization model from alternative theories of currency policies, debt policies and financial crises in order to understand development strategies pursued by Argentina's governments along the road to stabilization and growth followed in the '80s, from IMF-orthodox therapies to heterodox Plan Austral.

These structural elements in Argentina's development strategy must face two "longue durée" historical elements: the key role played by provincial governments in rural development under federalism, with its fiscal balance implications against external financing needs focused in IMF policy advice, and the key role played by agro-export staple model with its polarised income distribution, tracing back to Spanish colonialism type of rural ownership structure in large "fazendas" ruled by powerful provincial landlords since the XIXth century. These federal and social segmentations were reinforced after the 1929 crisis by middle class fears of social revolution, that led to stop/go democracy (under several military coups) and stop/go development.

After 2002 debt default and devaluation, some economic and financial alternatives facing the interim Duhalde government under financial panic and socio-political instability are examined:

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- * choice of currency regime
 - * debt strategy and relations with IMF
 - * banking system crisis solution
 - * fiscal policy between austerity and popular consensus.

The reality of a development crash due to lack of internal savings is shown by the analysis of the political economy of Convertibility between government and main social subjects: Argentina recovery needs a social pact policy for reconstruction and development, as a growth model without equity in income distribution tend to rise huge capital flights and poor internal savings available to finance development, that in turn become arrested or dependent from capital inflows.

The simple fact of the popular election of a new president (due in April 2003) is not enough to warrant growth recovery.

2. Key Conjunctural Elements in Argentina's Crisis

2.1. Depressed development: recession and deflation after Brasil's real devaluation

Starting from 14th January 1999, the Brazilian "real" was devalued in the last wave of instability brought by global Asian crisis, enhanced by Russian crisis of August 1998 into international financial markets (Bortot, 1999b).

The crawling peg system adopted by Brasil under Plan Real in 1994 to stop hyperinflation was put aside after months of Central Bank struggle, and the real was left to a free market floating against U.S. dollar. As Convertibility Plan prevented Argentina's peso to do the same, having put the parity in exchange rate against U.S. dollar as Constitutional law, Brazilian real devalued at the same pace against Argentine peso.

The indirect peso/real exchange rate quickly fell from 0,828 before real devaluation into a range of about 0,555-0,500 (at the level of 1,8-2 reais per U.S. dollar prevailing in 1999/2001) being a 35-40% devaluation. A further slide in value of real took place in 2001 till a 2,29 level at the end of the year (peso/real cross rate 0,436, 48% devaluation for Brasil).

The impossibility to follow Brazilian devaluation path in 1999/2001 led then to a competitive disadvantage of Argentina in the face of its "cheap" Mercosur giant trade

partner and alternative host of foreign direct investment enhanced by real devaluation.

While Brasil -after two years of recession and stagnation- experienced a strong recovery (+4,4% in 2000), Argentina was sharply affected by trade and production links with Brasil (Table 2).

Argentina's GDP growth in 1998/2001 showed a sudden "freeze" swing of -11,5% during 1998 (from +8,1% in 1997 and early 1998 and -3,4% in the last months of 1998 and in 1999, with +3,9% being an uneasy mathematical mean of the troubled 1998). The lack of economic recovery (-0,5% in 2000) was quickly followed by a renewed fall (-4,5% in 2001) before the crash (-10,5% in 2001 fourth quarter), due to the collapse of investments (-20% in 2001) and private consumption (-12% in 2001), till the expected 2002 disaster of about -16%, the worst recession ever in Argentina.

This deep production crisis is well shown by the growing level of non-performing loans as compared to the world recorded statistical mean: in 1999 it was at 300%, rising at 400% level in 2000 (Coface/La Viscontea, 2001). Unemployment rose from 12,4% in 1998 (minimum from 1995) to 18% in 2001, climbing toward 25% after 2002 economic collapse.

The overvalued exchange rate of peso against real (already risen by 11% in 1995/98) stopped exports and favoured imports against domestic supply. The "zero tolerance" for inflation led to price deflation (-1% in 1999/2001), a typical feature of economics of depression already emerged during Asian crisis (Krugman, 1999 and Bortot, 1999a and 1999b). The unbearable weight of peso is shown by the fact that a trade deficit emerged in 1997/98, reduced in 1999 by the beginning of recession and deflation, whose deepening created a surplus by under-import sized at 20% of total imports, like an over-adjustment to keep debt solvency at a price of growing social costs in the debt crisis age (De Pinies, 1989).

Manufacturing productivity fell by a gross 18,7% in 1999/2001: building sector crash (-23,3%) was higher than decline in consumption services as commerce and restaurants (-13,2%). In 2001 fiscal cut policy aimed to achieve a "zero deficit" made productivity to collapse in social services (-15,2%) and community services (-9,2%), worsening the social impact of crisis (ISLA, 2001).

Average wages in manufacturing were kept stable in 1991/2001 (before last Cavallo's austerity plan including 10% average wage cuts in public service jobs); wor-

kers therefore were not enjoying the fruit of sustained growth under Convertibility, and this situation led to the fall of Peronists in October 1999 presidential elections followed by three general strikes in 2000 aimed to keep more equity into income distribution and to stop neo-liberal policies and labour market flexibility. Population under poverty line rose from 17% in 1997 to 35% in 2001 before skyrocketing over 50% after 2002 economic catastrophe: a primary agricultural exporting country like Argentina was caught into a food crisis, as confirmed by recent news of children deaths by undernutrition in the poor North-Eastern province of Misiones. When inflation turned into deflation in 1999/2001, Buenos Aires became one of the most expensive city in the world, forcing retailers to launch high discounts aimed to stop consumption slide.

Recession and deflation hit however even middle-high savers financial groups: average per-capita income, after a 26% growth in 1991/98, had a 10% loss in depression years 1999/2001. Growing middle class dissatisfaction – coupled with their frozen savings under "corallito"- rose socio-political instability along with urban industrial workers, long time deluded by Convertibility. The political result was the undermining of the radicals/solidarity left ("Frepaso") coalition government, winner in 1999 elections but soon proved unable to restart growth.

Production crisis of depressed development therefore birthed an unsustainable social crisis, and recurrent debt financing problems grew while the creditworthiness of policy-making fell under the blows of continuous capital flights.

2.2. Frozen savings after capital flights: debts, banks and expected currency crisis

Argentina experienced all elements of a full financial crisis:

- * a debt crisis (default on private bilateral debt after stop of external financing)
- * a bank crisis (run from bank deposits and savings freeze policy of 'corralito')
- * a currency crisis (forced devaluation of a fixed currency),

all of them linked to a policy-making credibility crisis and to the role of IMF. Argentina is a country whose capital flight is well known: since in the building of debt crisis (1974/82) capital outflows (estimated as short-term capital plus error and omissions) were at 35,1% of external debt. If we take into account the difference between total flows and estimated flows as per interest earnings available from fiscal tables, the level grows to 71,8% (Khan/UI Haque, 1987).

