

**Between a Populist Rock and a Neoliberal Place:
Argentina in Crisis at the Turn of the Century**

by

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Argentina in Crisis at the Turn of the Century**

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ABSTRACT

This thesis seeks to examine the political and economic dynamics that culminated in and emerged from the Argentine Great Depression (1998-2002) to analyze the extent to which Néstor Kirchner's administrated a "left turn." In the wake of Latin America's lost decade, Carlos Menem endeavored on a project that blended populist political mechanisms with an orthodox neoliberal project in the 1990s. From this project arose a deep economic and political crisis at the turn of the century. Néstor Kirchner's heterodox project emerged in the context of the post-crisis Pink Tide. While it constituted a leftward shift, continuities from Menem to Kirchner demonstrate that it also maintained the neoliberal foundation of the economy.

Chapter 1

INTRODUCTION

A century ago, Argentina was one of the world's ten richest economies. Fueled by a strong commodities base and extensive foreign investment in railroads, the country's GDP grew at an annual rate of 6% during its Belle Époque, the forty-year period before World War I ("Century of Decline"). Gross Domestic Product per capita was greater than that of countries such as France, Japan, and Germany and was over four times that of neighboring Brazil for much of the first fifteen years of the 20th century ("Century of Decline"). Argentina was a destination for European immigrants who sought economic opportunity in the pampas. In fact, in 1914, half of the population of Buenos Aires was foreign-born ("Century of Decline"). However, one hundred years later, data from 2015 tells a rather different story. GDP per capita is now just one and a half times that of Brazil. It is equivalent to less than 60% of the value of GDP per capita in France and Japan, and less than 50% of that in Germany (Central Intelligence Agency). Furthermore, in July of 2014, the country experienced its second sovereign debt default in the 21st century alone (Patton). Though wealthier than most of Latin America, Argentina's standing as a vibrant land of opportunity is long lost.

The twentieth century in Argentina ended with deep economic collapse and political crisis in the form of the Argentine Great Depression. Conventional wisdom marks the turn of the millennium as a major turning point in Argentine politics and economics. From Carlos Menem's right-wing economic orthodoxy to Néstor

Kirchner's left-of-center redistributive agenda, there appears to be a decisive split between the two. This thesis seeks to examine the political and economic dynamics that culminated in and emerged from the Argentine Great Depression. The objective is to analyze whether the turn of the millennium was truly the turning point that it is understood to be. In doing so, it seeks to answer the following question: were Néstor Kirchner's economic policies in post-crisis Argentina radically different from Carlos Menem's neoliberal orthodoxy of the 1990s? By examining Néstor Kirchner's continuities and breaks with the past, this analysis concludes that while his policies did represent a shift to the left, there were important continuities from the Menem era that constituted a maintenance of the neoliberal foundation of the economy.

Crucial to understanding the political and economic dynamics that emerged in Argentina from the 1990s to mid-2000s is the political tradition of populism and the economic context that the country faced as the preceding decade of the 1980s came to a close. These will be discussed as background context below.

Juan Perón and the Argentine Tradition of Populism

The first sixty or so years of Argentina's century of decline brought with it political symptoms in the form of military coups in 1930, 1943, 1955, 1962, and 1976 ("Century of Decline"). Perhaps the most culturally influential coup in Argentina's history, with the exception of the 1976-1983 military government and its "Dirty War," was the interim dictatorship established in 1943. With it came the rise of Juan Domingo Perón, a colonel who participated in the military government as Secretary of Labor and Social Welfare before rising to the presidency in 1946 (Alexander 36). As president, his political philosophy can best be described as heterogeneous. However, he is famous for being an ardent nationalist and political strongman, for stimulating

industrialization using profits from agriculture, and for having previous friendships with the Nazis and trying to lead Latin America against the influence of the United States. With the help of his young wife Eva Duarte, Juan Domingo Perón brought populism to the forefront of Argentine politics. The couple became a cultural icon, revered and abhorred by different sectors of Argentine society to this day. Juan and Evita Perón, and the populist movement that is centered on them, Peronismo, transformed Argentine political culture. They are critical to understanding Argentine politics since the 1940s, and, for the purposes of this paper, especially era around the turn of the millennium.

There are a few key dynamics that helped build Juan Perón into a cultural hero. First, as Secretary of Labor in the military regime that rose to power in 1943, Perón wove himself into the fabric of relations between management and unions until workers got the impression that he was personally responsible for the improvement in collective agreements and workers' rights (Alexander 37). As such, he cast himself as the champion of the working class. An example of the symbolism that this entailed was the concept of the *descamisado*. Like the workers for whom he claimed to speak, Perón would appear before labor groups in an open-necked white shirt without a suit coat or uniform. Second, the events of October 1945 showed the extent of organized labor's loyalty to Perón and the power he was able to draw from it. On October 9th, a group within the military took power and forced Perón to resign from all positions. He was then placed in the political prison on Martín García Island (Alexander 44). His followers leapt to action, mobilizing hundreds of thousands of workers from all over the country to take to the streets of Buenos Aires. The military leaders who had

acted against Perón conceded and released him on October 17, 1945, a day that has become a significant cultural holiday for Peronists (Alexander 44).

One cannot consider the cultural significance of Juan Perón without discussing the cult of personality around his young wife, Eva Duarte. Affectionately known as “Evita” by her followers, her role as First Lady won her both worshippers and enemies. She played a significant role in the Perón regime, particularly in matters of organized labor, social welfare, female Peronists, and in reinforcing Juan Perón’s popularity with her own. After she was refused membership to the *Sociedad de Beneficiencia*, which managed the private charity system and whose members were the most distinguished women of Argentine high society, Eva legally disbanded the organization and established her own (Alexander 84). The Eva Perón Welfare Foundation gave Evita free reign, with which she created a patronage machine. Given her impoverished upbringing, Eva endeavored to do good work with her foundation, including housing projects, schools, and hospitals. She, too, cast herself as the champion of the needy. However, her foes called attention to her extravagant lifestyle, clothing, and jewelry as evidence of stark hypocrisy.

After successfully campaigning for women’s suffrage to be included in the 1949 Perón constitution, Eva organized and directed the Partido Peronista Feminino, through which women became formally integrated into the Peronist movement. To her followers, Evita’s openness about her less than high-class background, honest language in the style of the common people, and the sincerity in her commitment to the masses made her a cultural symbol perhaps even more significant in death than in life. She died of cancer on July 26th, 1952 as a deified asset to the Peronist project. Over a week of official mourning, during which her preserved body was on display,

culminated in a magnificent state funeral. Some labor leaders even sent a request to the Vatican that she be named a saint (Alexander 90-92).

Juan (and Evita) Perón embodies what is known as “classical populism” in Argentina, but due to a wide variety of experiences, there are other classifications in scholarly discourse including “radical populism,” neopopulism,” and “left-wing populism.” Populism is best described as primarily a political strategy or style of leadership, and is not necessarily committed to any one social or economic ideology. With this understanding, Kurt Weyland describes it as “a political strategy through which a personalistic leader seeks or exercises government power based on direct, unmediated, uninstitutionalized support from large numbers of mostly unorganized followers” (15). Because of its highly personal attributes, symbols, rhetoric, and style are key factors in the populist strategy. Francisco Panizza elaborates on this point by noting that the personalistic element of populist leadership makes cultural identification with subordinated social sectors crucial to the political strategy. Such cultural identification facilitates a relationship that sanctions the leader to speak on behalf of the masses (Panizza 94). In this sense, the key mechanism of a leader/mass relationship becomes the way in which the leader can reach those who consider themselves to be excluded or voiceless in the political process.

Julio F. Carrión expands upon Weyland’s definition in his essay “Democracy and Populism in the Andes: A Problematic Coexistence.” He defines populism as a form of political representation with any combination of two or more of the following constitutive elements: (1) a highly personalistic style of leadership, (2) a poorly institutionalized leader/mass relationship that favors mechanisms of direct, rather than representative, democracy, (3) a political discourse that invokes an “us versus them”

mentality, and (4) a distrust of institutional checks and balances that could limit the leader's power (Carrión 168). The different possible combinations, with the components having varying degrees of prominence, account for the wide range of phenomena that the term "populism" is used to describe (Carrión 168).

It should be noted that stressing populism's role as a political style of leadership is not to ignore its problematic attitude toward institutional checks and balances and a confrontational approach regarding conflict resolution (Carrión 168). Populism tends to eschew tenets of representative democracy in favor of mechanisms of direct democracy, such as plebiscites and referenda. This can, in effect, undermine weak institutions of liberal representative democracy. Regarding conflict resolution, the "us versus them" discourse that is so widespread among populist leaders yields a combative and antagonistic governance style (Carrión 168). Despite ardently anti-status quo rhetoric, Carrión posits that the general aim of populist leaders is not necessarily comprehensive social or economic change, though there is a prevalence of the politics of redistribution (Carrión 169; Panizza 96). Rather, the changes that they seek are generally political reforms that "alter the institutional makeup of the country and change the rules of the game to secure reelection" (Carrión 169). Examples include adopting a unicameral congress, like Hugo Chávez did in Venezuela, and changes to electoral laws, like Evo Morales's 2016 referenda regarding his ability to stand for a fourth presidential term (Carrión 169; Schipani).

The Lost Decade: Setting the Stage for the Neoliberal Place

Democracy was restored with the election of Raúl Alfonsín after the deterioration of the dictatorship in 1983. The 1980s saw major political transformation throughout the region, with many countries returning to democratically

elected leadership from a military dictatorship. However, with democracy did not come prosperity. Indeed, the 1980s are widely known as Latin America's "lost decade" due to poor economic conditions and a region-wide debt crisis. After Mexico defaulted on its external debt in 1982, countries throughout the region struggled to service their debts with little access to external financing and increasing capital flight (Kedar 152). By the late 1980s, living conditions had deteriorated throughout the region as unemployment and poverty had risen. In fact, the average GDP per capita in Latin America was 8% lower than it was at the beginning of the decade (Kedar 152). Hyperinflation ran rampant, with Argentina's peak reaching just over 20,000% inflation in March of 1990 ("Century of Decline"). Carlos Menem succeeded Alfonsín as president with his victory in the 1989 presidential election, in the first constitutional transfer of power since before the 1930 coup d'état (Kedar 166). He inherited 200% annual inflation, exhausted foreign reserves, inflationary printing of currency to fund public spending, low real wages, and recessionary conditions in all non-export sectors (Kedar 166).

It was under these conditions that the Washington Consensus emerged. This term was coined by economist John Williamson in a 1989 paper that set out to list ten policies that, in his own words, he believed "more or less everyone in Washington would agree were needed more or less everywhere in Latin America" (Williamson, "A Short History 1). These ten policies, enumerated below, inspired the neoliberal reforms that the IMF, the U.S. government, and the World Bank touted as necessary for developing countries to adopt in order to increase economic growth (Kedar 2). The IMF, World Bank, and U.S. government propagated a neoliberal conceptualization of development based on Washington Consensus principles and

their foundation in free market economic ideology. The policies listed in

Williamson's paper included the following:

1. **Fiscal discipline** – This was important given the large deficits run by Latin American governments in the 1980s that led to regional crisis.
2. **Public Expenditure Priorities** – This focused on prioritizing expenditure on health, education, and infrastructure over subsidies.
3. **Tax Reform** – This was characterized by a broad tax base with marginal moderate tax rates.
4. **Liberalizing Interest Rates** – This was understood to mean positive, market-determined interest rates.
5. **Competitive Exchange Rates** – This focused on exchange rates that allowed maximum growth without enacting inflationary pressures.
6. **Trade Liberalization** – Generally, this required the limiting of tariffs considered to be distortionary.
7. **Liberalization of Inflowing Foreign Direct Investment** – This principle focuses on limiting restrictive policies toward FDI.
8. **Privatization** – This was intended to increase efficient operations of previously state-owned companies and relieve pressure on governments seeking fiscal discipline.
9. **Deregulation** – Generally, eliminating distortionary regulations was intended to allow for increased and improved competition.
10. **Property Rights** – Williamson noted that property rights were deeply entrenched in the United States and insecure in much of Latin America (Williamson, “A Short History 3-4; Williamson, “What Washington Means”).

The debt crisis, and the Washington Consensus that arose from it, signaled a shift in the development paradigm. Politically, it increased the leverage of international financial institutions such as the World Bank and the IMF. Multilateral institutions played an important role in finding solutions to the problem of the Lost

Decade and imposed conditionality on developing countries (O'Brien and Williams 327). For Argentina, this meant conditional policy-based loans under the Brady Plan. Named after the U.S. Treasury Secretary Nicholas Brady, the Brady Plan was a debt reduction program for countries with consistent records of economic reform (Teichman, "Politics of Freeing Markets" 55). After 1989 under the Brady Plan, structural adjustment programs became more widespread. These programs provided debt relief based on the condition of policy reforms, and required that such reforms be established before any agreements were to be made (Teichman, "Politics of Freeing Markets" 55). Such policy reforms were consistent with the principles of the Washington Consensus, including an outward-oriented trade strategy and the privatizations of core areas such as petroleum (Teichman, "Politics of Freeing Markets" 55). President Carlos Menem's relationship with the neoliberal multilateral institutions will be examined in a later chapter of this paper.

