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The boom and crisis of the Convertibility Plan in Argentina

SEBASTÍAN PEDRO SALVIA*

This article analyses the relationship between state policies and economy in Argentina 1991-2001. In 1991 the currency board regime named 'convertibility' was implemented, within the framework of important neoliberal reforms introduced by the State. These neoliberal reforms facilitated capitalist restructuring, characterized by a leap in productivity, investment and profits. Likewise, these reforms generated imbalances which, along with the changes in the world market conditions from 1998, led to the deepest crisis in Argentina's history. The inefficiency of state neoliberal policies in managing the crisis, based on fiscal adjustment to guarantee the continuity of external financing, led to an economic depression and a financial crash, sparking a mass rebellion and the end of convertibility.

Keywords: Argentina; 1991-2001; convertibility; state policies; capital accumulation; economic crisis.

JEL Classification: N16.

INTRODUCTION

The aim of this study is to investigate the relationship between economic and politics "as discrete forms of capitalist social relations" (Holloway & Piccioto, 1978, p. 3), starting from the case of Argentina between 1991 and 2001. The formulation of this objective implies the assumption that the State and the market do not constitute a zero-sum game, where one expands while the other contracts (Bonnet, 2011). As a consequence, we intend to analyze the intertwining of the State and the

* Associate Professor at the Facultad de Ciencias Económicas of the Universidad de Buenos Aires (FCE-UBA) and Researcher at the Universidad Nacional de Quilmes (UNQ). E-mail: ssalvia76@gmail.com. This article is part of a study carried out with the support of the 'Consejo Nacional de Investigaciones Científicas y Técnicas' (CONICET) with the award of a Ph.D. grant. The author is grateful to Alberto Bonnet and Adrian Piva for their comments. Submitted: 11/December/2013; Approved: 7/July/2014.

market, which produces a specific mode of operation for the economy. In this case, we refer to a period of capitalist restructuring based on neoliberal reforms promoted by the State under the convertibility regime.

In the 1990s, state neoliberal policies were decisive for the capitalist restructuring in three aspects: firstly, the competition between local and foreign companies increased with a fixed nominal exchange rate and trade liberalization. Secondly, the sphere of capital accumulation expanded with a policy of intensive privatization of state-owned companies, which contributed to the increase in productivity across the whole economy. Thirdly, greater competition in the labor market was generated by deregulation, promoting the reduction of the workforce in companies, and tolerating the growth of non-contractual labor.

Thus the state neoliberal policies facilitated the expansion of the market and pressured companies to rationalize. The flipside of this process was the accumulation of financial and fiscal imbalances that became obvious with the global changes in finance and trade after the crisis in South-East Asia, Russia and Brazil. This unfavorable external situation led to a prolonged crisis, which ended in financial bankruptcy and a severe decline on real economy. This crisis was not only economic. As state and market represent different forms of capitalist social relations, their development is closely related. The severe deterioration of accumulation generated a similar decline in state power. This was expressed in the ineffectiveness of the adjustment policy, the breakup of the alliance in government and loss of legitimacy among their electoral bases. This political crisis was intensified by the difficulties with presenting this orthodox policy as being in the general interest of the population along with the resistance of affected sectors of the working class.

The period analyzed is divided into two sub-periods: one of boom that starts in the second quarter of 1991 and extends up until the third quarter of 1998; the other of crisis which begins in the fourth quarter of 1998 and lasts up to the end of 2001.

STATE POLICIES OF RESTRUCTURING AND CAPITAL ACCUMULATION UNDER CONVERTIBILITY

The performance of the capitalist economy in Argentina during the 1990s was closely related to the politics of neoliberal reform developed under the presidency of Carlos Menem and the government of the 'Partido Justicialista' (PJ). This was characterized by two central measures: firstly, the pegging of the Argentina peso to the US dollar at a one-to-one parity (ARS$1 = US$1) introduced by the Convertibility Law promoted by the Minister of Economy Domingo Cavallo and sanctioned by the National Congress in 1991; secondly, trade liberalization involving the lowering of import tariffs and the elimination of export duties (Viguera, 2000). The fixing of the nominal exchange rate generated a real currency appreciation: the real exchange rate during convertibility was 50% below the 1970-1990 average (Hopenhayn, Schvarzer & Finkelstein, 2002, pp. 7-8). Lowering tariff barriers made importing capital goods, materials and finished goods cheaper. Thus, the fixed nominal exchange rate and trade liberalization generated a permanent pressure to increase labor productivity and to reduce production costs in order to survive in the increased competition.

In these conditions, a series of processes developed which managed to significantly increase labor productivity and reduce unit labor costs. Companies increased their utilization of technology and imported materials and also reorganized productive processes. At the same time, the government drove forward changes to the regulation of labor relations by means of the "flexible working" laws,[1] as a way to increase work intensity and reduce the cost of labor power (Marticorena, 2010), which also contributed to the expansion of the un-registered workforce & significant reductions of labor force in privatized service companies (Salvia and Frydman, 2004). The growth in the organic composition of capital (Féliz, 2012) and the concentration of manufacturing industry (Manzanelli & Schorr, 2012) also contributed to holding down real wages, in a period of strong economic growth.