Economic theory usually explains capital flights as an effect of several potential causes:

- * perceived overvalued exchange rate, with growing expectations about future devaluations
- * "financial repression" by low interest rates and institutional rules on capital movements
- * fiscal balance deficits and inflationary expectations
- * perceived country risk by political instability
- * more attractiveness of abroad collocation of domestic savings.

In 1991/94 all those elements were absent as Convertibility Plan provided a framework for fiscal austerity, exchange rate stabilization and financial liberalization under a booming financial market for emerging countries. Argentina's country risk was perceived falling, thanks to a strong government that included some neo-liberist reforms into Constitution (1994).

After tequila crisis contagion (1995) fears about overvalued exchange rates and fiscal crisis resurfaced, worsening after 1998/99 global emerging market crisis and new political instability after 1999 presidential election when a perceived populist coalition replaced neo-liberal peronists. A short-term indicator of capital flight under a fixed exchange rate is given by the reduction of currency reserves: in March 1995 –in the storm of tequila crisis- it went to a minimum of 5 billion U.S. dollars, quickly recovering after stabilization from 17,6 billions (end-year 1995) to 27,8 billions in 1999. The liquidity ratio of reserve / months of imports – after a gradual build-up in the stability age 1991/94 from 8,6 to 9,3 - fell to 5,4 in 1995/96 before recovering to 6,7 in 1999 and further declining under depression to 5,9 in 2001. 1999 figure is however enhanced by the proceedings of latest privatisations in telecoms and energy (with foreign direct investment jumping from 7,3 to 23,8 billion dollars, before falling to 11,1 billions in 2000).

Argentina was severely stressed by external debt crisis in the '80s – a lost decade of zero GDP growth with falling per-capita income for households - trying to escape to the debt trap in many ways:

- * moratorium after the return of democracy (1984)
 - * new money under Baker Plan, sponsored by USA and IMF, prelude to Plan Austral for stabilization (but without sustained growth) (1985/88)
 - * debt reduction under Brady Plan with IMF financial support (1991/2000).
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father of Convertibility Plan"- having come back from Ottawa summit without new money by IMF- put savings under freeze ("corallito") in order to stop capital flight and keep at least some U.S. dollars "locked" into Argentina (with currency reserves fallen from 25 to 20,2 billions U.S. in November only) after months of downhill in banking deposits (from 74 to 62 billions U.S. dollars in July/November 2001, with 1,3 billions the day before the freeze), to avoid 1995 dry up effect.

Under "corallito", Argentineans were allowed to withdraw only 1000 pesos a month for each account (1500 during Christmas holidays), inducing therefore savers to multiply their number of current accounts kept in different banks: in the first half of December unlimited queues were seen before banks offices and estimated 600.000 new current account were opened to elude the limits of "corallito". The block was however perceived as the final sign that crisis was about to explode, having exhausted any source of currency financing: with another year of GDP recession ahead, government price bonds went down further to level 25% while interest rate spread skyrocketed to over 5000 level. Only Merval – anticipating a possible beginning of solution of crisis - reduced its loss from January 2001 to 33,2% before falling again to 40% after the explosion of institutional crisis. Frozen savings in fact exacerbated middle class savers and workers into riots, whose bloody repression forced Cavallo and de la Rúa to resign. That spread a wave of institutional instability, not resolved with Duhalde's interim presidency in 2002, hopefully to be resolved after the election of a durable president in 2003 in order to restore policy-making credibility.

In the first half of 2002 however Reuters estimates indicate a further 10-15% loss in banking deposits after a Supreme Court declaration of unconstitutionality of "corallito" (against government will and bureaucratic hurdles to individual lawsuits by affluent savers to obtain savings withdrawal from banks).

Frozen savings are the other side of a cronic high capital flight of internal savings, linked to:

- * high capital mobility under financial liberalization after '70s
- * low policy-making credibility (except in the beginning of Convertibility)
- * low ethical commitment in national development (compared to East Asian countries) by saving groups after Argentina's stop/go historical development path in 1929/89.

Frozen savings and depressed development were the result of a changing mood about Convertibility linked to deeply rooted pattern of external financing and socio-

political evolution, under a long-term trend of capital flights and dried up growth.

2.3. Policy making credibility, institutional instability and IMF's role in the fall of peso

In a growth model based on high capital inflows (needed to pay debt and finance development) credibility of policy-making is a key asset as internal savers are aware of global financial markets opportunities and focused on U.S. dollars rather than internal currency (Agenor, 1994).

In a comparative perspective, Argentina's financial problems are harder than Japan's, where the huge government debt is almost entirely issued in internal currency (yen) toward internal savers. In Argentina instead not only external debt but even a large part of internal debt is issued in foreign currency (U.S. dollars), so the exchange rate of peso to U.S. dollar is crucial for creating a stable development framework. The peso/U.S. dollar parity did not cancel the issue of credibility.

It was the credibility of policy-making under Menem government and Cavallo's Convertibility Plan that allowed - under real exchange rate appreciation - capital inflows needed to regain stability and revive growth (1991/94), facing also the contagion by Mexico from tequila crisis (1995).

Even when Cavallo quitted from government for its own political ambitions (1996), Argentina's credibility was not shaken: economic recovery of 1996/98 was indeed financed by risen external indebtedness, but external shocks from Brazilian crisis (1998/99) and government policy changes after 1999 Peronist presidential defeat by a radical/solidarity left coalition showed the vulnerability of Argentina's model in terms of an overvalued exchange rate and an over-adjustment related to social sustainability (Edwards, 1989 and De Pinies, 1989).

New de la Rúa government, elected on redistributive issues against polarized benefits from '90s growth, proved unable to face the task of restart an arrested growth. The lowering credibility of Argentina government is showed by the continuous change of Economic ministers and financial policy: 5 ministers and 11 plans came and went away without appreciable results in 1999/2001, as compared to only 3 plans under five-year Cavallo ministry 1990/96 (see Table 4). The return of Cavallo in March 2001 was the last try by de la Rúa government to win back financial markets consensus to restart capital inflows, rise currency reserves and total domestic money and

credit for economic recovery, unemployment and poverty decline. Credibility relief was however only a temporary one (stop in banking deposit run in March/June 2001), while market scepticism about Argentina's future led Cavallo to try several economic plans in 2001:

- * foreign competition plan, with de-taxation of exports and tariffs on import (March);
- * financial plan with swaps of old expiring government bonds with new bonds with 5,6,14,30 years of maturity, for about 30 billions U.S. dollars (May/June);
- * public budget plan with a "zero deficit" target, with a new IMF money for 8 billions U.S. dollars (August);
- * voluntary restructuring plan for internal debt in U.S. dollars for 50 billions U.S. dollars (swap bond for banking lending at lesser interest rates, with a 12% maximum, Autumn);
- * rescheduling external debt plans with IMF (last try in October).