In essence, the neoliberal conceptualization of development reprises the classic liberal economic ideology of the 19th century, which argues that "human development and individual freedom are best promoted through the self-regulating free market" (Chodor 2). Understood through its mechanisms of the Washington Consensus policies and the Brady Plan, it focused on economic freedom as the key to development (Payne and Phillips 95). Countries were to reduce trade barriers and focus the economy on exports in order to compete in the global market (Peet 56). This would subject domestic markets to the pressure of international competition, bringing about improvements in quality and efficiency. Inefficient industries would improve or fail, and government protection of them would be eliminated because subsidies were thought to be inefficient and contrary to the aim of reducing the budget deficit. The

macroeconomic stability that such globalizing measures would bring in the medium to long run would discourage capital flight as producers and investors would face less economic uncertainty (Payne and Phillips 93). Foreign Direct Investment would flow into developing countries, jobs would be created, poverty would be reduced via improved incomes and GDP would grow. Consistent with the trickle-down element of the model, such growth of macroeconomic indicators would eventually improve the unemployment problem that transition would bring (Bastías Gonzalez 249). Thus, the economy would be upgraded through the modernization and diversification of exports and free market competition. The allocation of resources via the free market was understood to be the most effective way to stimulate industrialization and economic growth.

In conceptualizing development as a primarily macroeconomic concept, proponents of neoliberalism sought to “depoliticize” the discussion surrounding it. The neoliberal state was to be small and highly effective through what was called “good governance” (Payne and Phillips 97). This was to be achieved via the “modernization of the state” to create an environment that would enable private sector growth (Payne and Phillips 97). Therefore, development problems were approached as being problems of administrative capacity, as if social forces and politics were entirely exogenous from the economic sphere. With the allocation of resources left entirely to the markets, Colin Leys described neoliberalism’s treatment of the state in the following way: “the only development policy that was approved was not having one” (Payne and Phillips 95).

As the promises of neoliberalism failed to materialize by the end of the 1990s, a counter-movement emerged. Christened the “Pink Tide,” it refers to the left turn of

Latin America beginning with Hugo Chávez's election in Venezuela in 1998 ("Pink" thus insinuating a turn that is not quite "red" enough to be socialism). More than a decade of victories for left wing or center-left presidential candidates ensued, with the following being some examples: Evo Morales in Bolivia (2005, 2009, 2014), Luiz Inácio "Lula" da Silva and Dilma Rousseff in Brazil (2002, 2006, 2010, 2014), Ricardo Lagos Escobar and Michele Bachelet in Chile (2000, 2006, 2013), and Tabaré Vázquez and José Mujica in Uruguay (2005, 2010, 2015). It is in this context that center-left Néstor Kirchner emerged victorious from Argentina's first post-crisis presidential election in 2003. He was succeeded by his wife, Cristina Fernández de Kirchner, who won the presidential elections in 2007 and 2011 (Chodor 1). The rise of Kirchnerismo in the wake of Argentina's most severe crisis in modern history will be examined in depth in this paper.

Overview

The next two chapters will examine the international and domestic dynamics that culminated in the Argentine economic collapse and political crisis at the turn of the century. They will then analyze how said crisis gave rise to Néstor Kirchner and his center-left populist model of development. Overall, the Argentine shift from Menem's populist liberalism toward Kirchner's center-left heterodoxy in the post-Washington Consensus era indicates a movement toward a more inclusive conceptualization of development in a Latin America-led context. Exploring the interactions between that which is economic and that which is political is essential to this analysis, because it is impossible to truly separate the two. In other words, there always exists a political component to that which is economic in nature, and there is

an economic component to that which is political. The two spheres are understood to shape and be shaped by one another.

Chapter 2 focuses on the 1990s in terms of neoliberalism in practice in Argentina. In the context of the post-lost decade international politico-economic landscape as well as Argentina's domestic dynamics, Chapter 2 will evaluate the establishment of neoliberal economic policy under the populist Carlos Menem. Despite the best efforts of proponents of neoliberalism to depoliticize development, both economic and political factors played a role in the practice of neoliberal development through political culture and national policies. Chapter 2 will also consider Argentine neoliberalism's fatal flaws that led to economic collapse in the form of Argentina's Great Depression from 1998 to 2002.

Chapter 3 will start by analyzing Néstor Kirchner's election in the context of not only the crisis that preceded it, but also the regional emergence of Pink Tide leaders. It will evaluate the extent to which Kirchner's presidency embodies Carrión's four constitutive elements of populism and how they were utilized to establish a left-of-center project that reflected a region-wide movement. It will explain Kirchner's heterodox approach to questions of social and economic development, combining elements of economic orthodoxy with fiery nationalist discourse and increased state intervention. Therefore, it will highlight points of departure from and continuity with Menem's neopopulist era of neoliberal orthodoxy. In the wake of the Argentine Great Depression and in the context of the Pink Tide's regional leftist movement, Chapter 3 will explain the extent to which Kirchner's "pink" project and populist political strategy are often misconstrued as a greater departure from Menem's neoliberal orthodoxy than they actually were.

Chapter 2

FROM POSTER CHILD TO PARIAH: CARLOS MENEM AND THE NEOLIBERAL PLACE

Carlos Menem inherited a country in trouble when he took office as Argentina's president in 1989. Amid rampant hyperinflation, low real wages, and deep recession, Menem's campaign promises included a "productive revolution" and a *salarioazo*, meaning a large wage increase (Kedar 166). His affinity for neoliberal economic policies came as a surprise, considering his membership in the Peronist Justicialist Party (PJ). Traditionally, the Peronist party in Argentina has been associated with the expansion of the state, not the reduction of it (Teichman, "Politics of Freeing Markets" 114). As Claudia Kedar mentions in her book "The International Monetary Fund and Latin America: The Argentina Puzzle in Context," Kurt Weyland pointed out that Menem, like Brazil's Fernando Collor and Peru's Alberto Fujimori, "used political populism to gain broad support and impose economic liberalism, which in turn strengthened [his] populist leadership" (Kedar 166). Menem therefore built a counterintuitive connection between populism and neoliberalism, known as "neopopulism," that would dominate for over a decade.

David Leaman characterizes Menem's neopopulist blending of neoliberalism and populism as "populist liberalism," which has four key tenets. First, there is a project of economic liberalization along Washington consensus principles. Second, support is drawn from a "multi-class 'populist' base joining many organized and unorganized workers with wealthy citizens and transnational capitalists." The third

tenet of Leaman's populist liberalism is a charismatic and "hyper-presidential leader." Finally, a new political ideology would dominate that glorifies executive leadership, economic efficiency, and liberty (Leaman 98-99). The basis of this characterization in both the principles of populism and those of neoliberalism are clear, and will be further explored in context in the following section. It is crucial to understand the foundation of Menem's policies and actions in order to analyze the culmination of the 1990s into economic and political disaster, and the center-left *Kirchnerismo* that arose from it.

Carlos Menem's Populist Liberalism: The Neopopulist Rock

Carlos Menem built his own populist political machine and used it to establish legitimacy for the neoliberal economic project. Recall Julio Carrión's characterization of populist leadership as having two or more of the following elements, to varying degrees: (1) a highly personalistic style of leadership, (2) a poorly institutionalized leader/mass relationship that favors mechanisms of direct, rather than representative, democracy, (3) a political discourse that invokes an "us versus them" mentality, and (4) a distrust of institutional checks and balances that could limit the leader's power (Carrión 168). In the context of the economic disaster that was the 1980s, Menem cast himself as the rescuer that emerged in a time of economic chaos, particularly given the rampant hyperinflation (Sarlo). This exemplifies Carrión's first element of a highly personalistic leader. Beatriz Sarlo described this element of Menemismo fittingly:

"...both Menem and [Domingo] Cavallo transformed themselves into able mass-media communicators of government policy, establishing a relationship with society that is neither institutional nor based in the forms of representation. One man came off as a charismatic savior, and the other as an infallible technocrat (Sarlo)."

One such example is Menem's public appearance at a soccer stadium while campaigning for the presidency. In typical Peronist fashion, he appeared dressed in white to advocate for the marginalized, promising wage increases and reduced unemployment (Sarlo). He built his charisma based on aesthetics and on his supposed understanding of the masses and their needs and desires, which sanctioned him to speak on their behalf. Menem and his economy minister Domingo Cavallo were essentially handed a blank check to ensure economic stabilization, even if it meant putting other social or economic demands on the back burner. The discourse was such that Menem effectively convinced the population that he and his ministers were the only solution to chaos.

Leaman notes that one characteristic of populist liberalism is that it privileges leadership over institutions (99). There is a strong historical basis for this principle, as Argentina, along with much of Latin America, fosters a culture of patrimonial leadership in the form of *caudillismo*. This is a "highly personalized and informal source of power," through which Menem was very effective at organizing and concentrating power in the executive branch (Teichman, "Merging" 24). This holds true under Menemismo and coincides with Carrión's fourth principle, which describes distrust in institutions that could limit the power of the leader. Menem consolidated power in the executive branch and bypassed the legislature with a record number of presidential decrees. In fact, between 1989 and 1994, Menem issued more presidential decrees than the total issued by all constitutional presidents in over 130 years (Teichman, "Merging" 32). Such personal authority and wide discretionary power are also key patrimonial aspects of the *caudillo* leader.

Emergency decrees were seen as the only mechanism through which the “transformative will” for economic reform could be actualized. This was due to the inefficiencies of Congress such as debates and failure to act in a timely enough manner (Leaman 101). This is also evidence of Leaman’s point that populist liberalism privileges economic efficacy over political representation, in that Menem bypassed the core mechanism of representative democracy in order to ensure that reforms were implemented. An additional example of Menem’s privileging of leadership over institutions was the Olivos Pact. Prior to the 1995 election, this secret agreement was formed with Raúl Alfonsín, the former president and head of the Radical Party, the Justicialists’ primary opposition. It guaranteed Radical support in the legislature for the reform package that abolished the electoral college and allowed a president to serve for two consecutive terms (Rogers). The Menem administration’s tendency to privilege the leader and fundamentally distrust institutions’ ability to limit executive power harks back to traditional populist strategy and the *caudillismo* political culture of leadership.

One should also consider the third element of Carrión’s characterizations of populism, which describes a poorly institutionalized leader/mass relationship that favors mechanisms of direct, rather than representative, democracy (Carrión 167). Because Menem was tied to Juan Perón’s Justicialist party, he drew support from much of the nationalist Peronist population and the traditional populist support base. Membership in the Party did not necessarily mean that the relationship between Menem and the populace was well institutionalized. Eduardo Duhalde, Menem’s first vice president, noted that Menem’s popularity stemmed from the fact that the masses perceived his relationship with them to be direct and unmediated by the Party and its

bureaucracy (Leaman 99). The Argentine sociologist Ricardo Sidicaro described the relationship between Menem and his constituents as a Peronist ““belief that [he] act[s] in the name of the people, and in so doing [he] nurture[s] an almost limitless audacity to modify the itinerary of their policies”” (Sidicaro qtd. in Leaman 100).

Menem and his administration certainly felt such audacity in embracing neoliberal economic reforms, which appeared to run contrary to the principles of social justice traditionally associated with Peronism. He showed his commitment to creating an alliance with the private sector through his first two appointments to the Ministry of Economy, who were both former vice presidents of one of the world’s largest agribusinesses (Kedar 167). These measures allowed him to expand his support base from the traditional Peronist masses to include wealthy capitalists as well as Washington and the multilateral institutions. This is part of Leaman’s second tenet of populist liberalism, which specifies that support be drawn from a multi-class foundation composed of the traditional Peronist base as well as the wealthy and transnational capitalists. Menem also sought the support of the military. In order to consolidate his political leadership and on the pretext of national reconciliation, Menem pardoned the leaders of the brutal dictatorship who had been imprisoned during Alfonsín’s presidency (Kedar 168).

