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The Reaction to Economic Globalization in Latin America:

A Case Study of Argentina

by

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of the requirements for the degree of
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ABSTRACT

Since Washington Consensus policies became predominant in the 1980s, two sides of the economic globalization debate have developed: advocates claim that trade liberalization, deregulation, privatization and reduced state spending increase growth and therefore reduce poverty, while critics claim that levels of poverty and income disparity have worsened at the same time that social welfare and education programs have suffered budget cuts. Over the past decade, as many Latin Americans have failed to see promised results to alleviate poverty stemming from the “lost decade” of the 1980s (and beyond), they have elected “leftist” presidents that campaigned on anti-economic globalization (or anti-neoliberal) platforms in Venezuela, Brazil, Ecuador, Argentina, Uruguay and most recently, Bolivia.

In order to examine whether policies pursued by these leftward-leaning presidents present a potential development alternative to the policies of economic globalization, my methodology is a case study of Argentina. The study is longitudinal; it first examines the Washington Consensus policies as Argentine President Carlos Menem applied them in the 1990s. It then investigates the policies of the current president, Néstor Kirchner, in an effort to determine if his policies constitute an alternative model of development for Argentina after the economic crash of December 2001/January 2002. The study finds

that, while President Kirchner has taken a firm stance with the IMF and creditors, his policies do not represent a clear break with economic globalization. Kirchner has instituted new policies to ameliorate poverty and the effects of globalization, but he has renegotiated and paid external debt (rather than directing that money to domestic programs) and continues to work with companies privatized by Menem. President Kirchner more aptly presents a model that walks a fine line between economic globalization and national development.

Chapter One: Introduction

Globalization: the word evokes diverse ideas and reactions. According to various arguments, globalization has created a stronger sense of connectedness among the world's nations and cultures and improved living standards in some poor, developing countries as workers have access to new jobs provided by multinational corporations. Other accounts claim globalization has advanced environmental degradation as these same transnational corporations (TNCs) move from one country to another in search of lax regulations, leaving poor countries to suffer the consequences, or that globalization has diminished sovereignty in many nations as TNCs and intergovernmental organizations (IGOs) dictate requirements for attracting capital or obtaining international loans. Advocates and opponents of globalization can argue each of the preceding statements and none would be completely wrong, as the benefits and repercussions stemming from globalization continue to cause widespread debate.

Jan Aart Scholte (2000) offers five broad definitions of globalization: internationalization, liberalization, universalization, modernization/westernization and deterritorialization (15-16). Internationalization refers to increased international exchange and interdependence, while liberalization includes removing government restrictions on movement between countries in order to create an open world economy. Universalization concerns diffusing objects and experiences to people in all parts of the world. Within modernization/westernization, the structures of modernity (capitalism, bureaucracy, etc.) are spread worldwide, whereas deterritorialization encompasses the

idea that social space is no longer confined to territorial space, and includes the use of telecommunications to compress time and space. Clearly the five definitions are interconnected and interrelated. People worldwide have reacted both positively and negatively to the effects of globalization as it is embodied in these definitions, be it westernization, liberalization or deterritorialization. However, the consequences of liberalization, or economic globalization, have been some of the most profound.

Many governments, intellectuals and IGOs laud the advantages of trade and economic liberalization, while other academics, nongovernmental organizations and workers decry what they see as a steep decline in living standards and sovereignty. Globalization advocate Jagdish Bhagwati (2004) defines economic globalization as various forms of international integration, including foreign trade, multinational direct foreign investment, cross-border migration and technological dissemination (ix). These ideas are embodied in the policies of various world governments as well as international financial institutions (such as the World Bank and the International Monetary Fund) and the World Trade Organization (WTO). Trade agreements like the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, in addition to the increased number and size of multinational corporations, also exemplify economic globalization. Based on economic growth and freer trade through globalization, Kemal Dervis (2005) stresses that since the 1980s, more people throughout the world have been able to escape poverty than at any other time in history (xx). However, other authors (Nef & Robles 2000; Peet 2003) argue that living standards have deteriorated, poverty rates have increased and sovereignty has been undermined by policies propagated by international financial institutions.