All those programs were unsuccessful to stop capital flights, and even Cavallo's reputation was unable to resume capital inflows for economic recovery. The increasing scepticism in financial markets about exchange rate sustainability is enhanced by Argentina stock exchange market movements: Merval index started 2001 at 408 level (being 46,9% from its historical maximum in August 1997, before Asian crisis), but fell back during the year till 193,40 at 30th November. The savings freeze helped stock exchange as the only safe way to use money into Argentina expecting a future recovery: the index finished 2001 at 290 and rose again after devaluation at 435,80 at end March 2002, when capital inflows were recorded to buy assets devaluated by over two thirds (under a "buy Argentina cheap policy"). The same level (434,60) has been recorded at the end of November 2002, after months of unresolved crisis.

Internal factors of institutional instability affecting policy-making credibility fall however in a global financial environment (amplified after Asian crisis and 11 September events) shaped by these external factors:

- * fall in bank lending toward emerging countries in 1997/2000 (-500 billions U.S. dollars);
 - * fall of bond issuing on emerging markets in 2001 (less than 40% from 1996/2000 average, with higher interest rates and shorter time horizon for higher risk aversion)
 - * rising foreign banks subsidiaries in Latin America (from 9% to 25% of all financial activities, with Argentina favourite host country);
 - * end of privatisations and "una tantum" capital inflows (huge in 1990/93 and then in 1999).
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In this situation the role played by IMF is as always under criticism (Stiglitz, 2002), as it was in Mexican crisis of 1994/95 (Bortot, 1995/96) and in Asian crisis (Bortot, 2000). IMF sustained for years the financial credibility of policy-making in Argentina, supporting its neo-orthodox Convertibility model of liberalisation, privatisation and stabilisation (even if not based on IMF favoured policy of exchange rate floating). IMF approved this series of drawings:

- * July 1991: stand-by agreement 1991/92 for 1,2 billions U.S. dollars;
- * March 1992: Extended Financing Facility 1992/95 amounting to 3,9 billions U.S. dollars, extended to a further year to 1996 with additional 2,4 billions U.S. dollars after tequila crisis;
- * April 1996: new stand-by agreement 1996/97 for 1 billion U.S. dollars
- * December 2000: agreement for a 14 billions U.S. dollars financing (in a total of 40 billions)
- * August 2001: agreement for further 8 billions U.S. dollars.

In November/December 2001 however IMF changed its view stopping further drawing to Argentina (having 10 billions U.S. dollars already approved but not yet disbursed).

Without heavy contagion risks (like Brasil, 1999) or geopolitical role (like Turkey, 2000), with a changed IMF approach from crisis containment (Fischer) to government bankruptcies (Kruger). As in USA Clinton "financing" administration was replaced by Bush "adjustment" one, Argentina was at last left alone with its internal-born financial dryness scarcity. Under a falling global capital inflows toward Latin America (halved in 1998/2000), Argentina could not face Brasil 1999 devaluation.

IMF role on Argentina's crisis was not helpful: at first it financed almost without austerity plans when fiscal balance was almost at sight after years of sustained growth (1998/2001), then it requested deep adjustment when social crisis was about to explode (end 2001), leading to a deepening depression by cutting fiscal expenditure in a recession cycle with deflation situation (Stiglitz, 2002). It gave the last hit to a policy-making credibility crisis in financial markets, structurally linked however to political instability, rooted into Argentina's policies after democracy return in '80s, and into political cycles of deficit spending before elections.

3. Key Structures of Convertibility in "Longue Durée" Argentina's Growth Path

3.1 Convertibility benefits and costs: disinflated unequal growth and external shocks

Convertibility Plan was built by Domingo Cavallo (minister of Economy, 1990/96) on this double basis:

- * socio-political consensus obtained by peronist president Menem (1989/99)
- * quest for external capital inflows under market friendly programs of privatisations, liberalizations and growth.

The exchange rate of peso was anchored to U.S. dollar in 1 to 1 irreversible parity (fixed into Constitution), under a "currency board" system, along with abolition of all price/wages indexations that created cronic inflation, to be appreciated in international capital markets. The mechanics of Convertibility required the following sequence: policy-making credibility, better financial expectations, capital inflows, GDP growth and rising employment, consumption growth, and sustained GDP growth over time.

The benefits of this external finance-led growth model is showed by 1991/98 years of sustained growth for Argentina (with the exception of 1995, in which the limits of Convertibility became clear), with the following key characteristics (see Table 5):

- * sustained growth (5,5% average growth);
- * destroyed hyperinflation from 3000% to 25% in 1991/92, falling toward zero level after 1994;
- * public budget surplus in 1992/93, and almost in parity in 1991 and 1994;
- * systemic re-evaluation of real exchange rate (index from 116,4 to 95,6);
- * boom in financial stock market, with Morgan Stanley Capital International index on Merval rising from about 300 (1990, up from 100 in 1987) to over 1600 in 1991, before having some ups and downs between 1000 and 1500 level in 1992/95 (Batra, 1998).

Some structural problems were left however unresolved:

- * current account balance deficit rising by overvalued exchange rate from 0,2% to 4,8% of GDP;
- * after privatisations, unemployment increased from 6% in 1989 to 11,5% in 1994, boomed to 19% in 1995 crisis to decline thereafter to 12,4% in 1998;
- * reduction in wages in 1991 (-4,1%), with substantial stagnation in 1992/98;
- * stability in reserve/months of imports index in 1991/94 (about level 9) and 1995/98 (about 5,5) without recovery after 1995 sudden slump from 9,1 to 5,4.

Macroeconomic stabilization was joint to a wide program of privatisations (phones, airways, energy, water, petrochemicals, ports, roads and transports) that created an extra-income of about 1% GDP in 1991/93, with some external debt reductions of about 16 billions U.S. dollars. Debt reduction agreements were signed with Paris Club (for bilateral government debt) in 1992 and with London Club (for bilateral private banking debt), allowing buy-backs for 2,4 billions USD and a rescheduling of about a third. The season of privatisation had a last wave in 1999. Tariff reduction in 1989/93 from 30% to 15% average put an end to trade protectionism. Deregulation in labour laws was aimed to achieve more labour market efficiency, while a public finance reform was launched to enhance direct taxation and value added tax, cut expenditures by reducing the number of public employees and by reforming pension system.

Even in the age of rising growth Convertibility had however the twin costs of the fragility in social consensus and the vulnerability to external financial shocks.

Social consensus was eroded as declining average real wages and rising unemployment broke the traditional peronist/Trade Unions link (till general strikes against government from 1996); the producers groups too – penalized by strong exchange rate policy that favoured import competition to internal goods and damaged agricultural and industrial exports - went on criticism. At political system level however early benefits of Convertibility were institutionalised in the Olivos pact between President Menem (peronist) and ex-president Alfonsín (radical), that led to Constitutional Assembly changes in 1994 and the re-election of Menem in 1995, notwithstanding the just imported “tequila crisis” had arrested Argentina growth path.