Once he had won the presidency, Menem used his populist machine to legitimize the neoliberal economic project that accompanied it. The political culture of *caudillismo* assisted him in doing so. The discourse favored a popular “transformative will” over incremental change, which Menem and his ministers provided in the form of the neoliberal economic project. However, such abrupt transformation of the economy came at a price. Jeffrey Sachs called the process

“shock therapy,” by which neoliberal measures such as economic liberalization, macroeconomic stabilization policies, and privatization should be implemented virtually overnight. This approach would yield a period of growing pains, but the medium- to long-run benefits were to be substantial (Peet 53). A period of hardship in transition was accepted as an inevitable short-term consequence of reform and efficiency that would balance itself out with Adam Smith’s invisible hand (Peet 53). One such example of what Menem called “major surgery without anesthetic” is the rate of privatizations of public enterprises (Kedar 166). Between May of 1989 and October of 1990, many privatizations in telecommunications, airlines, television and radio, gas, electricity, railways, petrochemicals, and steel had already been completed (Kedar 171). Many of the firms privatized before Domingo Cavallo became Economy Minister in 1991 were sold at rock bottom prices with little regulation because of a sense of urgency to carry out reforms. This entire privatization process paved the way for private monopolies, which actually violates the neoliberal exaltation of competition in the market.

Exchange relationships and clientelism, another important tenet of Menem’s patrimonial leadership, characterized much of the privatization process. His abandonment of economic policies typically associated with Peronism required a modification of the relationship between the Justicialist Party and organized labor, the PJ’s traditional support base (Schamis 169). Those with committed personal loyalty to Menem were given key roles in the privatization process along with opportunities for personal enrichment. The process lacked proper accountability, so kickbacks were exchanged for selling information to entrepreneurs (Teichman, “Merging” 32). Pro-reform union leaders were put in positions of power, and some received greater

political payoffs. For example, the leaders of a powerful oil union were appointed to the board of directors of a privatized oil company. There also existed a system of material payoffs in the form of shares of privatized companies for union leaders who mobilized proper political support (Schamis 169). By securing the support of the captains of industry, privatizations were an effective political instrument in Menem's reform project. Such exchange relationships even extended to the military, as its opposition to the privatization of the petroleum company was appeased by a budget increase for the armed forces and the pardoning of officers accused of human rights abuses in the 1970s and early 80s (Teichman, "Merging" 32-33).

Leaman also mentions that the concept of liberty is stressed over equality in the ideology that accompanied Menem's populist liberalism (99). Liberty was undoubtedly attractive to the population of a nascent democracy that had emerged from a brutally repressive dictatorship less than a decade earlier. In practice, however, "liberty" primarily meant economic liberty. This was consistent with the classic liberal economic argument that rational, self-interested individuals can most efficiently allocate resources through the free market when uninhibited by government's distortionary hand (O'Brien and Williams 14). Consistent with this emphasis on liberty was the shift in focus from socioeconomic equality to equality of opportunity (Leaman 102). Menem used this principle to justify the neoliberal reform project, as illustrated by the following quotation: "Private initiative is an essential derived from liberty. It is a natural substitute for the business activities of the state... Free private initiative is the force that makes possible production and exchange" (Menem qtd. in Leaman 102). In this way, Menem utilized Leaman's fourth tenet of populist liberalism to legitimize the establishment of the first. He built his own

populist machine based on an ideology that glorifies executive leadership and the “transformative will” of the people for whom that leader speaks. That ideology legitimized the neoliberal project in Argentina because economic reforms that aligned with the Washington Consensus principles were considered the path to achieve its aims. This process occurred as Menem sought to align Argentina with the U.S. and the Bretton Woods institutions in the context of domestic crisis and the recent fall of communism.

Argentina’s Economic Pendulum in the 1990s

Argentina’s economic conditions in the 1990s can be understood as two cycles of growth and contraction after the establishment of the currency board regime. The Menem administration established Argentina as the IMF’s poster child for economic reform relatively early on in his presidency. From there, the first stage in the first cycle, from 1991 to 1994, saw a general improvement in economic conditions such as overall employment, price stability, and GDP per capita. The Argentine economy took a turn toward a short recession from late 1994 to 1995, as the international context worsened with Mexico’s Tequila crisis. However, by late 1995, the economy began growing again, though it never reached the same level of prosperity as the pre-Tequila crisis years. Finally, as concerns about the country’s debt sustainability began to mount and crises in East Asia, Russia, and Brazil worsened the international financial industry’s attitude toward emerging markets, Argentina plunged into a deep and widespread depression from 1998 to 2002. It culminated in economic and political crisis, as interim president Adolfo Rodríguez Saá declared what was then the largest sovereign debt default in history and the country experienced five different heads of state in a span of two weeks.

The Birth of the Poster Child

Menem's neoliberal project was initiated at the start of his term when he and his Minister of Public Works, Roberto Dromi, drew up a plan to “reform the state and transform the nation” (Dromi qtd. in Kedar 168). This plan was based on the “Popular Market Economy,” which strived toward numerous goals, including the following: national unity, private initiative, efficient public services, and decentralization (Kedar 169). The “popular” element of the economy was based on the principles of distributive justice and the “promotion of the state as the safeguard of the common well-being” (Dromi qtd. in Kedar 169). The market element, of course, was promoted because it rewards private initiative, economic freedom, and efficiency. Essentially, the “Popular Market Economy” plan gave the state a central role in establishing a market economy. The initiative became authorized when the Congress passed the State Reform Law in August 1989, and further in September 1989 with the passing of the Administrative Emergency Law (Kedar 169). These two laws authorized the concentration of power in the executive by allowing him to liquidate or privatize public companies as well as impose economic reforms regarding wages, taxes, and tariffs by decree (Kedar 169).

These reforms helped Menem secure a positive relationship with the Bretton Woods institutions and the Bush Sr. administration. Menem was particularly interested in these alliances not only for the financial resources they would provide, but also to gain confidence and credibility with the international and domestic business community (Kedar 174). Negotiations resumed with the IMF and the World Bank opened a new office in Buenos Aires (Teichman, “Politics of Freeing Markets” 113). The IMF supported Menem's plans, particularly regarding privatizations and deregulations that would improve efficiency through the free market unencumbered by

the state's distortionary hand. The economy was to be outward-oriented with liberalized tariff policies and equal treatment for domestic capital and foreign direct investment (Kedar 169). The IMF released a statement saying:

““The government of Argentina has embarked on an ambitious macroeconomic program and far-reaching structural reforms. The staff welcomes the measures already taken by the authorities and believes that prompt Fund support for Argentina's program is essential for the resolution on Argentina's severe external payment difficulties” (International Monetary Fund qtd. in 8, 169).

By establishing a plan of state reform and economic transformation that strictly adhered to the policy guidelines of the Washington Consensus, Menem secured this alliance with the IMF. The early days of this partnership were trying, as 1990 ended with a 2,000% annual inflation rate and weak austral relative to the dollar. The Menem administration instituted drastic cuts in public expenditure by way of layoffs of public employees and increases in the price of publicly controlled utilities (Teichman, “Politics of Freeing Markets” 112). The World Bank granted loans for restructuring and privatizations, but the only way to convince the IMF to unlock funds was to propose further drastic adjustments (Teichman, “Politics of Freeing Markets” 113). These internal conditions as well as the pressure, and support, from the international community necessitated a change in strategy for the Menem administration as 1990 came to a close.

Domingo Cavallo was moved from Minister of Foreign Affairs to Minister of Economy in February of 1991 (Kedar 171). His appointment is associated with a greater role for market reform-oriented technocrats in the Argentine government. Think tanks and private academic institutions brought together these primarily foreign-educated academics, particularly economists, to carry out research and make

policy recommendations (Teichman, “Politics of Freeing Markets” 118). These recommendations were free market-oriented and thus called for elimination of state distortions on the market, privatizations of state-owned enterprises, and reduction of the public deficit (Teichman, “Politics of Freeing Markets” 118). Cavallo was one such technocrat with a Harvard Ph.D. in Economics. Amidst rampant inflation, he introduced the Convertibility Plan in April 1991 (Teichman, “Merging” 31). This was a fixed exchange rate plan whereby the 10,000 australs would equal one peso, which would be fixed at a 1:1 exchange rate with the U.S. dollar (Frenkel 42). The peso would be completely backed by foreign reserves, which meant that for every peso in circulation there needed to be one dollar in the Central Bank (Kiguel 87). It also allowed contracts to be denominated in foreign currencies. In effect, the Convertibility Plan set the stage for the dollarization of the Argentine economy.

The early effects of the currency board regime were encouraging. Prices stabilized and inflation dropped to single digits by 1993 (Kedar 171). Stability brought with it domestic and international confidence and attracted capital inflows from foreign investors. Real GDP rose 28% from 1990 to 1993, and the IMF became more active in providing funding for Menem’s neoliberal project (Kedar 171). This paved the way for debt relief under the Brady Plan and thus, the poster child was born.

The First Cycle of Growth and Recession: 1991-1995

The Convertibility Plan, as a currency board system, was an exchange rate-based stabilization process accompanied by trade opening, privatizations, and fiscal adjustment. It successfully curbed the hyperinflation of the late 1980s and kicked off Argentina’s period of rapid growth in the early 1990s by encouraging capital inflows. GDP growth, which was -2.4% in 1990, boomed into double digits in 1991 and 1992

before stabilizing at just under 6% in 1993 and 1994 (The World Bank, “GDP Growth”). Exports contributed significantly to GDP growth, increasing at about 8.7% per year (Kiguel 89). During this time, the net capital inflows exceeded the country’s current account deficit, which allowed the government to accumulate significant foreign reserves (Frenkel 43-44). In fact, investment grew at an annualized rate of 18.8% per year from 1991 to 1994, signaling faith in the poster child as the price stabilization and structural adjustment policies encouraged investor confidence (Kiguel 89). Employment levels and real incomes initially grew, while income distribution indicators improved (Frenkel 44). The Gini index saw a two point drop from 1991 to 1993 from 46.8 to 44.9, indicating an economic movement toward a more equitable distribution of income (The World Bank, “Gini Index”).

As promising as many economic indicators appeared in the early 1990s, there were early signs of trouble. There was an initial reduction in poverty and indigence from the peak of the hyperinflationary 1989-90 period, but indigence began to rise while the economy was still in expansion, as did unemployment (Frenkel 46; Kiguel 91). Despite increased output, unemployment rose to 6.7% in 1992, then jumped to 10.1% in 1993 and 12.1% in 1994 (The World Bank, “Unemployment”). Note that the Tequila crisis did not start until December of 1994, so the rise in unemployment preceded the contractionary period. Roberto Frenkel describes this contractionary adjustment of employment, evident from early on in the period, as an adaptation to the neoliberal conditions set at the beginning of the decade, particularly trade opening and exchange rate appreciation (Frenkel 45). The improvements in efficiency brought about by privatizations often included a reduction in the labor force of those companies. The relative ease of acquiring foreign capital compounded that problem

by reducing the number of jobs per unit of output. Additionally, small and medium enterprises that could not compete with the scale and efficiency of the newly privatized corporations closed, which was also an important cause of employment contraction (Frenkel 45-46).

Negative economic factors began to dominate as Argentina felt the shock waves of Mexico's Tequila crisis. Foreign investors became temporarily more averse to emerging market risk, resulting in capital outflows (Frenkel 44). While only a brief four-quarter recessionary period from late 1994 to 1995, it brought a sharp increase in unemployment to 18.8% in 1995 (Kiguel 95; The World Bank, "Unemployment"). GDP contracted by 2.8% during this short recession (The World Bank, "GDP Growth"). Meanwhile, income distribution indicators deteriorated, as the Gini index rose to 45.9 in 1994 then 48.9 for 1995 (The World Bank, "Gini Index"). Confidence was regained and recession was halted with a twelve billion dollar financial package, four billion of which were fiscal adjustments and six billion of which were from the multilateral institutions (Kiguel 94).

It was in this context that the May 1995 presidential elections were held. After reforming the constitution to allow incumbents to run for reelection, Menem won with almost 50% of the votes (Kedar 172). While a vote for Menem could certainly be interpreted as support for his neoliberal reforms, another explanation recalls his position as a highly personalistic populist leader. Once again, Carlos Menem was elected in a time of economic crisis. Menem had spent six years convincing the populace that he and his advisors were the only solution to chaos. Amidst fears of economic uncertainty he successfully framed himself as the most capable during times of economic hardship (Kedar 172).

Que Se Vayan Todos: Argentina Turned Pariah 1996-2002

Economic recovery ensued as the Argentine economy grew 5.5% and 8.1% in 1996 and 1997, respectively (The World Bank, “GDP Growth”). Improved investor confidence allowed capital to begin to flow into the country again, spurring the recovery. This was also supported by relatively high prices for commodity exports, especially for trade with Brazil, which was growing well and was enjoying a somewhat overvalued real (Kiguel 95). After Economy Minister Domingo Cavallo publicly denounced the lack of transparency and profusion of corruption in Menem’s administration, he was replaced in 1996 by Roque Fernández, another economically liberal technocrat (Kedar 172). Further privatizations ensued, inflation remained in check under the currency board system, and the IMF continued to sing its praises for its poster child (Kedar 173).