The sustainability of the fixed exchange rate depended on the existence of a constant positive flow of foreign currency to Argentina that was achieved in two ways: foreign direct investment (FDI) and external financing. For foreign currency income, the government's policy of privatizing state-owned companies proved to be fundamental. Over a four year period, the government transferred most state-owned companies into the hands of private capital — both national and foreign (Bonnet, 2008). Privatizations allowed new areas to be opened up to the capital accumulation, where market relations were previously mediated by the state (Bonnet & Piva, 2013), in a new form of intertwining of state and capital. Along with this, privatization channeled FDI and reconverted privatized companies, contributing to the process of capitalist restructuring in the 1990s.[2] In this sense, the privatizations shouldn't be understood as merely a reduction of the State and an extension of the market, but a contribution to the accumulation of capital. In relation to financing, the State was the principal receiver of external credit throughout the period of convertibility, overtaking the indebtedness of the private sector. State debt covered the fiscal deficit and balanced the trade deficit, creating sustainable conditions for accumulation.

In summary, the neoliberal State regulated the market with the fixing of the nominal exchange rate, the influx of foreign currency in order to sustain the exchange rate, the modification of the conditions of foreign trade and the flexibleness of labor power. In the expansive period of convertibility, state and market strengthened each other. Capital accumulation was rapidly increased from the reforms

[1] The term "flexible working", characteristic of neoliberal hegemony, contributes to present the modifications to labor relations as something positive for workers.

[2] According to Adespa, the association of the main privatized public-service companies, this companies invested more than US$ 19,000 million in sectors of electricity, gas, water, railways and telecommunications; the private operation of public services generated an annual increase in productivity of between 4%-7.9%, and a rate of increase in the scale of production of between 2.2%-9%, between 1993 and 2000 (Salvia, 2012, pp. 131-32).

implemented by the state, while state power was reinforced by the development of capitalist accumulation.

I would like to point out that this relationship between state and market is not functionally guaranteed. During the 1980s, the government promoted limited and weak neoliberal reforms, which failed because of the strength that the trade unions still had, and the persistent of Keynesian welfare state (Piva, 2013). This failure contributed to the stagnation of the economy and ended in the hyperinflationary crisis of 1989, which led to the resignation of the government. According to Bonnet (2008) the hyperinflationary crisis of 1989 enabled the overcoming of the blockade of capitalist restructuring in the 1980s and made the consensus around neoliberal reforms possible.

The expansive phase of convertibility

So far, we have looked at the importance that state policy had to the capitalist economy's performance during the period that began with the sanctioning of the Convertibility Law in 1991. Let's see what happens with the development of capital accumulation, and its relationship with the world market.

Convertibility made an intensive process of capital investment possible. From 1993 to 1998, private investment reached more than USD 283,000 million. The proportion of investment in productive machinery out of the total in that period was 41.2% (data from INDEC). The intensive investment process was facilitated by the reduction of import costs, in such a way that imported machinery exceeded 35.7% of the total in 1993 and 53% in 1998 (data from INDEC). As a result, the stock of capital measured at constant prices (minus residential construction) increased by 23.3% between 1991 and 1998 (data from INDEC).

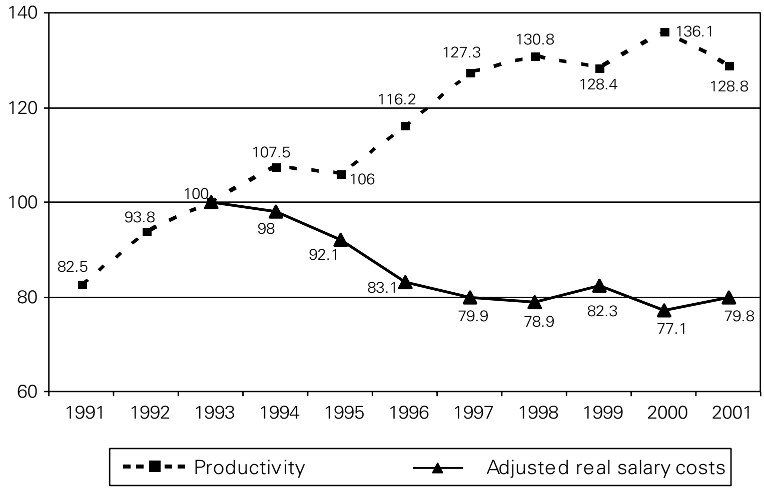
Manufacturing industry was the most dynamic sector in this process of productive modernization. In 1991-1998 period this industry was the main investor in imported capital goods, accumulating 35.4% of the total. Capital investment produced a considerable expansion of industrial production, which in 1998 reached a 45.7% increase on 1990, the year before the establishment of convertibility, even in a context of deregulation of the economy and appreciation of the peso (data from INDEC). Capital investment, reorganization of the productive processes and flexibleness of labor fostered the dynamism of manufacturing industry within the capitalist restructuring.