The vulnerability of Argentina's Convertibility Plan to external shocks was shown by Mexican financial crisis in 1994/95, with the following panic in international financial markets behaviour and the diffusion of “tequila effects” on similar Latin American emerging countries with huge capital inflows: Chile and Argentina. While Chile managed crisis with some restrictions on short-term volatile capital flows, without endangering its growth performance, Argentina avoided that path as committed to a liberal financial flows policy and therefore was hit by an exploding banking crisis (Leipziger, 1997). As seen before, financial crisis had the following main effects:

- * huge fall in banking deposits (-16%);
 - * crash in foreign reserves (-40% of monetary base), with deflationary shock
 - * fast GDP growth turned into a deep recession (from +5,8% in 1994 to a -4,6% at half 1995), with unemployment booming from 11,5% to 19%;
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nal approach to stabilization with fiscal restraint, extended to microeconomic liberalisations and privatisations, under a sort of "gold standard" monetary system: it was an external-led adjustment with growth model, but failed on social dissatisfaction against unequal growth, bringing financial panic.

The burden to keep together internal social consensus (with growth) and external financial resources (with adjustment) seems very heavy: it is however clear that Convertibility was Argentina's last try to globalisation under Menem and Cavallo after the failures of "pure" IMF orthodoxy (Díaz-Alejandro, 1985), "pure" populism (Dornbusch/Edwards, 1990), mixed populism (Kiguel/Liviatan, 1992 and Savastano, 1992) and mixed orthodoxy (Bortot, 2002). Argentina seems doomed to stop.

3.2. Internal consensus and external financing: from rural landlords to social polarization

Argentina can hardly be taken as an example of impossibility to start an internal self-sustaining development path. Former Spanish colony already self-ruled as "Vicerame de la Plata" from 1776, independent from 1816 – even if linked to British trade and investment pattern – Argentina was quickly involved in social turmoil between rural provinces (ruled under Spanish semi-feudal type of colonialism, Sylos Labini, 1986) like Mesopotamic "Entre Ríos" (between Paraná and Uruguay rivers) and urban port of Buenos Aires (rural "gauchos" against urban "portenos"). Civil wars between provinces and capital exploded in the first half of '800: rural provinces avoided a far reaching land reform (1824), fought against 1826 unitary Constitution and finally defeated the centralized rule of "caudillo" dictator Rosas (1835/52). Under Federal Constitution (made by provinces in 1853 at Rosario, with Buenos Aires being forced to accept it after about ten years of secession) provincial governments retained a large fiscal autonomy – a sort of "fiscal federalism" – that led in 2000 twilights of Convertibility to governors' issuing of provincial bonds as legal tender into provinces known as "patacones", to prevent deflationary overhang and "reflate" their areas dried up by overvaluation of exchange rate, and external financing stop by IMF. Central government monetarism clashed against local micro-keynesianism on public expenditure as instrument of social consensus. Provinces therefore were a primary element of socio-economic and institutional crisis, forcing Rodríguez Saá to quit after only a week of presidency, and leaving interim president Duhalde unable to start structural reforms.

A "longue durée" approach to Argentina's socioeconomic evolution can start from the realization of different phases in its development, as stated by Cavallo (Aspe/Bianchi/Cavallo, 1992):

- * 1880/1929: growth and stable agri-export led development path
- * 1929/83: stop/go development by civil/military instability, protectionism and dirigism
- * 1983/.. : return to democracy, at first under Alfonsín presidency, ended into hyperinflation and later under Menem/Cavallo neoliberal peronist government, inherited by de la Rúa till economic collapse of 2001/2002.

Argentina recorded a strong and sustained growth performance that – notwithstanding some slowing down from early 20th century – seemed however to last till 1929 Great Depression:

- * 1870/1913: +5,5% average annual GDP growth (with 4% population growth by immigration)
- * 1913/29: +3,2% GDP growth (and 2,2% population growth).

Agricultural export-led growth (founded on grains and meat goods) after 1880 created revenue gains that went to rural landlords, with land property structure inherited from Spanish colonial past. Those growth perspectives raised a lending euphoria by British finance for Patagonia "Far South" settlements and structural investments - that soon led to a 1890 financial crisis when Argentine bonds went into default, forcing Great Britain to borrow gold reserves from Bank of France and Bank of Russia. Argentine growth was relatively financially opened since its starting. Heavy concentration on primary export products like meat and grains led to a powerful rural ruling elite of landlords allied with military and created a very heavy social polarization of incomes. Civil society from Buenos Aires led to the need for a social welfare policy under radical presidents (1916/30), but Wall Street crisis and American Great Depression put under stress the agri-export led model after 1929. Military rule blocked several times social developments (6 coups in 1930/83) keeping the landlord elite's privileges and protecting rising manufacturing industry without incentives to face international competition, within a polarized income distribution. So while most of underdeveloped countries (especially in Asia) experienced fast and sustainable growth after 1945, Argentina was caught in a sort of stop/go development trap in the long run:

- * 1929/55: +2% GDP growth (almost zero per-capita GDP growth, with 1,8% population growth);
 - * 1955/76: +2,3% GDP growth (still less than 1% in per-capita GDP growth)
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* 1976/90: +0,1% GDP growth (being -1,3% in per-capita GDP growth)

The "urban producers' coalition" alliance between young innovative entrepreneurs and industrial workers that led to Welfare states in Europe as a shield against market wilderness after 1929 crisis, (Polanyi, 1944) was tried in the first years of Peron's presidency, but it was short lived, as conservatives conditioned industrial development under the fear of communism till the use of military rule against urban small bourgeoisie and manufacturing workers.

The 'social civil war' exploded in the '70s under the most blooded military junta (1976/83), that while making thousands of "desaparecidos" and leading Argentina to military defeat in the Falkland/Malvinas, liberalized capital transactions in order to obtain the consensus of rising financial elite while keeping that of landlord elite. Therefore capital flights dried up internal savings available for development, making Argentina heavily indebted from abroad and heavily dependent on external finance to restart growth. The sudden financial liberalization, well before any trade liberalization (the opposite of industrial country pattern) led to enhanced instability well explained by Diaz-Alejandro (1985): a good-bye to financial repression lead to an hello to financial crash (along with social repression, Hirschman, 1981).

The political economy of an agro-exporter development path shows the evidence of a staple theory of growth (Hirschman, 1981) where social structure is influenced by the need to obtain financial resources and tends to be self-enforcing over time, with a polarised income distribution.

The subsequent model of development based on import-substitution adopted under ECLA advice after II World War could not however obtain the infant industry protection before trade competition (has happened in Korea and other Asian countries), stalling into a permanent protection, source of licensing production fuelling corrupted bureaucracies (Hirschman, 1987 and Baculo, 1995).

The "longue durée" roots of Argentina's crises in 2001/2002 lies into social conflicts for unequal income distribution and stop/go development mixed to institutional conflicts between central government and provinces on fiscal policy: the absence of an agreed social pact for development after 1929 led to slow growth, social turmoil and military repression that in turn blocked growth. Argentina's latest crises is apparently an expectation-led crisis by policy-making inability to face Brazilian contagion effects, but its dynamics is deeply embedded into its history of socio-political polari-

zation between social groups and between rural provinces and capital city.

Argentine state was indeed potentially self-centred, but its ruling elite was not a developmental one but rather a neglecting selfish one, disengaged from any project of national economic and social development. It could not comply to its twin task of accumulation and redistribution of income (Hirschman, 1958). Military – elsewhere a source of modernization and development – had a role not only against democracy but even against development in Argentina (O'Donnell, 1977; Evans, 1992), putting the basis for the relative decline of Argentina.