This brief period of growth never reached the same level of success as the pre-Tequila crisis years. Real wages stagnated, and both the Gini index and unemployment held at levels significantly higher than the 1991-1994 period (Kedar 172; The World Bank, “Gini Index”; The World Bank, “Unemployment”). This calls attention to a crucial undercurrent that emerged years before the depression began in 1998. Unemployment hits the lowest-income households and the less educated (who make up a high proportion of the lowest-income households) the hardest (Frenkel 47). High sustained rates of unemployment (17.25 in 1996 and 14.95 in 1997) and a worsening of income distribution indicate that the benefits of the economic recovery, limited as they may have been compared to the first half of the 1990s, were being concentrated in the hands of the wealthy (The World Bank, “Unemployment”). The richest 10% had earned 23.6 times the total income of the poorest 10% of the population in 1991, but earned 38 times that of the poorest 10% in 2000 (Frenkel 50-

51). Note that the unemployment indicator treats underemployment the same as adequate employment. Underemployment, which is more common in low-income households, saw a 3% increase over the span of the decade (Frenkel 46-47). So, while the per capita income of the employed increased by about 9% from beginning to end of the period, the distribution of income worsened considerably.

The international context faced by Argentina substantially deteriorated beginning in 1997. The East Asian and Russian crises in 1997 and 1998, respectively, and the Brazilian devaluation in January 1999 contributed to increased risk aversion among international investors as they withdrew from emerging markets (Kiguel 85). Argentina was further harmed by the appreciation of the dollar against the euro and the yen, which compounded the problems of an already overvalued currency. The overvaluation of the peso compounded the problem of the Brazilian devaluation, given that Brazil is one of Argentina's main trade partners (Kiguel 95). Ultimately, concerns about Argentina's prolonged accumulation of foreign debt as a result of sustained current account deficits (as imports exceeded exports due to the strength of the peso) paired with the closing of access to foreign credit brought about the collapse of the Argentine economy (Frenkel 49). The second recession of the decade arose as economic expansion reversed beginning in mid-1998. GDP growth was negative every year from 1999 to 2002 (The World Bank, "GDP Growth"). From beginning to end of the era, poverty returned to nearly 1991 levels, and indigence rose overall (Frenkel 49). Furthermore, the average real income of employed individuals was 11% lower at the end of the 1990s than it was in 1994 (Frenkel 45).

The year 1999 saw the election of minority President Fernando de la Rúa, a Radical of the non-Peronist political alliance called the Alianza. He inherited a

Peronist-dominated Senate, massive foreign debt, diminished access to foreign credit, and a 7.2 billion dollar fiscal deficit (Kedar 174). Although he had promised to reverse the ills of the government that had “turned a cold shoulder to the people,” de la Rúa sought to combat these issues with the same neoliberal strategies that Menem had implemented (Kedar 175). To start, he and Minister of the Economy José Luis Machinea enacted the *impuestazo*, or large tax increase, to address the deficit problem. However, the deficit continued to increase, so de la Rúa turned to the IMF. The IMF approved a financial package of 255% of Argentina’s quota in March 2000 in effort to save its struggling poster child (Kedar 175). The conditions attached the package included tax reform, public expenditure cuts, and the continuation of the currency board regime under Convertibility. Machinea then introduced a reorganization of the state functions responsible for health, education, social insurance, and taxes. This was renewed structural reform along Menemismo lines regarding public expenditure priorities (Kedar 175).

The IMF continued to publicly support the efforts of the Argentine government. With limited access to international financing and the falling GDP increasing the burden of existing debt, de la Rúa had to cut expenditures in an attempt to curb the budget deficit (Kiguel 96). He implemented an austerity plan that would reduce the budget deficit from 6.5 billion dollars to 4.5 billion, in accordance with the IMF agreement (Kedar 175). This plan included severe public expenditure cuts, a 12% reduction in salaries for public employees, and tax increases. However, amid social unrest and tension, it soon became clear that Argentina would again miss its targets. In what was widely regarded a last chance to use neoliberal reforms to leave recession behind, Domingo Cavallo again assumed the post of Economy Minister in

March 2001. Cavallo, architect of the Convertibility Plan, soon modified the peg from a 1:1 parity with the U.S. dollar to a 50% peg to the dollar and 50% peg to the euro (Llach 45). This did not necessarily imply devaluation, but investors became reluctant to return to Argentina when they realized that the dogma of Convertibility was starting to erode. The country risk index rose immediately with the announcement of the currency basket and capital continued to flow out of the country in 2001 (Llach 45).

The relationship between the IMF and Argentina began to sour in 2001. The multilateral institution became disturbed by the *blindaje*, or massive debt swap, that Cavallo initiated to postpone the repayment of debts rather than effectively solve the problem (Kedar 177; Gomez Mera 45). Cavallo then attempted what was called the Zero-Deficit Plan in July 2001, under which the budget would be balanced by reducing enough public expenditure to eliminate the federal deficit by August 2001 (Kiguel 99). The IMF again provided assistance in August and September 2001, when it became clear that the Zero-Deficit Plan had failed. However, it refused to receive Cavallo in November 2001, making it apparent that the institution was reconsidering its policy toward its former poster child (Kedar 177). As Stockholm's newspaper *Dagens Nyheter* stated, the IMF "washed its hands and changed hats to become the bankruptcy receiver" when the Convertibility regime collapsed (*Dagens Nyheter* qtd. in Cohen, 64). In a desperate attempt to prevent a run on the banks, the *corralito* was implemented in December 2001. This measure limited withdrawals to 250 dollars a week in effort to foil the attempts of individuals and investors trying to escape the threat of devaluation (Kedar 178).

The *corralito* was the straw that broke the camel's back and forced a political crisis to arise. After years of recession and high unemployment, the masses were irate

and widespread riots erupted. “*Que Se Vayan Todos*” (“throw them all out”), referring to the politicians, became a popular battle cry and graffiti slogan in 2001 and 2002 (Cohen 61). President Fernando de la Rúa resigned on December 20, 2001 (Kedar 178). The country was to have four more presidents over the next two weeks. Adolfo Rodríguez Saá succeeded interim president Ramón Puerta and promptly declared what was then the largest sovereign debt default in history at about 80 billion dollars (Hornbeck, 5; Cohen 88). He soon resigned and was replaced by Eduardo Camaño as interim president until, in January 2002, Eduardo Duhalde was appointed by the Legislative Assembly to hold the presidency until December 2003 (when de la Rúa’s term was originally set to end) (Kedar 178). In his inaugural speech, he declared, ““The [neoliberal] project has failed... Argentina is in bankruptcy”” (Kedar 178). Argentina had become an international symbol of collapse and chaos, the pariah of the international financial system. Duhalde pointed to “an alliance of political power with financial power” as the root of the damage done to the country in the preceding years (Cohen 62).

The peso was promptly devalued and the pesification of the economy (a reversal of the previous dollarization) commenced (Kedar 178). When the Supreme Court ruled on February 1, 2002 that the *corralito* was unconstitutional, pesification meant that all dollar deposits would be transformed at a rate of 1.4 pesos per dollar (Cohen 68). The peso would continue to depreciate, eventually stabilizing at a 3:1 ratio to the dollar by October 2003 (Cohen 63). In effort to secure IMF assistance, extreme fiscal austerity measures were implemented. Taxes were increased, and the only servicing of debt was to be interest payments on a small share of external debt (Cohen 68). Peronist economist Roberto Lavagna was sworn in as Economy Minister

in April of 2002, and he set out to tackle three broad economic policy challenges: managing inflation in the wake of devaluation, finding a balance between austerity and public expenditures to help guide the economy toward recovery, and managing the peso after devaluation and liberalized foreign exchange controls (Cohen 71).

The policies pursued in 2002 helped to set the stage for recovery in 2003 and beyond. Inflation was about 40% for consumer prices for 2002. Given the country's experience with hyperinflationary chaos and especially considering the increase in prices due to devaluation, inflation was considered to have relatively effectively managed (Cohen 71). Also, Lavagna was largely able to resist pressures to increase social spending in order to stimulate demand. This did not necessarily help to restart the economy, but did contribute toward slowing down further debt accumulation. The main exception was the expansion of the *Jefes y Jefas de Hogares* program, which provided conditional cash transfers starting at 150 pesos a month to qualifying households. According to the World Bank, this program contributed to a significant social safety net for the poorest households in a context of high poverty and inequality (Cohen 71). Exports became a significant form of revenue in post-collapse Argentina, especially for commodities such as soybeans. Exports of goods and services reached 28.4% of GDP in 2002, nearly four times the level in 1991 and over two times the 1990s' peak of 10.6% in 1997 (The World Bank, "Exports"). In terms of managing the peso, this presented a new challenge because Convertibility had made monetary policy essentially irrelevant. Devaluation did contribute to an overall improvement in Argentina's trade surplus, as imports dropped from a 28.1 billion dollar average in 1997-2000 to 9 billion dollars in 2002. With export levels at about 25.3 billion

dollars, the trade surplus reduced demand for dollars with which to buy imports, thus stemming the need for further external debt (Cohen 71-72).

Overall, 2002 saw high unemployment, poverty, and inequality. However, it also saw expectations for economic recovery in 2003 and an agreement with the IMF. Extreme poverty, as defined by a lack of income to buy the basic food basket, had increased from 6% to 28% in the country (Cohen 73). The total share of the population in poverty had increased from 23.8% in 1991 to 56.8% by October 2002, despite high growth in the early 1990s (Cohen 74). Substantial increases in food prices and eroded purchasing power due to devaluation were the key factors to blame for this jump in poverty (Cohen 74). Inequality, as measured by the Gini index, reached its worst level at 53.8, compared to 46.8 in 1991 (The World Bank, “Gini Index”). Nevertheless, there was a growing perception that the economy was beginning to exit its contractionary phase. The peso had begun to stabilize, inflation had not spiraled out of control, and the end of the *corralito* increased confidence and allowed more money to flow through transactions (Cohen 79). A year of negotiations with the IMF produced an agreement for a loan to help finance the transition back to economic growth. More significant than the amount of money provided was the implication and vote of confidence that the country was beginning to strengthen its economic management (Cohen 82). Economic recovery was beginning to emerge, but continuing political turmoil in post-default Argentina would set the stage for the rise of Néstor Kirchner and the center-left populist rock in 2003.

Populist Liberalism’s Fatal Flaws

The Argentine crisis at the end of the twentieth century can be understood as a culmination of political and economic dynamics, both international and domestic in

nature, which interacted throughout the neoliberal era. The mutually influencing nature of the two makes it difficult to separate these dynamics. Processes that are economic in nature are influenced by politics or have political components, and vice versa. This section seeks to evaluate those factors and their interactions leading up to Argentina's economic and political crisis at the turn of the century.

Given the massive undertaking that was the neoliberal economic project, it is necessary to examine the role that Washington Consensus policies might have played in the development of the crisis. First, consider the impact of abrupt trade openness. Due to reduced tariffs and the increased purchasing power that came with the peg to the dollar, imports became relatively cheaper in Argentina. This is especially true because the country came from an extremely depreciated currency in the hyperinflationary context of 1989-90 (Frenkel 53). According to liberal economic doctrine, trade openness should improve efficiency and quality of products by exposing domestic industries to the competitive pressures of the market. In practice, it could cause import-competing industries to suffer and ultimately cut production and employment as they struggle to adjust to the shock doctrine that Menem employed. This kind of impact varied across industries. The manufacturing of goods, which is generally import-competing, was nearly 50% higher than at the beginning of the decade by 1998 (Llach 48). While it did significantly recover from the crisis of 1989-90, it was only moderately higher than its previous 1988 peak. Some activities that were heavily import-competing, such as textiles, did suffer while industries related to natural resources saw important improvements overall (Llach 48).

Privatizations and deregulation also had an important impact in the processes that culminated in crisis. The countless major state-owned corporations that were sold

often reduced their labor forces as they sought to increase efficiency in the context of relatively cheap capital in the early 1990s (Frenkel 45-46). While far from the only factor, this certainly contributed to unemployment, which started to rise early on despite high output growth (see Figure 1). Overall, unemployment saw a rising trend throughout the period. Although it did see a brief recovery from its 1995 peak, unemployment had still not fallen below pre-Tequila crisis levels by 2002 (The World Bank, “Unemployment”). Also note that GDP growth fell to -4.4% in 2001, then -10.9 percent in 2002 (see Figure 1) (The World Bank, “GDP Growth”). For reference, note that GDP contracted by -2.8% in the United States during the Great Recession in 2009 (The World Bank, “GDP Growth”). Free market capitalism is also associated with a certain degree of income inequality. Income distribution indicators such as the Gini index deteriorated throughout the period, despite initial modest improvements (see Figure 2). From beginning to end of the period, it rose from 46.8 in 1991 to 53.8 in 2002, according to the World Bank (“Gini Index”). As discussed earlier, this indicates that any economic benefits of neoliberal policies were being concentrated in the hands of the wealthy, while the poor were hit hardest by unemployment and benefitted the least from the neoliberal project. Ultimately, Populist Liberalism’s promise of economic liberty and efficiency did not bear the fruits of prosperity for the masses.