The most important indicator of this process was the leap in labor productivity, which reversed the stagnation of previous decades (Katz & Stumpo, 2001). Between 1991 and 1998, industrial productivity per worker increased 58.5% (data from CEP). The magnitude of the increase meant a narrowing of the productivity gap in international terms; productivity increased more quickly in Argentina than in the world market.[3] As an indicator of this, we can see the lower increase in industrial productivity per worker in the United States which reached 34% over

[3] The importance of this gap has been pointed out by Iñigo Carrera (2006) and Piva (2013).

the period 1991-1998 (Iñigo Carrera, 2007, p. 242). Alongside the significant rise in productivity, real salary costs fell 8.3% between 1993 and 1998. Thus, adjusting for productivity, this indicator shows a reduction in real salary costs of 21.1% over the same period (data from CEP).[4] Figure 1 shows the development of industrial productivity per worker and real salary costs adjusted for productivity.

Figure 1: Manufacturing productivity per worker, 1991-2001, and real manufacturing salary costs adjusted for productivity, 1993-2001, in Argentina (1993 = 100)



Source: Prepared by the author based on data from the Centre of Production Studies (CEP), Ministry for Industry.

These indicators show that in these years an expansion of profits was produced. Given the scarcity of official statistics regarding company profits, we used data from gross production profits (which includes income from profits, rent and interest) for the whole private sector. Between 1993 and 1997 production profits increased by 58.2%, measured at constant prices. The magnitude of the increase was such that it modified income distribution; the weight of profits as a proportion of total income went from 38.2% to 52.3% between 1993 and 1997.[5] By increasing the margins of production, capital improved its competitiveness in international terms, ensuring the continuation of financial capital flows and of FDI which guaranteed the conditions for accumulation. In this way, the economic policies of the State contributed to the expansion of capital, and even the overcoming of external *shocks* such as the 1995 Mexican crisis (the so-called "Tequila effect").

[4] It is important to highlight that this contradicts the rhetoric from the employers associations at the beginning of the 1990s about the salary increases that would accompany productivity increases.

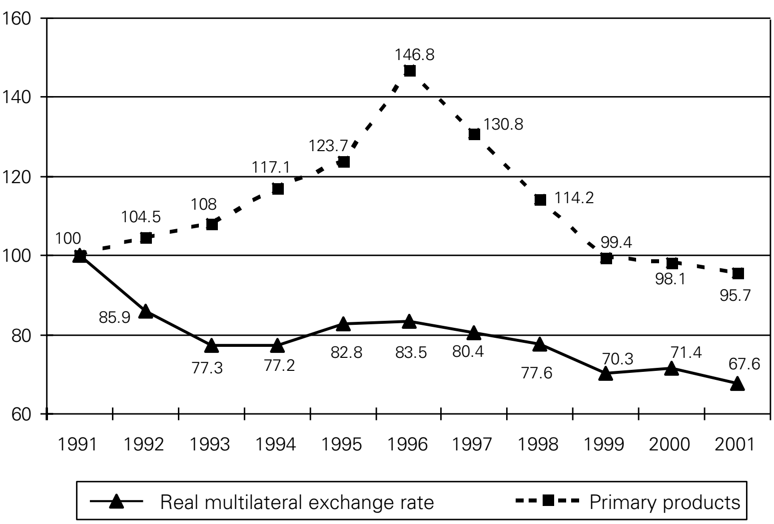
[5] At the same time, income distribution regressed, with a fall in remuneration for salaried work, from 37.2% in 1993 to 29.6% in 1997 (data from INDEC).

The decline of convertibility

The limits of neoliberal reforms to sustain accumulation started to become visible with the changing world market conditions after the Asian and Russian crises of 1997-98. With this change, capitalist restructuring halted and economic recession began. There were three determining factors in this phase of the crisis of convertibility: the appreciation of the real exchange rate, the fall in export prices for agricultural products, and the reduction in international financing.

The multilateral exchange rate in the period 1999-2001 was 15% less than the average measured from the beginning of convertibility in April 1991 to December 1998 (data from BCRA). The Brazilian devaluation, Argentina's main trading partner, was central to this process: the nominal devaluation in Brazil reached 42% between mid-January and the end of March 1999, after an *overshooting* that brought devaluation to 64% in the second half of January 1999 (Filgueiras, 2000, pp. 189-192). In addition to this, the prices of the three main agricultural products fell significantly during 1999-2001. During this period, the average prices of soya, maize and wheat fell 31.3%, 21.8%, and 24.4% respectively, compared to the 1992-98 average. This fall would be elevated to 46.3% for soya, 45.8% for maize, and 33.9% for wheat, if we were to compare the year 2001 with the 1996-97 average, when export prices were high (Lattuada, 2006, p. 123) Given that the transference of ground rent from agricultural production to industrial capital has historically characterized the Argentinean economy, this decline in prices was decisive in the crisis (Iñigo Carrera, 2006). Figure 2 shows the sharp fall of the real exchange rate and of the prices of primary commodities over the 1998-2001 period.