The power of rural and financial elites and their inability to accept a Welfare state type coalition between modernizing manufacturing and urban industrial workers created the condition to stop development and to repress class struggles for income redistribution (Kalecki, 1972 and Sylos Labini, 1986). Military recessions, hyperinflations and deflations were all instrument of a never ceased struggle for income distribution (Hirschman, 1981).

Some evidence of 1975/2002 social aspects of development crisis in Argentina (Table 7) shows:

- * average per-capita income falling from level 100 (1975) to 85,4 (1990/91), growing to 120 under Convertibility (1998) before falling again to about 91,2 under 2001/2002 crisis
- * average wages almost halved under military rule (57,3% in 1980/81 of 1975 level) and never recovered apart from 1984/85 temptation after the return to democracy (76,5): under Convertibility wages were stable at about 50% of 1975 level, declining further under crisis
- * rising unemployment from liberalisations and privatisations in 1990/95 went from 6,9% to 19% notwithstanding growth years, was reduced to 12,4% in 1998 but grew again to 25% under depression and crisis
- * population under poverty, even if reduced to 18% in 1995, rose again till 50% under crisis
- * food consumption per-capita reduced to a 92,7% (1995) from its '70s levels, falling further in years of depression and crisis explosions, till spreading malnutrition and even deaths by hunger in poorest provinces like Misiones in 2002
- * by contrasts, incomes of top 10% population in income distribution rose from 30% to 37% in 1980/99.

The extent of redistribution conflict is showed by the index average income/avera-

ge wage: starting from a 100 level in 1975 (when income distribution had already become more unequal than that of 1950 (see Morawetz, 1977), index went to 162,3 under military power in 1981/82 before being reduced with the return of democracy to 117,4 (1984/85). This change was however short lived, as index began to rise again under Plan Austral and Convertibility ages till a 242,4 maximum level, only partly reduced to 202,7 after the beginning of depression and financial crisis. The source of chronic external finance need of Argentina is capital flight linked to social turmoil and endemic internal civil war started after radical presidencies (1916/30) but rooted into rivalries between rural provinces and capital city institutionalised into 1853 federal Constitution made by provincial governments against Buenos Aires.

4. Alternative Policies after 2002 Devaluation: A Social Pact for Savings-Led Equitable Growth

On 6th January 2002 newly appointed Duhalde government decided to put away Convertibility by devaluing peso at 1,40 level for banking and trade transaction leaving to a free floating market the exchange rate level for capital movement, soon extended to all transactions. This created a huge current account swing from 2,4% GDP deficit to 10,8% GDP surplus, with some consequences:

- * exploding real weight of debt burden for debt position in U.S. dollars
- * several debt defaults at corporate and government level (even to World Bank)
- * wide price distortion favouring agricultural exports and internal production
- * increased taxes on U.S. dollars receipts of exports (to balance fiscal budget)
- * shift of tax burden from big agricultural traders back to small producers.

The competitiveness was also improved: cross exchange rate peso/real jumped from its 0,436 level at the end of 2001 to over 1,300 within three months (more than three times than before devaluation, overshooting the 1998 cross rate of 0,828), to decline to 0,964 toward the end of 2002 after a 35% depreciation of Brazilian real due to both "tango effect" on Brazil and "Lula effect" on financial markets (14% devaluation of Argentina against Brazil from their 1998 level, before Brazilian devaluation). IMF conditions for a resumption in international lending toward Argentina (failed in 2002) are:

- * regular payment of debt service to international financial institutions
 - * change in bankruptcies laws (aimed to avoid expropriation to national debtors)
-

-
- * abolition of "economic subversion law" used against bankers suspected in capital flight
 - * primary budget balance and stop to inflation by province governments
 - * flexible exchange rate policy (against any dollarization or new anchored exchange rate)
 - * end of "corralito" on savings deposits
 - * return to negotiations with foreign lenders for external debt restructuring.

IMF is therefore oriented toward a new export-led orthodox model of stabilization. After the devaluation of peso all the elements of Argentina's crisis are deeply changed as social subjects' balance of benefits and costs are operating into a increasingly dollarized economy (Berg/Borenzstein, 2000) (see Table 8).

High cost of import goods fuels inflation under recession (stagflation), relieving debtor position in peso while weightening debtor position in U.S. dollars (central government, province, firms); so debt service explodes when "dollarized" debtor's receipts are denominated in peso. The deepening of fiscal crisis for recession and fiscal elusion (-26% of tax receipts in march 2002, facing an estimated -15% of GDP) makes the state in need of any possible sources of fiscal inflows (tax on agricultural exports, buoyed by devaluation after years of damaging high exchange rate, try to transform bank's savers U.S. dollars deposits into 5-10 years government bonds denominated in peso at low interest rates). The aim of "zero deficit" (budget primary surplus, net of debt service), needed to obtain precious IMF drawings agreement, in order to catalyze further international inflows (to repay debt and finance recovery), collides anyway with the search for political consensus in a social turmoil crisis. Public finance of province's governments - decentralized under a sort of "fiscal federalism" and aimed to keep political consensus to governors - needs to be controlled at central level as required by international creditors.

Banking system has experienced another stress as its peso funds are employed into firms in financial crisis (high rates of insolvency) while its deposits in U.S. dollars are dried up before the freeze and even after, under the action of individual savers lawsuits; the official exchange rate of peso/U.S. Dollars conversion for deposits was put at 1,40, largely under market rates but however costly even for banks. Banking system collapse is avoided only by unconstitutional "corralito", that anyway cannot lasts forever.

Savers/customers were further damaged by a collapse in consumption that dee-

pens recession, while firms and producers cut investments. Exports (of devalued goods) and import-substitution are the only macroeconomic sectors to show some signs of light. Exchange rate floating increased uncertainty, panic behaviour and social instability, rising temporary hypotheses within Duhalde government of a return to fixed exchange rate as stability tool. The alternative path of dollarization – with complete subordination of USA monetary policy by Federal Reserve without “seignorage rights” from national monetary issuing of legal tender – went discarded by national-populist swing in social mood against USA and IMF, viewed as key actors in Argentina’s disaster. Anyway even dollarization cannot cancel country-risk for Argentina about social explosion, so this alternative has been discarded.

From the euphoria of Convertibility, “Argentina’s miracle” of the ‘90s was turned upside down into panic and fear for instability, as global shocks showed internal structural weakness, ranging from fiscal deficit to credibility gap in policy-making, to dependency from external capital inflows, to very high tax avoidance by middle-high social groups benefited from growth, to returned rigidity by IMF and – last but not the least – by decreased competitiveness after Brazilian real devaluation.