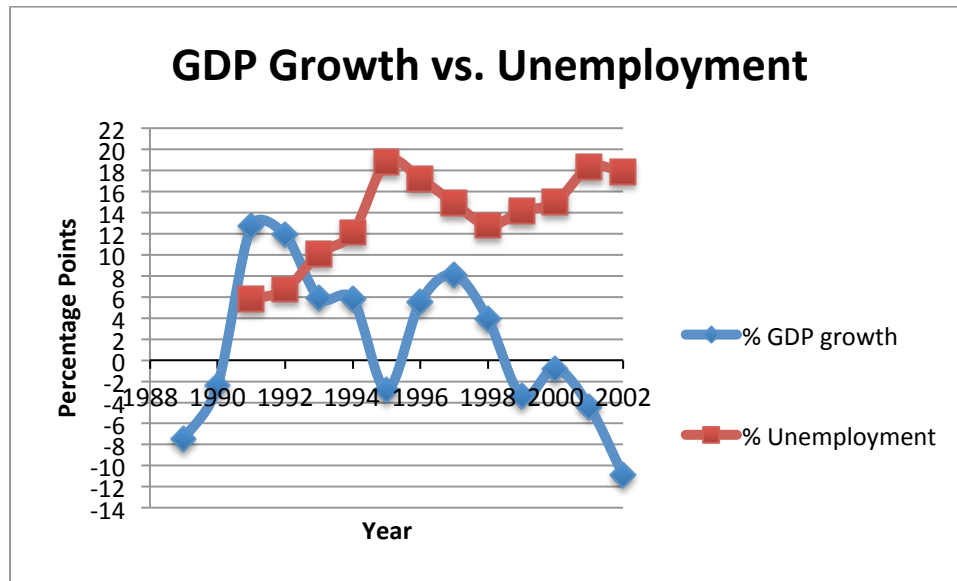


Figure 1 GDP Growth versus Unemployment in Argentina 1989-2002 Source: (The World Bank, "GDP Growth"; The World Bank, "Unemployment")

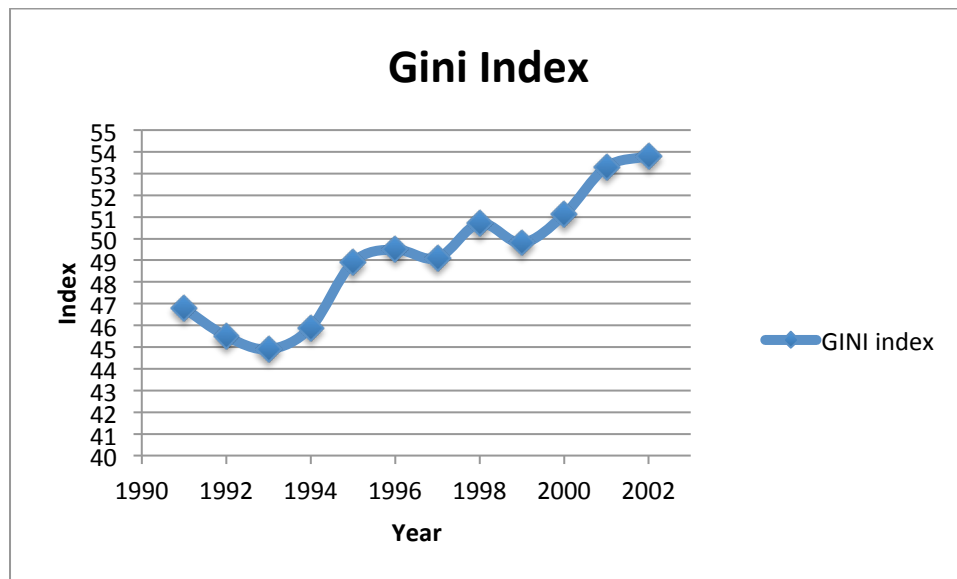


Figure 2 Gini index for Argentina 1991-2002 Source: (The World Bank, "Gini Index")

Fiscal policy must also be examined as a contributor to the depression, as Argentina and the IMF spent the decade making structural adjustment agreements to fund the fiscal deficit. Public deficits were considered to be unsustainable in the long run even though public debt was a lower percentage of GDP than that of the United States, Japan, and nearly every Western European country by 1997 (Llach 52). Nevertheless, ballooning foreign debt in the 1990s and public expenditure levels that were growing faster than GDP proved to be too much when the abandonment of the Convertibility Plan devalued the peso and made the debt-to GDP ratio explode. From 1991 to 2001, public expenditure rose 77%, while GDP grew 57% (Artana, López Murphy, and Navajas 23). Furthermore, prior to the default, the prolonged decrease in GDP and falling tax revenues increased the burden of the existing debt (Kiguel 96). The government should have run a surplus during good years, rather than accrue debt, in order to accumulate foreign reserves with which it could finance deficits in times of trouble. Additionally, the privatization of social security had a massive financial impact on the government's budget. The government was deprived of significant revenue when workers' contributions were directed to private funds, but it still had to pay out to those retiring under the old government-run system (Gomez Mera 53). Overall, fiscal problems and unsustainable debt undoubtedly contributed to Argentina's casting as the pariah of the international financial community before the crisis even peaked.

Convertibility's role in the dynamics that led to the crisis is also key to understanding the process toward economic and political collapse. The currency board had ruled the exchange rate and monetary policy since 1991 and proved to be very effective at managing inflation. However, it provided an extremely rigid setting

in which the government's economic policies were restricted to sending signals. In this context, Roberto Frenkel argues, an agreement with the IMF weighed more as a confidence-boosting signal to the market than the actual amount of resources provided by it (Frenkel 57). This is meaningful because expectations and confidence played a major role in the swings of Argentina's economic pendulum. However, such rigidity in the exchange rate provided little flexibility for correcting policies, an issue that can be illustrated by the "Impossible Trinity." This trilemma in international economics states that governments may pursue any two, but not all three, of the following policy goals: independent monetary policy, exchange rate stability, and financial integration through free movement of capital (Aizenman 3). Argentina in the 1990s chose to pursue exchange rate stability with the Convertibility Plan and financial integration through equal treatment of domestic and foreign capital. In such a scenario, the Argentine government did not have the flexibility to use monetary policy to impact the monetary base and interest rate. Therefore, it could not be used to stimulate the economy in the recessionary periods of 1995 and 1998-2001. Monetary policy was more or less restricted to maintenance of the 1:1 peg with the dollar (Aizenman 4).

Strict observance of convertibility required other economic variables to be flexible enough to adjust to negative shocks, particularly during times of an adverse international environment (Artana, López Murphy, and Navajas 26). One example of the inability of other economic variables to compensate for the rigidity of convertibility can be seen in Argentina's exposure to foreign trade. Despite trade opening efforts and the doubling of imports from 1991 to 1998, the ratio of exports to GDP was relatively low throughout the decade (Llach 51). It sat below 10% for most of the decade, except for the period of brief recovery after the Tequila crisis, when it

peaked at just over 10% (The World Bank, “Exports”). This low ratio meant that in order to avoid economic contraction, exports would need a 10% expansion above trend to offset the negative impact of a shock that causes a 1% decrease in capital inflows (Artana, López Murphy, and Navajas 26). However, the external gap was consistently growing throughout the period, as trade opening and the appreciated exchange rate resulted in a chronic trade balance deficit (Frenkel 55). Additionally, exchange rate inflexibility necessitated downward flexibility in government spending, or at least a stringent limit on growth of public expenditure (Artana, López Murphy, and Navajas 27). This, too, showcased rigidity as the country struggled to cut spending and accumulated foreign debt throughout the decade. Politicians were reluctant to pay the political price of further cutting social benefits when the economy began to collapse. Overall, the economy failed to achieve sufficient flexibility in other variables to offset the rigidity of the convertibility regime and its consequent negative impact.

An additional impact of Convertibility was on the financial and banking system. It facilitated the partial dollarization of the domestic financial system and allowed contracts to be denominated in foreign currencies. The goal of this policy was to repatriate Argentine capital abroad by allowing Argentines to deposit their dollars in local banks instead of keep them overseas. This too played a role in the public and banking’s behavior and expectations because it was thought to act as a hedge against the possibility of future devaluation (Frenkel 54). However, when the prospect of devaluation started to become a possibility in 2000 and 2001, the fact that financial contracts were denominated in dollars prompted a run on the banks as people tried to withdraw dollars before the devaluation occurred. Furthermore, dollarized public debt

would mean that expectations of devaluation would create expectations of default, since devaluation would significantly increase the debt burden (Llach 52). Argentina saw this transpire in 2001 with the expectations of devaluation, banking crisis and *corralito*, and eventual default.

Financial globalization in the twentieth century increased emerging economies' vulnerability to international volatility in the form of capital flight and inflows (Aizenman 9). Common for emerging markets is a correlation between the domestic cycle of the economy and fluctuations in the conditions of the international capital market and credit availability. Thus, the volatility of international capital flows in the 1990s transmitted to Argentina's domestic economic activity (Frenkel 55). External shocks weighed heavily on the Argentine economy, as evidenced by the two recessions that occurred during the decade. The lack of monetary flexibility accentuated Argentina's already vulnerable status related to international financial conditions. In fact, Roberto Frenkel described Argentina's dependency on inflows of foreign capital "the original sin of the convertibility regime" (Frenkel 57). In good times, there was no uncertainty regarding exchange rate stability because of the hard peg to the dollar. In hard times, however, fear of devaluation heightened capital flight to quality (Llach 56).

External factors played a crucial role in the sustainability of a successful neoliberal project. Net capital inflows proved necessary for sustained growth in an environment of debt accumulation and trade imbalances throughout the decade (Frenkel 55). For one thing, signals about capital flows and the trade balance were valuable because they influenced investor confidence and expectations and thus the financial market's future behavior (Frenkel 57). Net capital inflows and consumption

generated high GDP growth in the early 1990s. The first recession occurred in the wake of the Tequila crisis, as contagion from the Mexican devaluation created risk aversion among international investors. Argentina suffered from the Tequila effect more than any other country in Latin America besides Mexico, with the second deepest recession in the region. Another stage of growth was stimulated by a surge in capital inflows in 1996-97. However, when private capital inflows began to decline in the context of debt overhang and crises in East Asia and then Russia, so did growth until Argentina entered a deep and long-lasting recession in mid-1998 (Frenkel 56). This was further compounded by the devaluation of the Brazilian real in early 1999. The government stopped accumulating foreign reserves during these adverse international conditions, which affected domestic liquidity and eventually the government's ability to service its debts (Frenkel 49).

The political dynamics that initially legitimized the establishment of the neoliberal project also perpetuated it and ultimately contributed to its demise. These dynamics have their roots in the Populist Liberalism model used to describe Carlos Menem's blending of populist and neoliberal elements. Domestically, Carlos Menem's *caudillismo* and highly personal leadership, accompanied by the elevation of personally loyal liberal-minded technocrats, was utilized to create the impression that Menem and his team were the only solution to economic uncertainty and fear of inflation. This was compounded by highly concentrated power in the executive branch, which was legitimized by a number of legislative actions. It gave wide discretionary powers to the president in the context of a political ideology that glorified executive leadership and privileged it over institutions. These elements combined to create a culture of sacred dogma around the Washington Consensus

policies and the Convertibility Plan in Argentina. Critics were labeled “devaluationist” and risked political and intellectual isolation. According to Roberto Frenkel, that is why few economists studied the impact of the currency board regime and few politicians publicly opposed it even when the economy took a turn for the worse. Convertibility was generally accepted as a given and therefore its abandonment was not considered earlier on in the recession (Frenkel 58). Even a regime change from a Peronist president to a Radical one in 1999 could not dismantle Convertibility, as Fernando de la Rúa sustained the policy and even extended and deepened neoliberal reforms. Menemismo still predominated in Argentina with the Peronist-dominated Senate, so de la Rúa lacked the political power to successfully confront the social and economic crisis (Kedar 174).