It is crucial to examine the effects of economic globalization and the claim that it exacerbates poverty. Continued widespread poverty plays a profound role in transnational problems such as the drug trade, the spread of infectious disease, illegal immigration, international human trafficking, terrorism and a growing number of refugees fleeing failed states. The spread of technology to less developed countries has made these threats even more intense as the division between the “haves” and the “have-nots” becomes starkly more evident when displayed on television or accessed over the Internet. Without sufficient development of social welfare programs, government regulation and policy coordination, changes wrought by globalization have the potential to cause greater crisis and increase transnational problems, subsequently diminishing stability and growth in all nations.

In concert with the assertion of higher rates of poverty resulting from economic globalization are claims of environmental degradation, diminished worker rights and loss of sovereignty. As a result, a backlash against globalization has developed, with nongovernmental organizations (NGOs), workers, students, environmentalists and human rights organizations, among others, demanding a more “humane” globalization. While this backlash is evident in the protests at WTO trade rounds, G-7 meetings, etc., it has also seen extensive development within Latin America in the form of greater numbers of states electing leftward-leaning presidents. Over the past decade, Venezuela, Brazil, Ecuador, Argentina, Uruguay and most recently, Bolivia, have elected presidents who campaign against policies of economic globalization. How are these new presidents directing their countries? Do they provide a substantial change from policies of economic globalization? The research question proposed herein is to determine if the

policies pursued by leftward-leaning presidents in Latin America suggest a potential development alternative to the policies of economic globalization, as seen through a case study of Argentina. The hypothesis is that the new president of Argentina, Néstor Kirchner, while not completely rejecting trade liberalization or globalization, is pursuing policies of stronger state intervention and government control in order to direct the economy to provide greater stability within Argentina following the economic collapse of December 2001/January 2002. Stability in this context signifies sustained economic growth, declining or low poverty rates (below 20%; poverty in Argentina in 1992 stood at 15%), low or stable rates of unemployment (historically at less than 10% in Argentina, until the 1990s), and a low rate of inflation (10% per year, which is the rate that Kirchner has proposed to Congress).

There is much debate concerning the shift to the left in Latin America. Some scholars argue that there are currently two “lefts” within Latin America (Valenzuela 2005): the anti-American populists (such as Hugo Chávez of Venezuela) and the social-democratic left that has not completely broken with policies of economic liberalism (such as Luiz Inácio Lula de Silva of Brazil). In order to operationalize the left, or leftward-leaning presidents, within this paper, it will include presidents who advocate redistribution of income to support social welfare programs, such as health care, education and housing for the poor, a social safety net for the unemployed/underemployed, and pension for the elderly. Additionally, leftist policies incorporate strong state government, support of some nationalized industries and regulations to protect workers (and possibly the natural environment). Support of local industry is also important. This definition is termed “leftward-leaning” or leftist to

distinguish it from the classic socialist or communist left that promotes abolition of private property, equal distribution of income, a classless society, and revolution.

Within the debate regarding current movements in Latin America, populism is yet another important component. Populism gained prominence in Latin America after World War I and remained prevalent until the early 1960s (especially as governments fell prey to military coups d'état). While it is often described specifically as irresponsible use of public money to win mass support, populism has several defining characteristics: (1) a charismatic leader who uses mass communication to create a personal bond with the public, at times to the point of demagoguery; (2) popular sovereignty that cuts across classes for support; (3) a sense of nationalism or cultural pride; (4) a program that rarely fits one existing doctrine but is flexible and draws from several sociopolitical models such as socialism, democratic capitalism or corporatism; and (5) a promise of a higher standard of living for the masses, especially through patronage (a policy which often leads to high inflation and indebtedness, as well as corruption or misconduct by officials) (Conniff 1999). The current leftist governments of Latin America clearly utilize some aspects and policies of populism; however, to varying degrees, they also campaigned against privatization and support nationalization of some industries, as well as a stronger central government that can direct and mitigate the effects of economic development and globalization. Moreover, while support of wealth redistribution is prevalent on the continent with the greatest rates of income disparity worldwide (Sherman 2000), most of the new leftists are trying to strike a balance between social development spending and some tenets of economic globalization (such as trade liberalization, reduction of tariffs, etc.). It would thus be wrong to categorize the current changes on the continent solely as

the resurgence of populism. Moreover, as stated above, policies and practices vary throughout the region, making it difficult to generalize from one country to another.