After an year almost wasted in delayed stabilization attempts for the lack of political will by interim Duhalde government (waiting for Spring 2003 political elections), alternative strategies for Argentina recovery stay hard to outline, given the multiple elements and complexity of crises. Alternative paths must face alternative choices for recovery from different Convertibility-born crises:

- * socio-political crisis: what kind of equilibrium between fiscal austerity and social consensus
- * institutional crisis: what power balance between federal government and provinces
- * food crisis: how to avoid spreading malnutrition in an agro-exporter country
- * law crisis: how much corruption, thefts and fiscal evasions are economically sustainable
- * banking crisis: what exit from “corralito” between systemic collapse and capital re-inflows
- * production crisis: what type of recovery, led by agricultural export and industrial production
- * debt crisis: what policy choice among moratorium, new bond issuing and return to payment
- * exchange rate crisis: what about devaluation, new fixed anchor (to real) and dollarization.

The only policy choice made in 2002 is about free floating exchange rate, that however do not exclude the horizon of a possible monetary union with Brasil to stabilise Mercosur.

Argentina's economic recovery needs however a new mix between financial savings and social development, as no populist therapy can survive with financial scarcity while at the same time no financial strategy can resist to social unsustainability. In order to avoid socio-political matrix of inflation (Hirschman, 1981) without finishing again into economic-financial matrix of deflation (Krugman, 1999) Italian experience of "concerted policy" (1993/98) as a social pact for monetary stability after EMS crash in 1992 can offer useful insights to tackle socio-political roots of economic structural instability in historical perspective, beyond miracle expectations of capital inflows. This needs however a social pact policy that requires more efforts for social group gainers under Convertibility, to reduce inequality and revive a saving-led long-run growth. The alternative is the relaunch – after April 2003 presidential election - of neoliberal policies already made in 1989 (possibly under a new presidential mandate for Menem), hoping that revived growth will be this time really extended to all groups excluded from benefits of Convertibility.

5. The Political Economy of Convertibility and Global Crises

Argentina's 2002 crisis is a mix of different crises, spread in cross section and over time. Braudel historical approach about events, structure and "longue durée" is helpful to understand the deep historical roots about expectation crisis from an IMF denied drawing. The origins of the crisis lie in external production-depressing economic contagion by 1999 real currency devaluation, the outcome of financial impact of 1997/98 global Asian crisis on Brasil, the shocking news made by IMF financing stop, banking saving freeze and social turmoil that led to political and institutional crisis (president De la Rúa resignation), debt default and finally exchange rate collapse.

The political economy of Convertibility was based on bilateral pacts made by Menem/Cavallo government with key socio-economic subjects, each with its own aims and its own costs/benefits evaluations (see Table 9):

* with external lenders and IMF (commitment to pay external debt against IMF-led financing);

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- * with high-middle class (commitment to pay high interests against internal financing);
 - * with industrial sector(commitment to internal growth against external low competitiveness);
 - * with urban low workers class (commitment to employment growth against social consensus);
 - * with provinces and rural sector (commitment to public support against fiscal cuts, export stop).

This pattern functioned well till Menem's presidency re-election (1995), but then social crisis (high unemployment and raising poverty) forced to fiscal crisis with currency debt of provinces since 1995/96, while economic crisis hit hardly industrial sector starting from 1999, debt crisis blocked external financial inflows after IMF decision to freeze further drawings to Argentina (autumn 2001) and banking crisis sent even financial savers against government (winter 2001), leading in turn to a deepening of social crisis, fiscal crisis and institutional crisis.

The political economy of Convertibility resisted to 1995 crisis when IMF strongly supported adjustment policies, while falling in 2001 after re-emerging fiscal deficit from provinces to support social consensus under recession signed for external lenders the return of populist macroeconomic policies in Argentina to face recession.

But it was the impossibility of competitive devaluation under currency board system that put Argentina into a production crisis that in time spawned different kinds of financial crises (banking, debt and currency crises) and sociopolitical crises (institutional, law and food crises). The structural element of Argentina's crisis is rooted into Convertibility plan itself: while its strong relaying on currency board acted as a gold standard of sorts avoiding exchange rate crisis, it created a deep dependency of growth path from foreign sources of capital inflows: the "eternal" link peso/U.S. dollar at 1 / 1 level (included into Constitution) vetoed any adjustment with its main competitor country, Brasil, when its about 40% devaluation from 1999 was not followed by similar wave of inflation. That situation needed an unattainable 40% gain from labour productivity or a 40% deflation gap for Argentina to keep the real exchange rate unchanged from 1998. Therefore Argentina crisis was doomed by unfavourable external factor into an internal growth path too much financial outward-looking. Economic depression was the unavoidable result of capital outflows coped with a currency board, as from monetary balance of payment theory (IMF, 1992). Nothing lasts forever.

Anyway the search for external capital inflows to finance growth in Argentina is the extreme temptation to fill the financial void left from Argentina's long-term capital flight that dried up internal savings available for production development. This in turn is linked to a 'social civil war' between landlords and financial elite against middle worker class, as showed by stop/go civilian/military governments in Argentina industrial age after Great Depression (1930/83), not overrun by social pact policy of Austral Plan in Alfonsín neo-democracy age (1984/89), aimed to attract foreign savings but collapsed into hyperinflation (1989/90). The peronist neoliberalist approach by Menem was an opposite way of dealing with globalization: budget austerity, privatizations and liberalizations in order to gain financial credibility, attract foreign capital to finance growth and spread gains into all social groups under Convertibility Plan (1991/98). The main responsibility lies therefore in the absence of a nationally engaged savers middle class deeply engaged in national development more than in fiscal paradises' rents in Miami or Montevideo. This key feature is typical in Latin America, compared with their East Asian emerging counterparts like Korea, and is linked to rural landlords ownership created by Spanish colonization, as reflected into very unequal income distributions: the coalition of rural province landlords and financial bourgeoisie keeps at bay the production coalition between young urban entrepreneurs and industrial workers typical of European Welfare states, without any Asian concern about social cohesion. The result is an American-type model of development without Mid West small farmers development and American resources. This led to a social clash that created a stop/go development path. So Argentina, once promised land for European immigrants, is now underdeveloping into a mix of "Africa-style misery and feudal disgrace" (from newspaper "La Nación", 20 november 2002, about Tucuman situation). A growth path not financed by internal savings, due to high inequality in income distribution and huge capital flights, can not create a production-oriented sustainable development and it is therefore doomed - after several stops and go - to collapse. A completely new social pact and financing model is needed for recovery and development, as a society has to protect itself from the wilderness of market (Polanyi, 1944) and settle its class struggles achieving a more equitable for income distribution (Kalecki, 1970).

Argentina's development path shows that - beyond euphoria/panic swings in expectations (Minsky, 1982 and Kindleberger, 1989) - lie some structural fundamental weakness with deep historical roots (Krugman, 1991 and Clark/Bartolini/Bayoumi/Symanski, 1994), that are often included into a "self fulfilling prophecy situation" by global reflexivity in finance (Soros, 1998).

Against new global depressions, born by debt-deflation spirals after an euphoria/panic swing about an "economic miracle" (Fisher, 1933 and Minsky, 1984) mixed with an exposition to external finance and a fixed exchange rate crash (Krugman, 1992 and 1999), a return to a new, global Keynesian economics is indeed needed.