This dogma surrounding the neoliberal economic project was not limited to the domestic sphere. It also existed in the international context, particularly within the multilateral institutions such as the IMF. The IMF gave its seal of approval to what proved to be unsustainable programs and offered support with financial resources. It also provided arguments in defense of the Convertibility system once serious concerns arose. For example, despite serious emerging social problems in the country, managing director Horst Köhler responded to President de la Rúa’s concerns by stating that the neoliberal policies were the correct ones at that they “were crucial to increasing investors’ confidence” (Kedar 175). Claudio Loser, the Argentine who stood as head of the IMF’s Western Hemisphere Department from 1994 to 2002, said the following about the IMF’s persistent support of such programs including the disorderly and even corrupt privatization process:

“There was too much dogma and too little attention to how things were done. Because the ideological precepts were followed, nobody looked

at the practical implementation.... Those were the predominant ideas [the Washington Consensus]. And Menem was totally sympathetic with them. He was, as had always been said, a model student.” (Loser qtd. in Kedar 166).

The IMF thus encouraged policy measures that eventually contributed to the deepening of the recession. Examples include the financial package approved in March 2000 with the conditions of public expenditure cuts and maintenance of the currency board, as well as the austerity measures implemented by de la Rúa that cut the salaries of public employees and eliminated labor benefits (Kedar 175). These and other policy measures pushed the economy deeper into a cycle of economic contractions that reduced tax revenues and caused a further deterioration of the fiscal accounts (Frenkel 52). This increased the burden of the existing debt in the years leading up to the default. With poor growth and an inability to reduce the public deficit, refinancing that debt became impossible (Kiguel 96). Nobel Laureate Joseph Stiglitz famously argued that Argentina had suffered enough from harmful IMF conditionality and would not benefit from new intervention from multilateral institutions in the stabilization efforts following the default (Stiglitz qtd. in Cohen 69).

Claudia Kedar proposed two possible scenarios to explain the IMF’s support of Argentina’s neoliberal dogma. First, the IMF was intentionally oblivious to the harmful ways in which reforms were enacted because it prioritized the neoliberal doctrine. Second, and not necessarily contradictory to the first, was that some at the IMF knew that the Argentine project was risky but were reluctant to withdraw. A renewed economic collapse in Argentina would likely be viewed as a failure on the IMF’s part. Politically speaking, they could not let their poster child fail and descend into crisis (Kedar 174). The IMF seemed to be trapped in a situation that it helped create, through its conditional structural adjustment programs and its prolonged

support of unsustainable policies that created their own harmful distortions on Argentina's economy. It tried to help keep the collapsing economy afloat until, finally, it "abandon[ed] the boat just when it was sinking" (Frenkel 52). The IMF's poster child of neoliberal economic reform had become the pariah of the international financial system, wrapped in a crisis rife with massive debt default, high unemployment, major contractions of economic activity, political turmoil, and high levels of poverty.

Chapter 3

NÉSTOR KIRCHNER AND THE 21ST CENTURY POPULIST ROCK

While Argentina had begun to emerge from economic collapse, the presidential election of spring 2003 demonstrated that the country remained in a state of political chaos. Three of the seven candidates belonged to different factions of the fractured Peronist movement, including the governor of Santa Cruz Province, Néstor Kirchner, and former presidents Carlos Menem and Aldo Rodríguez Saá. Menem's campaign largely criticized the Duhalde administration. Recalling the 'prosperity of the 1990s' and attempting to evoke his image as savior in times of crisis, he vowed to resolve the country's myriad of problems despite their roots in his own former presidency (Cohen 85). He won the first round with 24.4% of the votes, while Kirchner came in second with 22.2% of the votes (Kedar 179). A runoff election was to be held on May 18, 2003, because no candidate had met the requirements to secure a first round victory specified by the Argentine constitution (either an absolute majority or a 20 point lead) (Cohen 85). As a highly divisive candidate, Menem knew he could not win the second round of elections and subsequently withdrew from the race. Néstor Kirchner was thus inaugurated as Argentina's first elected president following the crisis on May 25, 2003 (Cohen 85). The 2003 election showed evidence of high political fragmentation in Argentina, as neither the Peronist establishment nor the general population could decisively nominate a president to lead the country out of crisis. Ultimately, President Duhalde's endorsement of Kirchner legitimized his candidacy as the best alternative to the highly polarizing figure of Carlos Menem.

The Pink Tide: Latin America's Left Turn

In order to understand the policies and success of Néstor Kirchner, it is important to examine the international political context of the region at the time of his inauguration. Néstor Kirchner's presidency, as well as that of his wife and successor Cristina Fernández, formed part of what has become known as the "Pink Tide" in Latin America. Like the word "populism," this term is used to describe a diverse set of experiences in the region, bound by certain identifying characteristics. Leftist governments generally put a more equitable growth model at the forefront of their policy objectives. According to Steven Levitsky and Kenneth M. Roberts, the left rejects the notion that the free market can be relied upon to meet all of the social needs of a population. In fact, Néstor Kirchner exhibited the notion that the free market can actually inhibit the pursuit of social needs in an address to the United Nations General Assembly on September 25, 2003, when he said, "the greatest risk [inherent to globalization] is the widening gap between the rich and poor" ("Address by Néstor Kirchner"). Therefore, left-leaning governments seek to use public authority to combat and provide social protection against the inequalities inherent to capitalism. They also endeavor to enhance opportunities for disadvantaged socioeconomic groups that can easily be marginalized in the political and economic spheres (Levitsky and Roberts 5).

Despite these common goals, the left in the Pink Tide includes an array of policy projects that demonstrate a varying degree of willingness to break with neoliberal economic orthodoxy and to work within the realm of preexisting liberal democratic institutions. On the two ends of the "pink" spectrum lie Brazil (along with Chile and Uruguay) and Venezuela. Brazil's left turn under Lula and then Dilma Rousseff generally maintained the relatively orthodox macroeconomic project and

liberal democratic institutions they had inherited. On the other hand, in Venezuela Hugo Chávez established a statist redistributive project and used mechanisms of direct democracy to bypass institutions to change the national constitution and expand executive powers (Levitsky and Roberts 3). Jorge Castaneda famously labeled these two extremes the “good left” and “bad left” in a Foreign Affairs essay in 2006. The “good left,” represented by countries like Brazil under Lula, was “modern, open-minded, reformist, and internationalist,” while the “bad left” of Venezuela under Chávez, Argentina under Néstor Kirchner, and Bolivia under Evo Morales was populist as well as “nationalist, strident, and close-minded” (Castañeda 29). However, it is more useful to understand the left of the Pink Tide as a spectrum of diverse experiences (rather than an absolute dichotomy) in which Argentina lies somewhere in between the two extremes, according to Levitsky and Roberts (Levitsky and Roberts 3). The variation among the left in Latin America in the post-neoliberal era comes from different policy experiments to confront issues of equality, social justice, and popular participation (Levitsky and Roberts 3).

Néstor Kirchner applied a heterodox approach to problems of social and economic development problems. He combined certain elements of orthodoxy and statism to pursue a more equitable growth model than the neoliberalism that preceded him. Such heterodoxy will be further explored later in this chapter.

Néstor Kirchner’s Rise from the Ashes

Amidst clear political turmoil and an economy just beginning to recover, certain conditions created an opportunity for the establishment of a left turn in Argentina’s policy initiatives. In fact, many of the very dynamics that culminated in economic and political collapse at the turn of the millennium facilitated such an

opportunity. Regarding the neoliberal project in general, Latin America's left turn is commonly understood as a backlash against the Washington Consensus reforms (Levitsky and Roberts 9). The high incidence of poverty, unemployment and underemployment, inequality, and falling real incomes created a popular disenchantment with the neoliberal model of development. Those suffering from poverty and inequality are a potential constituency for the left because they are likely to be receptive to redistributive reforms. This substantially weakened the candidacy of those who had propagated neoliberal reforms. For example, even though Menem won the first round of the 2003 election, he withdrew from the runoff because it was clear that he would not win more than the 24.4% of votes he received in the first round (Cohen 85). Furthermore, the dogma that had defined the de la Rúa administration's commitment to the neoliberal project during the recession severely weakened the credibility of the Radical opposition in the eyes of the population. The international dogma of the IMF's attitude toward Argentina's neoliberal reform, followed by the IMF's eventual abandonment of the country, weakened the credibility of the international financial institutions in the eyes of the masses. Therefore, people were inclined to support a candidate who criticized the IMF and provided an alternative to neoliberalism, which formed the basis of Kirchner's campaign.

Additionally, Kirchner was endorsed by outgoing President Eduardo Duhalde, who oversaw the activation of Argentina's recovery in 2002. This proved to be a significant factor in Kirchner's electoral success because he was made to represent a relative continuity of politics. This in turn implied a continuity of recovery, which had obvious appeal to voters. Kirchner maintained that image of program coherence in the first half of his term by retaining several of Duhalde's Cabinet members, including

Economy Minister Roberto Lavagna, who had helped orchestrate the impetus toward recovery (Schamis 173). Kirchner's administration continued efforts to reinvigorate the economy based on exports and a competitive exchange rate as well as restructure debt under conditions that would not harm long-term growth and poverty alleviation prospects (Schamis 172-173). However, after Kirchner's faction of the Peronist party, the Front for Victory, saw sweeping success in the 2005 midterm elections, Kirchner fired Cabinet members such as Lavagna and started pursuing a policy project more characteristic of a leftist populist machine (Kaufman 114).

The failure of fiscal policy and consequent sovereign debt default also provided an opportunity for the left's ascendance in Argentina. Debt repudiation and rescheduling contributed to significant fiscal surpluses because a much lower portion of the budget was committed to servicing external debt (Etchemendy and Garay 290). Those surpluses could be used to finance social programs such as family allowances and infrastructure (Wylde 438). Furthermore, the failure of Convertibility contributed to the fiscal surpluses because of devaluation. Devaluation and high export prices brought about by the commodities boom helped establish a positive trade balance, which provided the government with much needed foreign reserves. Economic activity began to increase as domestic production was needed to meet growing domestic demand for consumption, since imports had become more expensive (Etchemendy and Garay 294). It also benefitted exporting farmers who paid costs in pesos and received payments in dollars. Export taxes were thus imposed on food and oil producers to provide an important source of revenue for the government to fund redistributive programs typically associated with the political left (Etchemendy and Garay 290; Levitsky and Roberts 11).

Kirchner's Heterodox Model for Inclusive Development

Despite an often fiery leftist discourse, Néstor Kirchner's presidency was characterized by a heterodox approach to development in the wake of the economic collapse of the early 2000s. Levitsky and Roberts characterize the heterodox approach as utilizing "selective, rather than comprehensive, forms of state intervention that challenge orthodox principles without fully abandoning the market-led model or making the state the primary engine of development" (Levitsky and Roberts 22). This approach reflected a rejection of the neoliberal notion that the free market can meet all of the social needs of a population. Kirchner voiced that belief in a book published prior to his election, in which he argued: "It is true that the market organizes economically, but it does not articulate socially. We need to find an 'intelligent state'" (Cohen 86). In many respects, Kirchner retained some aspects of the neoliberal economic project established by Menem and perpetuated by de la Rúa. However, economic recovery and a populist political machine gave him the flexibility and mechanisms to pursue a more equitable growth model (Levitsky and Roberts 22).

Kirchner's heterodox approach emerged after neoliberalism's emphasis on macroeconomic indicators as measures of development showed serious flaws. The mechanisms that turned those flaws from cracks into chasms created an opportunity for Kirchner to step in with his left of center approach, as outlined above. Because populism is a political strategy rather than a set of policies, it is malleable enough to be relevant in conjunction with varying economic regimes. Kirchner utilized mechanisms of populism to establish legitimacy for his heterodox model that sought to be more inclusive than Menem's pure neoliberalism without completely abandoning the market-led model. Pia Riggirozzi terms this "neodesarollismo," as a project of "open economy nationalism" which has elements of market-friendly economics and

effective state management as well as a nationalist political project (Wylde 446). While he implemented important policy changes that constituted a shift to the left, Kirchner's presidency is commonly misconstrued as a greater departure from Menem's populist liberalism than it actually was.

Turning "Pink" Under Néstor Kirchner

Argentina's center-left experience under Néstor Kirchner falls into the political category of what Levitsky and Roberts call the "Populist Machine" (see Figure 3). Kirchner's Peronist Front for Victory coalition fell under this category because of its level of institutionalization and locus of political authority. As part of the Justicialist Party, Kirchner emerged from a long-standing established organization. Populist machines are flexible in party orientation, depending on the preferences of the leader. Patronage and clientelistic relationships have maintained continuity in the popular support base throughout the different fluctuations in policy. These relationships institutionalized the leadership structure of authority that is centralized in the personalistic executive (Levitsky and Roberts 14).