Figure 2: Export prices of primary products and real multilateral exchange rate in Argentina, 1991-2001 (1991=100)

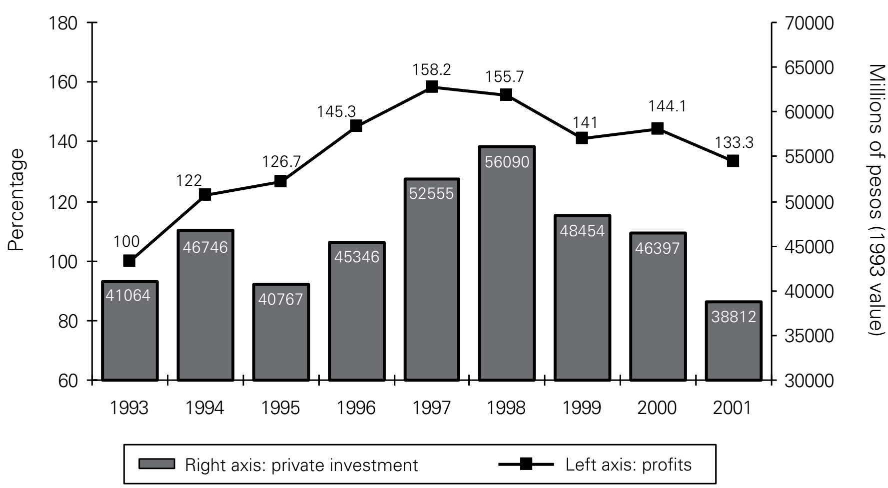


Source: Prepared by the author based on data from the National Institute of Statistics and Census (INDEC), and the Central Bank of the Republic of Argentina (BCRA).

Finally, the flows of financial capital suffered a reverse from emerging economies towards the advanced capitalist countries (Bonnet, 2008). This meant a reduction in the financing available to Argentina. The net income of foreign currency via financing fell 25.5% in 1999 and plummeted 52.8% in 2000 compared to 1998 (decreasing from nearly USD 18,300 million to USD 8,600 million, between 1998 and 2000). This fall was much greater in the non-financial private sector: 47.9% in 1998, 86.5% in 1999 and 97.1% in 2000, compared to 1997 — dropping from 10,300 to 300 million dollars, between 1997 and 2000 (data from INDEC).

The fall in export prices, the greater appreciation of the argentine peso and the decline of external credit negatively impacted on the economy. The tendency of profits to rise during the upswing phase reversed: the profit margins of the whole economy contracted by 15.7% between 1997 and 2001 (data from INDEC). This downturn had an impact on investment and productivity: between 1998 and 2001, private investment shrank by 30.8% and industrial productivity stagnated, with a slight decrease of 1.5% (data from CEP). In contrast, industrial productivity in the United States grew by 10.4% over the same period, meaning the international productivity gap began to widen once more (Iñigo Carrera, 2007, p. 242). All this had an impact on economic activity: Gross Domestic Product (GDP) fell 13.1% between the last quarter of 1998 and the last quarter of 2001 (data from INDEC). Figure 3 shows the development of profit and private investment 1993-2001.

Figure 3: Private sector profits at 1993 prices (1993=100) and gross domestic private investment in pesos at 1993 value in Argentina, 1993-2001



Source: Prepared by the author based on data from the Ministry of Economy and the Centre of Production Studies, Ministry for Industry.

In those sectors most affected by the crisis, a process of dismissing the labor force unfolded. Between 1998 and 2001 manufacturing, construction and agriculture together lost more than 462,000 salaried positions, 15% of the total labor force for those sectors (data from INDEC). In a deflationary context, employers couldn't reduce the salary of registered workers, for which they would have needed a cutback that exceeded the fall in prices. This was due to the existing legal obstacles to the reduction of salaries (Marticorena, 2012). Therefore, the cuts to real salaries hit unregistered workers who found themselves on the margins of legal regulation, and whose remuneration shrank 8% between 1998 and 2001 (data from INDEC). For the working class, the crisis generated a decline in their standard of living, and a growth of poverty and unemployment.[6]

In summary, in the first phase of convertibility, an improvement in the competitiveness of the economy was generated, understood as a growth in local productivity above the international average, and an expansion of profits. The neoliberal economic policies of the State were indispensable for the realization of these changes. In the second phase, the decline of the exchange rate, international prices of agricultural products and the reduction of external financing reversed this process, generating a deterioration of competitiveness, stagnating productivity, and falls in investment and profits (along with the worsening living conditions of the working class), drove convertibility into crisis. In the next section, we look at the policies which the State implemented to manage this crisis.

CRISIS OF ACCUMULATION AND MANAGEMENT POLICIES OF THE STATE

The capacity of the State to confront the crisis was limited by the narrow room for manoeuvre left by convertibility, given the fixed exchange rate and the imbalances produced in its expansive phase, which were aggravated by the crisis. The neoliberal reforms generated a permanent current account deficit that reached an average above USD 9,300 million annually, in the period 1992-2000. These deficits had been balanced out with a positive credit balance in the financial account, with credit received by the State and by private companies. In 1992-2000 the non-financial public sector (national and provincial) had a net foreign currency income of USD 7,038 million as an annual average, overtaking the non-financial private sector with an income of USD 4,635 million annually. Thus the net income of dollars due to state debt covered 75.5% of the current account deficit from 1992 to 2000 (data from INDEC). In this way the role of the State in the obtaining of foreign currency was a determining factor in the stabilizing of the balance of payments (BOP). This situation created a growing weight of debt, as the State could not service the debt with resources obtained from the economy, given the persistent fiscal deficit, more than ARS 6,700 million annually in 1993-2000 (ONP, 2005). So the stock of publically consolidated debt exceeded USD 150,000 million in 2001,

[6] Between October 1998 and October 2001, the population living in poverty went from 25.9% to 35.4% of total population. People unemployed grew by 47.6% over the same period (data from INDEC).

equivalent to 56% of GDP (Español & Herrera, 2011, p. 77), an important increase, considering that in 1994 the debt was about USD 74,600 million, equivalent to 29% of GDP (data from MEP).