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Table 2: Argentina in the convertibility age: depression and crash, 1999/2002

	1998	1999	2000	2001	2002 estimates	2003 forecast
ARGENTINA						
* GDP growth	3,9%	-3,4%	-0,8%	-4,4%	-16%	(1,0%)
* inflation	0,9%	-1,2%	-0,9%	-1,1%	29%	(48%)
* unemployment	12,4%	13,8%	14,7%	18,0%	25%	.....
* current account balance / GDP	-4,8%	-4,2%	-3,8%	-2,4%	10,8%	(15,4%)
* public balance / GDP (central government)	-2,1%	-4,1%	-3,0%	-2,0%	(0)	.....
* real exchange rate (1995=100)	95,6	88,5	89,3	(90)	.....	.....
* reserves/ import (months)	5,7	6,7	6,4	5,9	.....	.....
* average wages in manufacturing	-0,3%	0,3%	1,5%	(-10%)	.....	.....
* per-capita GDP growth	2,6%	-4,7%	-1,8%	-5,8%	-17,3% (*)	(-0,3%)
BRASIL						
* GDP growth	-0,8%	0,5%	4,4%	1,5%	1,5%	(3,0%)
* inflation	1,7%	4,9%	7,0%	6,8%	6,5%	(4,3%)
* current account balance / GDP	-4,3%	-4,8%	-4,2%	-4,6%	-3,8%	(-3,6%)
* public balance / GDP (central government)	-7,6%	-5,5%	-3,7%	-3,0%	.....	.....
* per-capita GDP	-2,3%	-1,0%	2,9%	0,0%	0,0%	(1,5%)

Sources: IMF, *World Economic Outlook*, International Monetary Fund, Washington, 2002; Coface/La Viscontea, *Guide au Risque Pays*, Paris 1999/2001

Table 3: Argentina 2001: financial perceptions of a foreseen crisis

	MAR 2001	JUN 2001	SEPT 2001	NOV 2001	DECEMBER 2001		
					3/12	20/12	30/12
EXPECTED GDP GROWTH 2002 (IMF analysts)	+3%	+2%	+1%	0	-1%	-1%	-2%
CHANGE IN BANKS DEPOSITS (from end-year 2000)	-5%	-7,5%	-17,3%	-17,3%	-22,5%	-22,5%	-22,5%
INTEREST RATES SPREAD (EMBI index)	750	1000	1500	3300	3989	4844	5017
GOVERNMENT BOND PRICES (nom. value=100)	/	100	78,5	40	30	25	26,5
MERVAL STOCK EXCHANGE INDEX (2/1/2001=100)					-52,6%	-33,2%	-40%

Sources: IMF World Economic Outlook, Supplement, December 2001.

Note: * EMBI (Emerging Market Bond Index): spread in percentage points over U.S. Treasuries

* GOVERNMENT BONDS= benchmark ARG, 2008 Global in USD, issued June 2001.

* MERVAL INDEX= our elaborations on Reuters data.

Table 4: *Instability in Argentina's politics and policy-making: elections, presidents, Economy ministers and bail-out plans, 1999-2002*

24 October 1999: Presidential and parliamentary elections: radicals and Frepaso win.

PRESIDENT : Fernando de la Rúa (UCR, radical) (10/12/1999 – 20/12/2001)

VICE-PRESIDENT: Carlos Alvarez (FrepaSo) (10/12/1999 - 6/10/2000)

ECONOMIC MINISTERS:

3 PLANS *december 1999: economic recovery plan
*may 2000: social austerity plan
*december 2000: fiscal stabilization plan

Ricardo Lopez Murphy 1 PLAN *march 2001: social expenditures' cuts plan
6-20/3/2001

Domingo Cavallo 5 PLANS *march 2001: competitiveness plan
20/3-19/12/2001 *may 2001: debt maxi-swap plan
*july 2001: zero deficit fiscal plan
*october 2001: internal currency debt voluntary
conversion plan
*november: freeze of banks' deposit plan

14 October 2001: Parliamentary elections. Peronist party wins.

CARETAKER PRESIDENT: Ramon Puerta (Senate president, peronist) (20-23/12/2001)

PRESIDENT: Adolfo Rodriguez-Saa (peronist) (23–30/12/2001), nominee by Parliament

ECONOMIC MINISTER:

Rodolfo Frigeri 1 PLAN *december 2001: moratorium, social expenditures
23 - 30/12/2001 and third currency plan for economic jump-start

CARETAKER PRESIDENT: Eduardo Camallo (Chamber president, peronist) (30/12/2001-2/ 1/ 2002)

PRESIDENT : Eduardo Duhalde (peronist) (2/1/2002 -), nominee by Parliament

ECONOMIC MINISTERS

Jorge Remes Lenicov 1 PLAN *january 2002: devaluation pro-export plan
2/1-24/4/2002

Roberto Lavagna
26/4/2002-....

Sources: IMF, *World Economic Outlook*, selected years.

Il Sole 24 Ore, "La crisi argentina", selected days.

Table 5: Argentina in the convertibility age: stabilization and development, 1991/1998

	1991	1992	1993	1994	1995	1996	1997	1998
ARGENTINA								
* GDP growth	8,9%	10,3%	6,3%	5,8%	-2,8%	5,5%	8,1%	3,9%
* inflation	135,0%	24,9%	10,6%	4,2%	3,4%	0,2%	0,8%	0,9%
* unemployment	7,0%	8,0%	9,8%	11,5%	19,0%	17,3%	13,7%	12,4%
* current account								
balance / GDP	-0,2%	-2,8%	-2,9%	-3,7%	-2,0%	-2,4%	-4,1%	-4,8%
* public balance /GDP								
(central government)-0,7%	0,7%	2,1%	-0,5%	-1,3%	-3,2%	-2,1%	-2,1%	
* real exchange rate								
(1995=100)	116,4	112	108	104	100	101,8	98,5	95,6
* reserves / import								
(months)	8,6	8,6	9,7	9,3	9,1	5,4	5,5	5,7
* average wages in								
manufacturing	-4,1%	1,3%	-1,3%	0,7%	-1,1%	-0,1%	-0,6%	-0,3%
* per-capita GDP	7,6%	8,9%	4,9%	4,5%	-4,1%	4,2%	6,7%	2,6%
growth								

Sources: IMF, *World Economic Outlook*, International Monetary Fund, Washington, 2001 and Colace/La Viscontea, 1999/2001, *Guide au Risque Pays*, Paris, 1999/2001.