	Established party organization	New political movement
Dispersed authority	Institutionalized partisan Left <i>Electoral-professional Left</i> Chile under Lagos Escobar Brazil under Lula and Rousseff <i>Mass-organic Left</i> Uruguay under Vázquez and Mujica	Movement Left Bolivia under Morales
Concentrated authority	Populist Machine Argentina under Kirchner's Peronism Nicaragua under Ortega	Populist Left Venezuela under Chávez Ecuador under Correa

Table 1 Levitsky and Roberts' typology of governing left parties in Latin America Source: (Levitsky and Roberts 13).

Popular participation and mobilization are key factors in the populist machine, which Kirchner employed through linkages with social groups such as unemployed workers' organizations and labor unions (Etchemendy and Garay 286). These relationships fall under Carrión's second constitutional element of populism, which includes a poorly institutionalized relationship between the leader and the masses (Carrión 167). For example, Kirchner used policy inducements such as employing members of the unemployed workers' organizations in public works and supporting microenterprises to mobilize their loyalties. This form of enhancing popular participation proved very effective for the Kirchners when unemployed workers' organizations were mobilized to hold massive rallies to support the government in its confrontations with major agricultural interests (Etchemendy and Garay 287). Additionally, Kirchner's anti-neoliberal discourse appealed to the labor unions that had been weakened under Menem. He fostered alliances with major labor unions like the Confederación General de los Trabajadores (CGT). Through patronage mechanisms, Kirchner appointed union-friendly officials in important state positions.

However, this relationship was not significantly institutionalized, as the CGT's previously important role in the Justicialist Party was not reestablished. Therefore, while Néstor Kirchner did strengthen organized labor relative to the conditions under Menem, the relationship between labor and politics was nowhere near as institutionalized as it had been under Perón. By shifting the balance of power between unions and corporations more toward unions than it had been under Menem, Néstor Kirchner's populist machine utilized its historical support base to garner support and implement policies that subjected the previously free labor market to government influence.

During his presidency, Kirchner pursued political moves that showed a marked difference from those of Menem. For example, while Menem had sought the support of the military in order to mitigate any risk of a threat against his administration, Kirchner pursued an opposing human rights agenda that garnered widespread popular support. He overturned the pardons that Menem had offered to military leaders of the dictatorship and orchestrated the repeal of the amnesty laws *Obediencia Debida* and *Punto Final*. He then renewed trials against those responsible for the Dirty War and relieved 44 high-ranking officials of their command (Norden 108). This initiative was widely popular in Argentina because the focus on seeking justice for the state-sponsored terrorism of the Dirty War was regarded as inclusive and prioritizing the rights of the people. This helped establish Kirchner's identity as a personalistic leader, in that it portrayed him as honest, responsive, and socially conscious.

Another example of a political departure from Menem was Kirchner's reorganization of the Supreme Court. Menem had packed the court with five judges who supported the "major surgery without anesthetic" that he performed on the

Argentine economy. Soon after entering office, Kirchner began orchestrating the ouster of the Justices that constituted Menem's "automatic majority." This move was widely popular among Argentines, who regarded Menem's judges as corrupt and untrustworthy due to the collapse of the economy in 2001. While it was an effort to reverse a controversial aspect of Menem's project, the move also had merit in Kirchner's populist political strategy. Carrión's fourth constitutive element of populism is a distrust of institutional checks and balances that might limit the power of the leader. The ouster of Menem's "automatic majority" marked Kirchner's only significant disruption to the liberal democratic institutions and is an illustrative example of this principle. Not only were the judges widely perceived as corrupt cronies who were partially to blame for the country's crisis, their presence in the Court constituted a threat to the heterodox center-left project that Kirchner was set to pursue. Kirchner was able to eliminate that threat and reorganize the Court to be politically friendlier to his policies. This helped his approval ratings reach over 80% by July 2003, just two months after he was elected with just 22% of the vote ("Argentine Leader").

Néstor Kirchner's administration pursued economic and social policies that constituted a shift to the left by breaking from Menem's pure neoliberal orthodoxy. State intervention was selectively increased in order to combat the inequalities inherent to capitalism. For example, Kirchner imposed price controls and consumer subsidies to bolster real wages. These efforts had substantial political payoff in 2005, when the Front for Victory won an overwhelming victory in the legislative elections (Kaufman 106). Furthermore, the government rewarded the unions for their support through labor policies that were leftist in nature. Labor flexibility policies were rolled

back (making employment more secure) and the government intervened in wage policies through increases in the minimum wage as well as decrees that required wage increases in the private sector (Etchemendy and Garay 294). A significant example of this commitment to selectively utilizing statist policies to improve equitable growth was the renationalization of the social security system in 2004. This served a dual purpose in that it expanded coverage downward to serve as a safety net while simultaneously providing additional resources to the government via contributions to the program (Etchemendy and Garay 295). During the Néstor Kirchner presidency, pension coverage had expanded to its highest coverage ever (Etchemendy and Garay 296). It is worth noting that the Gini index, which measures income inequality, improved significantly during Néstor Kirchner's presidency. From its crisis-induced peak of 53.8 in 2002, income inequality fell to 47.3 in 2007 (The World Bank, "Gini Index"). It further fell to 46.3 by 2008, lower than in 1991 and the lowest since the onset of the Tequila Crisis in late 1994 (The World Bank, "Gini Index").

In Neal P. Richardson's essay "Export-Oriented Populism: Commodities and Coalitions in Argentina," he identifies Néstor Kirchner's regime as "export-oriented populism," which combines aspects of traditional populism with export promotion (229). He argues that Kirchner was able to pursue more redistributive social policies in part because of the country's transition in agricultural production from primarily beef and wheat to predominantly soybeans. Political stability and support for Kirchner's reforms were drawn from this principle because soybeans do not have a domestic market for consumption. Export taxes on beef and wheat, for which there are significant domestic markets, would cause price increases that would erode the real income of the urban workers and thus create political conflict. However, export taxes

on soybeans would not have the same negative political implications, as the lack of a domestic market for soybeans meant that the real income of the urban population would not be affected. While the agricultural interests certainly had confrontations with the government over this policy, they never got out of hand under Néstor Kirchner because they benefitted from the high price of commodities (particularly due to China's growing middle class and thus increasing consumption) and the devalued peso (Richardson 240-246).

The Stable and Competitive Real Exchange Rate facilitated the booming development of the country's export economy in the early 2000s. This policy represented both a break from traditional Peronism's Import Substitution Industrialization and Menemismo's overvalued real exchange rate due to the peg to the dollar (Wylde 447). As a result, about two thirds of the total export taxes (which comprised around 10% of the Kirchner administration's total tax receipts per year) came from soy exports (Richardson 242). Strengthened exports driven by the commodities boom helped GDP growth turn positive to 8.8% in 2003 (coming from -10.9% in 2002) and peaking at 9.2% in 2005 (The World Bank, "GDP Growth"). The economy was growing at a rate of 8% in 2007, Néstor Kirchner's final year in office (The World Bank, "GDP Growth"). Therefore, Christopher Wylde notes that Kirchner pursued a development strategy that emphasized the "promotion of exports as a path to sustained economic growth" (449). He did not actively promote the interests of the financial sector like Menem had done because he viewed that aspect of Menem's administration as the cause of widespread social exclusion and poverty (Wylde 449).

The revenues that the government enjoyed from policies such as export taxes were used in a redistributive manner to establish social programs. Social policy was designed to target poverty relief for those who were unable to meet their needs (Levitsky and Roberts 22). This involved substantial state expansion, as reforms included employment schemes, family allowances, and price controls (Etchemendy and Garay 295). One of the most prominent social transfer programs was the Unemployed Heads-of-Household Program (UHHP), which Kirchner inherited from the Duhalde administration and expanded during his term. It included income transfers and pro-employment initiatives that boosted employment and provided critical support for the Kirchner government. Another significant initiative was an emergency housing program established by Kirchner, which financed public housing in cooperation with the UUHP. Furthermore, UHHP beneficiaries were hired in extensive social infrastructure initiatives undertaken by the government such as water and sewage systems, sidewalks, and paved roads (Etchemendy and Garay 295). Price controls on wage goods (goods that constitute a large portion of popular consumption) and utilities were also designed to bolster real incomes. The government was able to use revenues from export taxes to subsidize goods like chicken, beef, and milk. These subsidies to producers allowed for a larger portion of production to be sold in the domestic market for lower prices than at the international market (Richardson 242). This boosted real incomes by encouraging producers to produce for the domestic market, making food more affordable. As a result of the recovering economy and employment initiatives such as this one, unemployment fell from 16.1% when Néstor inherited the government in 2003 to 8.5% by the time he left the presidency in 2007,

further falling to 7.8% during his wife's first year in office (The World Bank, "Unemployment").

Finally, the most significant departure from Menem's populist liberalism was Néstor's relationship with the international financial community. He utilized strong "us versus them" discourse that was pro-poor and nationalist, and thus inherently against the international financial powers and corporate interests that had dominated economic and social policy in the 1990s (Grugel and Riggirozzi 263). Paired with his social programs, Kirchner demonstrated a rejection of the idea that the free market can meet the social needs of the people, especially the most vulnerable in society. He went so far as to call trickle-down economics a "theory of misery" (Cohen 220). Kirchner sought a "national capitalism" in which the "present state," as "repairer, protector, promoter," would play a greater role in infrastructure, housing, and health care (Cohen 86-87). While Menem had endeavored to maximize Argentina's attractiveness to foreign capital and the international financial institutions, the rhetoric that accompanied Kirchner's policies emphasized Latin American development led by Latin Americans, rather than transnational capitalist elites. This is especially important given the context of the Pink Tide that arose after the failure of the neoliberal project across developing countries. As previously discussed, the massive failure of Menem's neoliberal project allowed that message to facilitate massive electoral support and high public opinion (Grugel and Riggirozzi, 263).

Kirchner's discourse regarding the international financial institutions was often fiery and confrontational in nature. For example, in his September 25th 2003 address to the United Nations General Assembly, he publicly attributed blame for Argentina's collapse to the IMF. He said,

“We accept our share of responsibility for having adopted policies that caused this indebtedness. But we also call on the international financial institutions – which contributed to, encouraged and promoted growth of that debt by dictating their terms – to accept their own share of responsibility” (“Address by Néstor Kirchner”).

Kirchner expressed scorn at the notion that Argentina should be expected to prioritize the repayment of debt over domestic social needs and poverty alleviation, thus making an ethical appeal while simultaneously casting the international financial community as pernicious and harmful. Furthermore, he called for a complete redesign of the multilateral lending institutions that had failed his country. This was to “banish adjustment models in which the prosperity of some is based on the poverty of others” and measure success in terms of poverty eradication, equitable growth and development, and the maintenance of adequate levels of employment (“Address by Néstor Kirchner”).

Finally, in a move widely perceived as a declaration of independence from the IMF in a country that had felt the pain of externally-dictated economics, Kirchner announced his intention to pre-pay Argentina’s total outstanding debt to the IMF in December of 2005 soon after Brazil’s Lula had done the same (Cohen 91). It created an image of an Argentina finally free of Western political and economic interference, in which a more autonomous period of development could ensue. The repayment of 9.7 billion dollars to the IMF reduced the country’s debt burden and is thought to have saved the government 10.3 billion dollars in debt payments from 2006 to 2008 (Cohen 91). The move to free Argentina from its debt obligations to the IMF came less than a year after tough negotiations with creditors had resulted in a 75% reduction in the face value of the defaulted bonds (Cohen 89). This offer initially sparked international outcry, as the global financial community believed that Argentina was “unreasonably seeking to avoid meeting its legitimate and freely-entered legal obligations” (Cohen

89). It soon became clear that domestic concerns took precedence over debt obligations under Kirchner, and after tough negotiations (which truly included Argentina's unwillingness to negotiate), 76.1% of creditors agreed to the tough terms of the restructuring in January 2005 (Cohen 89-90). Even though Economy Minister Roberto Lavagna managed the debt reduction, its success was widely perceived as the triumph of Kirchner's hard bargaining skills and determined commitment (Cohen 91).

Not only did Néstor Kirchner take a hard stance regarding Argentina's external debt obligations and policy influence, he also sought regional integration for a more Latin America-led era of autonomy. Both he and Brazil's Lula da Silva expressed support for a revitalization of the regional bloc MERCOSUR when Argentina's economy began to stabilize in 2002-2003. The IMF's handling of the Argentine crisis had sparked feelings of regional solidarity. This can be seen in Kirchner's declaration in 2003 that Argentina would not enter bilateral trade talks with the United States, but would only participate with Brazil through MERCOSUR (Gomez Mera 73). These trade talks were focused on the U.S.-promoted Free Trade Area of the Americas (FTAA), which was perceived as dangerous to the region because it would disproportionately benefit the United States and would expand its influence over the region (Gomez Mera 75). Therefore, the commitment to promoting regional integration was not based on increased economic interdependence (bilateral trade between Argentina and Brazil was at its lowest level in 2003 since 1994), but on a desire to find a strengthened position in hemispheric negotiations (Gomez Mera 74-78).