In this manner the growing financial needs of the State became the sword of Damocles of convertibility. Payment of public debt and the fiscal deficit made a permanent increase of foreign credit necessary (Iñigo Carrera, 2006) in a context of the declining affluence of financial capital in Latin America, which also affected Argentina (BID, 2004; Bonnet, 2008). This contradiction between pressing financial needs and a reduction of available funds put the continuation of foreign currency income at risk, leading to a toughening up of multinational credit organizations like the International Monetary Fund (IMF) (Nemiña, 2012), and an increase of interest rates. The growing economic difficulties meant that the possibility of recovering investment and overcoming the recession became more remote, generating expectations of default and the abandoning of convertibility.

State policies sought to alleviate these expectations and at the same time reduce the country risk rating and interest rates, driving economic activity forward. In this way, the policies of the State attempted to overcome the crisis without modifying the conditions in which accumulation had been fostered within the framework of convertibility. These policies had a clear fiscal bias, being oriented towards the regulation of fiscal accounts, something that was attempted in different ways by the two governments of the period. From the end of 1998 and during 1999 the government of the PJ adopted policies of increasing the tax burden and selling off public assets to cover the fiscal deficit, which had increased due to the crisis. Tax reforms introduced new corporation taxes and increased pre-existed ones. Likewise, the government took the decision to sell state-owned shares in the privatized oil company YPF (Argentina's largest company), which were acquired by the Repsol group. The tax reforms and the selling off of state assets enabled the fiscal deficit to be maintained within the margins agreed by the IMF, at the cost of aggravating the economic downturn, given the recessionary character of the taxes, and eliminating an important source of future income for the State, given the fact that YPF was the most profitable company in the country.

After the presidential elections in which the 'Alianza' (the main oppositional force) triumphed, the policies of regulating financial accounts continued, although with some changes in modality. From the beginning of their term in government in December 1999, the Alianza introduced successive reductions in public spending, in particular state salaries, pensions and public investment.[7] In addition, they sought to strengthen the deflationary tendencies of salaries taking place in the private sector by means of a Labor Reform Law, permitting a greater flexibility of labor

[7] The most significant adjustments were made in December 1999, May 2000, March 2001 and July 2001. Below we will look at the 2001 cuts. For the characteristics of each adjustment program, see Piva (2013).

contracts, which had been a demand of employers' associations.[8] In this fashion they looked for a way out of the crisis by transferring the cost onto the working class (Wainer, 2010; Piva, 2013).

Expectations of default, financial bail-out and economic recession

The Labor Reform law ended up leading to a political crisis, with the resignation of Vice President Carlos Álvarez, after a sharp dispute with President Fernando De la Rúa about alleged payment of bribes in connection with the passing of the law (Peralta Ramos, 2007). This situation demonstrated the possibility of a rupture in the Alianza, formed by two parties: the 'Unión Cívica Radical' (UCR) and the 'Frente País Solidario' (FrePaSo), to which the President and Vice President belonged. The political crisis led to a serious increase in the country risk rating,[9] which climbed to 1.000 basis points, a level not reached since January 1999 after the Brazilian devaluation (data from *Ambito Financiero*). The reason for this rise lay in doubts about the sustainability of adjustment policies and convertibility. As a consequence, the government had to ratify a 15% annual interest rate in order to access credit; a rate which led to *default*, since in the longer term it was unsustainable (Nemiña, 2012; Salvia, 2009).

In this context of political weakness, the state management of the crisis did manage a success with the financial bail-out at the end of 2000. In order to avoid *default* and to provide back-up for the country that had been the model of economic liberalization in the region (Ramírez, 2012), the IMF supported the government with a financial aid agreement, signed on 19 December 2000, that consisted of a credit package to guarantee the ability of the State to meet debt repayments and deal with the fiscal deficit (IMF, 2001a). This financial rescue package, known as the 'Shield', approved credits of USD 39,700 million, with an average interest rate of 8%, half that which the State had agreed to on the voluntary debt market. These credits were provided by the IMF, other multilateral credit organizations, governments and private companies.[10]

With this financing, the government hoped to change expectations about the future of the economy, that it would lower interest rates and have a positive impact on investment and consumption, stimulating economic activity. Effectively, after the 'Shield' in January and February 2001, the country risk and interest rates fell. However, this diagnosis would be demonstrated to be mistaken: GDP didn't react

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[8] For a description of the labor flexibleness in the 1990s, including the law passed in 2000, see Marticorena (2012).