Table 6: *Alternative models of stabilization: the case of Argentina*

	ORTHODOX MODEL	HETERODOX MODEL Plan Austral	NEW-ORTHODOX MODEL Plan de Convertibilidad
CRISIS SITUATION	*devaluation-led inflation *hyperinflation	*cronic inflation	*hyperinflation
TARGET	INFLATION	EXCHANGE RATE	EXCHANGE RATE
MONEY QUANTITY	*fixed ex-ante	*linked to currency reserves	*linked to currency reserves
EXCHANGE RATE	*floating on the market	*exchange rate pegged by central bank	*exchange rate pegged by Constitutional law
FISCAL STABILIZATION	Yes	Partial	Yes
SOCIAL PACT	No	Yes	No
CONTROLS	No	Yes	No
LIBERALIZATION	Yes	No	Yes
PRIVATIZATIONS	Yes	No	Yes
ENGINE OF GROWTH	*exports	*consumption	*foreign finance
EXTERNAL CONFIDENCE	high	low	high
COMPETITIVITY	high	low	high
SOCIAL COSTS OF ADJUSTMENT	high	low	low
SOCIAL CONSENSUS EFFECTS	low	high	high
LIMITS	*recession, then recovery *recession by underconsumption	* growth, then fiscal crisis *recession by indebtedness	* growth, then recession by overvaluation * recession by currency shortage

Sources: our elaborations.

Table 7: Social aspects of Argentina's development: income distribution, unemployment and poverty in the long run

	1981/82	1984/85	1990/91	1995	1998	2001/2002
AVERAGE INCOME (1975=100)	93,0	89,8	85,4	105,2	120,0	91,2*
AVERAGE WAGES (1975=100)	57,3	76,5	50,1	50,0	49,5	(45)*
AVERAGE INCOME / / AVERAGE WAGES RATIO (1975=100)	162,3	117,4	170,5	210,4	242,4	202,7*
UNEMPLOYMENT	.....	6,0%	6,9%	19%	12,4%	25%*
% POPULATION IN POVERTY (national index)			26,0	18%	36,8%	50%*
FOOD PER-CAPITA CONSUMPTION (1970=3340 calories=100)			96,3	92,7	.....	.....
INCOME TOP 20%	=		50,3%	/	EVOLUTION OF TOP 10% 1980 = 29,8% 1999 = 37%	
DISTRIBUTION MIDDLE 40%	=		35,6%	/		
1970/75 LOW 40%	=		14,1%	/		

Sources: A) For '70s and '80s: IADB, *Economic and social progress in Latin America*, Washington, and World Bank, *World Development Report*, selected years.

B) For '90s: *Stato del Mondo. Argentina*, Il Saggiatore/Hoepli, selected years, Coface/La Viscontea, *Guide au Risque Pays*, Paris, 1999/2001, ISLA, *Le guide paese. Argentina*, Egea, Milano 2001 and UNDP, *Human Development Report*, Washington, selected years.

Table 8: Economic and financial crises in Argentina: from convertibility to devaluation

	CONVERTIBILITY 1991/2001	DEVALUATION 2002
PRODUCTION CRISIS	from disinflation growth to deflation and depression	stagflation (then export-led recovery) crisis in private consumptions crisis in investments
FINANCIAL CRISIS IN POLICY-MAKING	from capital inflows to capital flights	fiscal tax-elusion crisis crisis in province's spending social and political crises
BANKING CRISIS	from free US dollar deposits to frozen deposits	crisis in banking balance-sheets (lending in pesos, savings in dollars)
DEBT CRISIS	from debt reduction (Brady Plan) to public and private defaults	crisis in enterprise finance (currency indebtedness) moratorium on public debt
CURRENCY CRISIS	from anti-inflationary stability to recession by overvaluation	destabilising flexibility of peso higher import costs higher internal prices

Sources: our elaborations

Table 9: The political economy of Convertibility Plan (1991/2001)

SOCIOECONOMIC SUBJECTS	AIMS	COSTS	BENEFITS
GOVERNMENT	stabilization	indebtedness	debt financing
EXTERNAL LENDERS	high interests	country-risk	IMF guarantee
IMF	liberalization	financing	adjustment
Failure: DEBT CRISIS			
GOVERNMENT	consensus	liberalization	internal financing
HIGH-MIDDLE CLASS	self-enrichment	deposit-risks	high interests
Failure: BANKING CRISIS			
GOVERNMENT	stabilization	liberalization	competitively
INDUSTRIAL SECTOR	profits	low-cost imports	growth
Failure: ECONOMIC CRISIS			
GOVERNMENT	consensus	growth	re-election
URBAN LOW CLASS	welfare	consensus	employment growth
Failure: SOCIAL CRISIS			
GOVERNMENT	credibility	fiscal cuts	financing
PROVINCES	rural consensus	public expenditures	re-election
RURAL SECTOR	earnings	export stops	public support
Failure: FISCAL CRISIS			

Sources: our elaborations

Abstract

Argentina's Convertibility Plan for stabilization and growth fell by frozen savings on U.S. dollars banking deposits, after three years of economic depression triggered by exchange rate overvaluation, with policy making credibility severely hit by frequent changes in political and institutional scenarios. Banking savings freeze ("corralito") was enforced by once free-market government in a vain try to stop capital flights, that deepened deflation and recession since 1999, after Brazilian "real" devaluation and Argentina's inability to follow it due to its "unbreakable" currency board peg with U.S. dollar at a parity level.

Argentina's current crisis exploded into a socio-political catastrophe within a single month, December 2001, after savings freeze ("corralito"). That kind of banking crisis by deposit run was soon followed by a mix of different crises:

- * social crisis, from food riots to violent demonstrations (with deaths) against government;
- * political crisis, after forced resignations of super-minister Cavallo and president de la Rúa;
- * institutional crisis, with a sequence of short-lived interim presidencies at the end of 2001;
- * debt and currency crisis, by financial default and socio-economic turmoil-led devaluation.

2002 was the worst year ever for Argentina, with a -16% in GDP growth, and at the end of 2002 still no solution seems to be surfacing for recovery, apart for some export-led rebound by peso's fall.

This cross section analysis of different and cumulative Argentina's crises has however to be mixed into historical perspective to understand different time level of crisis along the line of Braudel's approach:

- * crisis "événementielle", or Argentina's vulnerability to Brazilian devaluation of real, 1999/2002;
- * crisis "structurelle", or rise and fall of Convertibility stabilization and growth Plan, 1991/2001;
- * crisis "longue durée", or stop/go development path by military coups and crises, after 1929.

After explaining key conjunctural element of crisis in production, finance and policy-making, a cost/benefit analysis of Convertibility Plan shows that – while allo-

wing a deflated growth in its first years - exchange rate parity with U.S. dollar under a "currency board" created a high vulnerability to external finance swing, quickly becoming depression waves, sources of enhanced social conflicts, policy-making crisis and spiralling mistrust on financial markets.

Currency board, while avoiding speculative attacks against currency, transfer directly financial outflow effects into credit crunch, with following growing depression and socio-political crisis.

Long-run reasons of a development crash due to lack of internal savings are shown by the analysis of the political economy of Convertibility between government and main social subjects. Argentina recovery needs a social pact policy for reconstruction and development to overcome spatial cleavages between rural provinces and capital city representatives as well as social income distribution polarization between rural and financial elite and middle class urban workers.

A development model without distributive equity tends to rise huge capital flights and poor internal savings available to finance investments and internal-led growth, that in turn become arrested, doomed to high volatility stop/go or dependent from capital inflows. A social pact is needed to restart a family saving-led equitable growth model.