The FTAA was eventually defeated in a dramatic fashion at the Summit of the Americas in 2005. Latin American countries rejected its free market objective

“rejected in favor of an integration project based on strengthening political, economic, and infrastructural links in the region” (Chodor 150). That vision of regional integration has continued to be pursued in the 21st century, examples being the establishment of the Telesur regional satellite television station in 2005, the Bank of the South (BancoSur) in 2009, and the Community of Latin American and Caribbean States (CELAC) in 2011 (Chodor 1-2). A particularly significant example for this paper is the Cuzco Declaration of 2004, which created the South American Community of Nations. Twelve of the thirteen countries on the South American continent (all but French Guiana) signed the document in the context of failing FTAA negotiations (Baer). This would become the Union of South American Nations (UNASUR), which highlighted the goal of regional social, economic, and political integration with the exclusion of the United States. Néstor Kirchner was elected UNASUR’s first Secretary General after its ratification in May 2010, a position he held until his sudden death in October 2010 (Baer). He was also an original architect of Banco del Sur (BancoSur), along with Hugo Chávez, which began lending operations as an alternative to the Bretton Woods institutions in 2009 (Sandbrook 213). It is clear that Néstor Kirchner sought a project of Latin America-led development through regional integration and discourse that alienated the West.

The Persistence of the Neoliberal Place

While the policies implemented by Néstor Kirchner were certainly significant enough to constitute a left turn in Argentina, one must examine the neoliberal base in order to comprehensively understand the extent of this turn. Recall Levitsky and Roberts’ characterization of Kirchner’s heterodox approach (as quoted above): “selective, rather than comprehensive, forms of state intervention that challenge

orthodox principles without fully abandoning the market-led model or making the state the primary engine of development” (Levitsky and Roberts 22). Therefore, any statist pursuits must be understood in the context of and limits imposed by their relationship with the market-led model. It is true that Kirchner’s project sought to assign a greater role to the state in confronting socioeconomic inequalities and market insecurities. However, the fact that Kirchner did not fundamentally alter the neoliberal foundation of the economy meant that his policies, like the Pink Tide in general, were not an adoption of socialism as an economic model (though the use of the word “pink” tries to suggest a movement in that direction) (Levitsky and Roberts 20). In this sense, the heterodox approach is better described as a project that endeavors to construct what Hall and Soskice call a “variety of capitalism” (Levitsky and Roberts 20).

It is first important to note that even if Kirchner had wished to pursue policies that more comprehensively challenged orthodox neoliberalism, he was constrained by a strong institutional lattice of established democracy, young as it may have been. For example, even though Kirchner had changed the constitution in Santa Cruz province to allow him to run for a third gubernatorial term, he did not do the same once in presidential office. Granted, the expectation that he would run for president in 2011, after handing the office over to his wife in 2007, was criticized as an attempt to create a dynastic rule in order to sidestep the two term presidential limit (“Néstor Kirchner”). However, it is crucial to note that this scheme took place within the democratic institutional limits that existed. Therefore, Castaneda’s characterization of Kirchner’s Argentina as part of the “bad left” – closer to Chávez’s Venezuela than Lula’s Brazil – does not offer his administration sufficient examination. This crude dichotomy

ignores the fact that there were no major disruptions to the liberal democratic institutions as they existed, like the plebiscites and referenda that Chávez had used to consolidate power in his own hands.

In the same 2003 speech at the United Nations in which Néstor Kirchner criticized the IMF, he made clear Argentina's commitment to maintaining the neoliberal foundation of the economy. He acknowledged the risks and opportunities in a rapidly globalizing world economy and called for efforts to "ensure that globalization works for all, and not just for the few" ("Address by Néstor Kirchner"). He decried trade barriers that inhibited access of Argentine exports to the markets in developed countries with high demand capacity (hinting at Europe's agricultural subsidies) and appealed for open trade to facilitate the development of those in the greatest need ("Address by Néstor Kirchner"). Clearly, Kirchner was careful not to cut Argentina off from international markets, which were crucial to his model of export-led growth. The revenues generated from the commitment to the competitive exchange rate during the commodities boom allowed Kirchner to pursue the nationalist political project and expansive monetary policy to achieve social ends (Grugel and Riggirozzi, 263). The nationalist political project was thus presented as being compatible with the markets and globalization. Kirchner proclaimed the need for "capitalismo en serio," meaning serious capitalism, with an emphasis on fiscal discipline (Wylde 439). Indeed, the Néstor Kirchner administration demonstrated a practical acceptance of many principles of the neoliberal economic foundation, including the importance of sound fiscal policy, low inflation, a competitive real exchange rate, and some degree of trade opening and regional integration (Wylde 439-440).

Another neoliberal principle for which Kirchner showed at least some degree of acceptance was what Christopher Wylde described as “awareness of the inefficiencies associated with many forms of state intervention and state ownership” (439). Despite anti-neoliberal rhetoric that was often confrontational regarding the privatization entrepreneurs of the 1990s, Kirchner left almost all companies privatized under Menem in place. The nationalist political project thus did not include a project of renationalization of previously state-owned enterprises, with the most significant exception being the renationalization of the social security system. Although Kirchner was more hostile toward transnational corporations seeking to initiate new operations in Argentina, he was accommodating to those that had established interests in the Argentine economy (Wylde 448). This approach was unique to Kirchner in the populist sense in Argentina, since it differed significantly from those of classical populist Juan Perón and neopopulist Carlos Menem. Under Perón’s project of Import Substitution Industrialization, transnational corporations were regarded as a threat to Argentine industries. Under Menem, of course, they were welcomed with open arms. This demonstrates a middle ground approach, which adopted some protectionist tendencies while emphasizing the need to maintain ties with the international markets in order to stimulate export-led growth.

The omission of a renationalization project from Kirchner’s economic policies marks a key difference between Hugo Chávez and Néstor Kirchner that Castaneda failed to consider. Kirchner’s welfare policies more closely resembled neoliberal-style safety nets than a systemic project of redistributive taxation or overtly nationalist policies such as the prevention of foreign ownership of domestic companies (Wylde 440). In fact, James Petras asserted that under Kirchner, the socioeconomic structures

of power from Menemismo remain in place, since he did not “redistribut[e] property, income or power – except among the different segments of the capitalist class” (284). The social welfare policies that Kirchner pursued were poverty relief programs targeted at certain vulnerable groups, rather than being universal in nature. Providing targeted subsidies as safety nets made it easier for the government to maintain fiscal discipline (Mosley 168). This was a clear break from traditional Peronism, which Wylde describes as consisting of a direct link between citizenship and social welfare, making welfare policies more universal in nature. Therefore, Kirchner’s approach to poverty demonstrated continuity with the Menem era since it provided neoliberal-style social safety nets to offset only the worst inequalities caused by free market capitalism. Overall, the continuities in the neoliberal foundation of the Argentine economy from Menem to Kirchner demonstrate that while Kirchner did pursue left-leaning social policies and increased state intervention in the economy, his heterodox approach to development is often misconstrued as a greater break from Menemismo than it was in practice.

Chapter 4

CONCLUSIONS

Argentina's economic and political history since its Belle Époque has been tumultuous and often disappointing. The two decades from 1989 to 2007, from the presidency of Carlos Menem through that of Néstor Kirchner, illustrate the latest example of the turbulence that has become the once-wealthy country's "normal" in the last one hundred years. In the wake of a hyperinflationary crisis and the "lost decade" of the 1980s, the so-called Washington Consensus emerged. With its foundations in classic liberal economic ideology, it touted a neoliberal conceptualization of development that sought to remove politics from the equation. The government was to be small and efficient to minimize deficits, trade and capital markets were to be open, and development was to come through trickle-down processes of the free market that would modernize the national economy. Carlos Menem, who served as Argentina's president from 1989-1999, was a champion of these policies and was considered the international financial institutions' poster child for economic reform. However, the failure of this project across Latin America brought about a left turn in Latin America known as the Pink Tide. Néstor Kirchner and his wife and successor, Cristina Fernández, rode this wave to presidential victories in 2003, 2007, and 2011.

Carlos Menem was elected in 1989 with a promise of economic stability. He utilized a blend of populist political strategy and orthodox neoliberal economic policy in what David Leaman calls "populist liberalism," seeking close ties to international capital and the multilateral financial institutions. In true *caudillo* fashion, Menem cast

himself as Argentina's savior and concentrated power in the executive branch, using populist tactics such as exchange relationships to secure legitimacy for his neoliberal project. He was thus able to institute a project of "shock therapy," in which the medium to long run benefits of rapid economic liberalization would outweigh and counterbalance substantial short run pitfalls. Trade was quickly opened, hasty and corrupt privatizations of national industries ensued, and rapid deregulation occurred.

The neoliberal project in Argentina led to two cycles of growth and recession during the 1990s, with the second contraction constituting a devastating depression that left over half of the country living in poverty. The growth stage of the first cycle, from 1991 to 1994, brought a general improvement in economic indicators such as employment, low inflation due to Convertibility, and growing GDP per capita. The economy then experienced a contraction from late 1994 to 1995, as contagion from the Tequila Crisis spurred capital outflows from emerging markets. The economy experienced a second cycle of growth from mid-1995 to mid-1998, but the country's prosperity never reached pre-Tequila crisis levels. Finally, Argentina's Great Depression began in mid-2008, as it became clear that Menem's neoliberal project was unsustainable and the international context worsened with crises across emerging markets. The economic crisis culminated in political turmoil, causing president Fernando de la Rúa to resign amidst violent protests. Argentina then experienced five different heads of state in a two-week period, with interim president Adolfo Rodríguez Saá declaring what was then the largest sovereign debt default in history.

The economic and political dynamics of populist liberalism that culminated in crisis created an opportunity for the rise of left-of-center Néstor Kirchner. His election reflected severe political fragmentation in Argentina, but it also reflected the

region-wide left shift. Leftist governments emerged throughout the region with promises of a more equitable growth model and protections against the inequalities caused by capitalism. Kirchner's heterodox project of development combined elements of developmentalist populism with characteristics of neoliberal orthodoxy in what has been described as "neodesarollismo." This included the rejection of the notion that the free market can meet all of the social needs of a population, without completely abandoning the market-led model. Examples of leftist policies were wage and price controls, export taxes, and redistributive social policies. On the other hand, policies that fell in line with neoliberal economic orthodoxy included fiscal discipline, a degree of trade opening (global and regional), and low inflation. Export tax revenues from a booming commodities sector provided resources with which the Kirchner administration funded subsidies to improve real incomes as well as targeted cash transfer, employment, and public housing programs. The recovery that began under Duhalde administration continued as unemployment and income inequality fell, and GDP grew at impressive rates through 2007.

Kirchner utilized mechanisms of what Levitsky and Roberts call a "Populist Machine." This type of regime is characterized by a long-standing established organization (the Justicialist Party) and the locus of power in the executive. Patronage and clientelistic relationships were key to legitimizing this concentration of power in the personalistic leader. This could be seen in Kirchner's relationship with organized labor, as his administration rolled back labor flexibility policies and increased the minimum wage in exchange for political mobilization. He also used ardent "us versus them" rhetoric that blamed the IMF and neoliberal "theories of misery" for the country's struggles at the turn of the century. His decision to pay the IMF off in full

in 2005 as well as his efforts toward regional integration reflected a desire for Latin America-led development that was not to be mandated by the international financial institutions.

In sum, neodesarollismo in Argentina under Néstor Kirchner is often misconstrued as constituting a greater departure from the Menem era than it was in practice. While Kirchner did pursue “Pink” policies that constituted a shift to the left in Argentina, he stopped short of abandoning the market-led model or fundamentally altering the neoliberal foundation of the economy. His heterodox policy project selectively used state intervention to combat the inequalities caused by capitalism without making the state the primary source of development. Redistributive policies were chiefly targeted neoliberal-style social safety nets, and almost all of the privatizations that occurred under Menem were maintained. Kirchner therefore sought to ensure that globalization (i.e. neoliberalism) did not leave the easily marginalized behind. Therefore, the Kirchner administration effectively pursued what Hall and Soskice would call a “variety of capitalism” and, like many Pink Tide countries, did not truly approach a socialist model. Further research should emphasize the motivations behind the maintenance of the neoliberal foundation of the economy. If Kirchner desired to take his project further left, it would be worth examining how the Justicialist Party’s primary goal of staying in power constrained the “Pink” project in Argentina. The analysis of any other obstacles that may have impeded the pursuit of a more comprehensive redistributive project should be investigated, perhaps in a comparative context regarding the Venezuelan and Brazilian “Pink” projects.

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