[9] The country risk is measuring by the Emerging Markets Bond Index Plus, produced by J.P. Morgan.

[10] The structure of the package was as follows: IMF USD 13,700 million; Inter-American Development Bank (IDB), USD 2,500 million; World Bank (WB) USD 2500 million; Spanish Government, USD 1,000 million; private banks, USD 10,000 million; pension funds (AFJP), US 3,000 million; debt exchange program USD 10,000 million. Part of these funds were refinancing on public debts which had reached their payment deadline (BCRA, 2001, p. 7; Salvia, 2011, p. 118).

positively to more favorable financial conditions, falling 2% in the first quarter of 2001, with more pronounced decreases in construction, agriculture and manufacturing (data from INDEC). Along with this, the fiscal deficit in January-February 2001 exceeded the figure for the same period in 2000, and exceeded the level agreed with the IMF for the Shield. As a consequence, the country risk rating rose again at the end of February. The continuation of the recession and financial difficulties led to the resignation of the Minister of Economy José Luis Machinea (Salvia, 2012). This resignation demonstrated that the positive effects of the Shield were wearing off, without having been able to convert the lower country risk and interest rates into greater investment and economic reactivation.

This situation was derived from the crisis itself: in conditions of reactivation, an increase in competitiveness due to a jump in investment is possible, but during a recession the route of reducing labor costs is more viable (Bonnet, 2008). So, during the Argentinean crisis, economic recovery required a flow of financial capital and a period of maturing of investment which was not available. With a greater appreciation of the peso and an ebb of capital back towards the central countries (to cover the losses from the US stock market crash in 2000), an investment recovery was highly unlikely. Likewise, without an increase in demand for exports and with a depressed internal market, in other words without greater opportunities for the sale of commodities, disinvestment took place regardless of the interest rate.

Adjustment and recovery policies in the debacle of convertibility

The alternatives open to the State in the management of the crisis within the limits of convertibility were as follows: 1) to deepen the orthodox policies in an attempt to resolve the fiscal problems and reduce the need for credit, or 2) to switch to a heterodox policy of encouraging investment through subsidies. State policies vacillated between both options: in March 2001 the government drove forward cuts to public spending with a failed adjustment policy championed by Minister of Economy Ricardo López Murphy, which was never even implemented. The cuts were defeated by the resistance of state employees and students, a resistance which penetrated the political system when government legislators failed to vote for the package in Congress. López Murphy's brief tenure as Minister of Economy ended after his adjustment plan foundered (Piva, 2013).

Beyond the broad (though not monolithic) support of business owners, the adjustment program failed. In terms of the political system, the program was firmly rejected in Congress by Governors and legislators of PJ, since adjustment reduced the budget of the provinces and provincial subsidies. The rejection extended to the Alianza, as the adjustment directly affected their social bases a few months before the parliamentary election. The rejection of the Alianza led to the resignations of the top FrePaSo leaders in the government: the Vice Chief of Bureau of Ministers, Graciela Fernández Meijide, two Ministers and the Secretary General of the Presidency. The President of the UCR, Raúl Alfonsín, also rejected the program as well as two Ministers of the UCR who abandoned the government (Peralta Ramos, 2007).

The lack of support in the Alianza and the PJ showed the difficulties with presenting the adjustment program as being in the general interest of the population. These difficulties became clear with the resistance of state and private workers, unemployed and college students, who carried out a large number of protest actions. These actions included the entirety of the trade unions, the Peronist 'Confederación General del Trabajo' (CGT), the state employees of 'Central de Trabajadores de la Argentina' (CTA) related with the FrePaSo, the socialist and less important 'Corriente Clasista y Combativa' (CCC) and movements of unemployed workers (Iñigo Carrera & Cotarelo, 2003). Also participating were the 'Federación Universitaria Argentina' (FUA) and the 'Federación Universitaria de Buenos Aires' (FUBA) led by the youth of the UCR, in a student movement that exceeded these representative organizations (Salvia, 2012).

After this failure the government swung towards the promotion of commodity production in April-June 2001. This heterodox turn in state policy was driven forward by Domingo Cavallo, the creator of convertibility and new Minister of Economy from the end of March 2001. The "competitiveness plans" that sought to stimulate goods production by means of direct subsidies and tax exemptions, were the main tools of this policy. In order to understand the importance of this, we can see that in June 2001 the agreements which were reached in different industrial sectors represented 46% of the gross value of industrial production and 69% of industrial employment.[11] The impact of the competitiveness plans on company profits was estimated as being around a 20% improvement, largely benefiting labor-intensive activities, with an improved profitability estimated at 26.7% (CEP, 2001a, pp. 2-3; CEP, 2001b, p. 4). Along with this, a "convergence factor" for foreign trade changing from convertibility with the US dollar to a currency basket which included the Euro, at a fixed parity of $1 = US$ 0,50 + Euro 0,50. This convergence, implemented by the State charging import duties and subsidizing exports, generated a 7.5% improvement in the real exchange rate for foreign trade, which in practice was a sort of double exchange (Salvia, 2011, p. 121), as it rested on a fixed change rate in relation to the dollar for every other operation.

Nevertheless, this heterodox policy depended on the availability of resources which the State couldn't obtain from taking on external debt. The means of generating these resources was based on increasing the tax burden on economic activity, which had recessionary effects. The most important instrument for this was the tax on current account transfers, also known as the cheque tax, since it placed a levy on the use of this financial tool that had a growing importance in tax collection.[12]

[11] These were the automotive industry (terminal and auto parts), cultural industries, textiles, clothing, footwear, capital goods, timber, furniture, plastics, cellulose and paper, tourism, cargo transportation and cold-storage (CEP, 2001a).

[12] National congress sanctioned this tax with a maximum charge of 0.6% for each current account transaction, and established the obligation to pay by check or bank transfer for every operation over 1000 pesos (BORA, 2001).

In this way the recessionary character of the method of obtaining resources sterilized the impact of policies that stimulated goods production. Also, the continuing recession made it more difficult to attain the resources necessary to sustain heterodox policies without increasing the fiscal deficit.

In July 2001, the fragile economic situation and the implementation of the "convergence factor" generated expectations about the abandonment of convertibility with a considerable increase of country risk rating, which reached 1,600 basis points (data from *Ambito Financiero*), a much higher figure than that which had prompted the 'Shield'. Thus, access to capital markets was closed off to Argentina, even though the main destination of credit was meeting public debt repayments (Lozano & Schorr, 2001). To demonstrate that it was sticking to convertibility and that it was willing to pay its debts, the government returned to orthodox policies based on fiscal adjustment, with a shock measure: the Zero Deficit law. This law stipulated the reduction of primary spending by the State, in the proportion that was necessary to meet public debt payments, and generated a 13% cut to state salaries, pensions, purchase of supplies and public investment starting from the August 2001.

The Zero Deficit Law was passed despite the resistance of the workers' organizations. This result reflected the prestige Cavallo enjoyed as the creator of convertibility and the anticipated economic chaos if the zero deficit was not approved. Between the announcement and the approval of the Law, the country risk had a strong increase and the capital flight reduced the foreign currency reserves by $ 5,681 million, more than 21% (data from BCRA).

This orthodox shock policy achieved a moderate lowering of country risk which lasted a month and a half, and had significant success in allowing the IMF assistance to continue. On 7 September, the IMF approved a disbursement of USD 5,050 million, aimed at strengthening currency reserves (IMF, 2001b), which was deposited in the Central Bank (BCRA) on 10 September 2001. Along with this disbursement, credit approved at the end of August also arrived from the IDB (Inter-American Development Bank), to the tune of USD 500 million (IDB, 2001; IDB, 2002). With these credits and the dollars that the BCRA could purchase, the reserves increased by USD 7,300 million between 7 September and the last working day of that month (data from BCRA).

However, the recovery of external credit and currency reserves had a high cost: the recessionary effect of Zero Deficit. With this introduction of this law, the economy entered a pronounced downturn, with a fall in GDP of 4.9% in the third quarter of 2001. This tendency intensified both in manufacturing and construction, with declines of 6.8% and 11.2% respectively and also in the financial sector which for the first time displayed a considerable fall of 13.2% (data from INDEC). In parallel, financial volatility grew: after a drop which lasted a month and a half, the country risk rating climbed consistently from mid-September, reaching more than 1,800 basis points at the start of October and 2,400 basis points at the beginning of November (data from *Ambito Financiero*). This level of country risk exceeded by 1,400 points the level that had been required by the IMF for the award of the assistance necessary to avoid default.

Banking restrictions, mass rebellion and the end of convertibility

Facing the ineffectiveness of the State in its handling of the crisis, companies needed an individual solution, meaning protection of their most immediate economic interests through a withdrawal from investment, and the accelerated drainage of currency reserves. In the first few days of October a serious run on the peso began, with a mass withdrawal of bank deposits and their transference abroad, which had a definitive impact on reserves. In less than two months this process had consumed all the currency which had been accumulated with the credit from the IMF and IDB; by 21 November reserves had arrived back at the levels they were before this international financing (data from BCRA). Along with this, investment registered serious year-on-year decline, of 17.2% and 28.6% in the third and fourth quarters of 2001, with even greater falls in industrial machinery of 29.5% and 40.8% in the same quarters (data from INDEC). In this way business owners protected their individual capital from the risks of an eventual devaluation and from the problems of realizing sales of commodities, making impossible a resolution of the crisis under convertibility. Economic activity collapsed, credit became much more expensive, tax revenues were affected and it became impossible to keep the Zero Deficit.

The impotence of the State to find a way out of the crisis was growing. Government legitimacy was weakened because of the difficulties for presenting its policies as being in the general interest of society and also the workers' resistance to the cuts, the March adjustment and Zero Deficit Law. The weakness of the government increased after the defeat of the Alianza in the parliamentary elections of October 2001 against the PJ and the so-called "protest vote" (a combination of blank and spoiled ballots) and after the split of the UCR and FrePaSo in National Congress.

The political crisis grew parallel to the economic crisis. In the fourth quarter of 2001, economic activity dropped by 9.5%, with the most serious falls of 15.4% in manufacturing, 22.7% in construction and 20.6% in the financial sector (data from INDEC). In this context, the IMF decided to cut off credit to the State, boosting the flight of deposits from the banking system, along with the loss of currency reserves. The government's reaction was to establish restrictions on the withdrawal of bank deposits to avoid their conversion into foreign currency, in what became known as the "Corralito", enforced from the first working day of December.

Starting from that moment, the way out of the crisis was the end to convertibility. Social protest grew from the establishment of the "Corralito", culminating in the mass social rebellion of 19-20 December 2001. This rebellion broke the state of siege the government had imposed to try to contain the situation. The growth of social protest implied the participation of different social sectors, in particular the poorest sections of the working class, traders and people who had had their savings seized. The forms of protest included looting, road blocks, strikes, demonstrations ('cacerolazos'), electricity blackouts and street battles against the police (Bonnet, 2006; Iñigo Carrera & Cotarelo, 2003; Piva, 2013). The rebellion provoked the resignation of President De la Rúa and the recall of the two chambers of congress to choose a new President. With this, the phase of convertibility and the neoliberal form of the State ended (Bonnet & Piva, 2013). From then onwards, a period of changes in State policy began, starting with the abandonment of the fixed exchange rate.[13]

BY WAY OF CONCLUSION

Above we have analyzed the period of boom and crisis under convertibility in Argentina from 1991 to 2001. The preceding analysis demonstrates some of the features of the relationship between State and market. The neoliberal reforms framed by convertibility permitted a cycle of strong economic growth and an intense restructuring of capital. The State and the market mutually reinforced each other in the boom phase, and weakened each other during the entire crisis phase.

In the phase of the convertibility boom, the neoliberal reforms allowed considerable growth in productivity, which overcame the stagnation of previous decades and generated a reduction of the productivity gap internationally for Argentina. Changes in state regulations on the labor market, the expansion of unregistered work and unemployment, and the weakening of unions, allowed stagnation of real wages. Thus investment and profits expanded. In this way, the capitalist restructuring and state power strengthened each other: neoliberal reforms implemented by the state made restructuring possible, and the success of this restructuring contributed to generating social consensus around government program.

From the end of 1998 the crisis of accumulation reduced the state's power, until the point when its policies were no longer viable. The crisis caused a stagnation of production and its decline in international terms, the reduction of profits and the contraction of capital, with a serious fall in investment. The situation provoked a major deterioration in the living conditions of the working class, with the expulsion of the labor force from the most affected sectors, cuts to state salaries and pensions, an increase of unemployment and poverty.

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[13] The rigidity of Convertibility Plan contributes to explain the differences between Brazilian and Argentine crisis. Brazil had an economic slowdown since third quarter of 1997, with a sustained loss of currency reserves in the second half of 1998. The Brazilian government made a gradually devaluation of the real, covered his financial needs with a bailout from the IMF and implemented fiscal adjustment programs (like the 'Programa de Estabilidade Fiscal'). The Argentine government lacked this tool because the nominal exchange rate had been fixed by law, and didn't receive a financial bailout by the IMF until December 2000. Consequently, the way out of the crisis in Brazil was less dramatic than in Argentina. Brazil achieved a slight growth of GDP in 1999 and a strong growth in 2000, public debt stopped growing and unemployment fell in 2000-01 (Filgueiras, 2000). Argentina had a profound decline of GDP in 1999-2001, the Central Bank had a severe loss of currency reserves in the second half of 2001 and public debt had a strong increase until 2004. Between 1998 and 2002, unemployment grew more than 50% and poverty was duplicated. Devaluation of the peso wasn't gradually: the nominal exchange rate increased 236% during 2002 (Salvia, 2012).

The success of convertibility for the capital restructuring explains the continuing of support from business owners and government. On the one hand, convertibility had achieved price stability, which was essential for the reconstruction of social consensus and state power; on the other hand, it had managed to expand capital accumulation, increase investment and benefits, reform labor laws and reduce trade union power. In the crisis phase, the maintenance of convertibility was the guarantee against any possible retreats in the gains made by capital and state.

In the second half of 2001, this maintenance of convertibility made the situation worse, with the ineffectiveness of state policies to overcome the crisis. The real economy entered a depression and financial instability was boundless, neutralizing the credit support given by IMF and IDB to normalize the situation. In this context, the individual action of business owners in a move to protect their own capital, with the withdrawal of bank deposits to convert them into dollars, produced an unprecedented loss of currency reserves. The capital flight made convertibility unsustainable.

Thus, the economic crisis constituted simultaneously a crisis for the neoliberal form of the State, which had sanctioned the conditions for accumulation under convertibility. The failure of the neoliberal form of the State became crystal clear with the restrictions to bank deposit withdrawals and the declaration of a state of siege. These measures marked the State's weakest point, when its power was waning and its policies lacked all viability. As a result, the mass popular rebellion overwhelmed the State, leading to the anticipated fall of the government and the end of convertibility.

After this, under a provisional government, the State drove forward on a new economic policy, which produced significant changes in the market. Dealing with those changes would demand a specific analysis, which exceeds the limits of this article.

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