The term “economic globalization” is variously called economic liberalism, market fundamentalism, trade liberalism, and neoliberalism. While the latter may have a negative connotation within Western nations, it remains the preferred title within Latin America and is thus used in this paper. While these terms build on some of the same ideas as classic liberalism (discussed in chapter three), they refer to the economic development theory that gained prominence in the 1980s under U.S. President Ronald Reagan and British Prime Minister Margaret Thatcher (and remains current today).

Chapter Two: Literature Review and Methodology

Advocates of Globalization

In *Globalization and Its Discontents* (2003), Joseph E. Stiglitz delivers a strong criticism of the International Monetary Fund (IMF) and its current role in globalization. Stiglitz, a former member of the Council of Economic Advisors under President Bill Clinton and former chief economist at the World Bank, believes globalization can be a positive force with the potential to enrich everyone, including the poor. However, the Washington Consensus policies (or “market fundamentalism”, as Stiglitz terms it) currently advocated by the IMF, the WTO and the World Bank have damaged developing economies and subsequently increased poverty and income disparity. While Stiglitz briefly discusses policies of the World Bank and the WTO, he focuses primarily on the IMF, with the perspective he gleaned through three years at its sister organization, the World Bank. One of his principal criticisms is that the organization lacks transparency (although it is a public institution, it is not accountable to the public). Neither debate nor alternative policies are presented to a country that requests IMF funds; every country receives the same prescription for lowering inflation and promoting growth. However, when the policies falter (as they most frequently do, according to the author), the citizens who had no voice in debating or selecting the failed policies must ultimately pay for them through higher taxes, decreased subsidies, and a lower standard of living.

While a strong proponent of trade liberalization, Stiglitz’s writing also presents a potential alternative model for development. He proposes that rather than presenting an

economically troubled country with a standard recipe for growth (lower trade barriers, higher interest rates and reduced subsidies), the IMF must allow countries the time to implement reforms in a strategic, controlled manner. Additionally, he stresses not only the importance of having government regulations in place well before enacting policy changes, but also the necessity of a stronger role for state governments as they implement change. As historical examples, he discusses both the U.S. and Europe in their initial years of growth and development: both utilized a gradual, state-controlled approach to growth to mitigate economic downturns. As contemporary examples of the importance of sequencing regulations and changes as well as pacing reform, he presents two contrasting examples: East Asia and Russia. East Asia, until the crisis of 1997, experienced unprecedented levels of growth, which the author partly attributes to reforms implemented at a government-controlled pace. Even after the crisis of 1997 (for which the author feels the IMF was partially to blame), those countries that followed IMF prescriptions (Thailand and Indonesia) were mired in crisis far longer than those that did not (South Korea and Malaysia). In contrast, when Russia and the former Socialist countries in Eastern Europe turned from communism to a market economy, the IMF advised rapid privatization (a tenet of market fundamentalism), leading to the sale of state assets at minimal prices before the necessary regulatory and legal infrastructure was in place. Without restrictions on their action, the new owners and managers stripped the privatized companies of their assets and invested the money overseas, leaving Russia with a dearth of capital for investment, greater income disparity and a distrust of capitalism among its many impoverished citizens. Based on these examples and others, the author therefore advocates a stronger role for government than that proposed by the

IMF, while at the same time supporting market forces and trade liberalization. While the market fundamentalism ideology of the intergovernmental organizations (IGOs) posits that government is part of the problem in increasing growth, Stiglitz maintains that it is part of the solution. Governments can and should mitigate the potential downturns inherent in the change to a market economy, especially in less developed countries, in order to provide sequencing and pacing of reforms as well as regulatory infrastructure, job development, and a safety net for those who fall below the poverty line. He thus recommends that the IGOs change their governance to allow for transparency and debate on alternatives. For Stiglitz, these reforms will lead to positive changes and success within globalization.

Jagdish Bhagwati's *In Defense of Globalization* (2004) attempts to address many of the arguments advanced by opponents of economic globalization: threats to sovereignty, diminishing labor standards (or upholding the lack of labor standards in developing countries), and increased poverty and income disparity within developing nations. Bhagwati asserts that globalization, with its inherent component of increased trade liberalization, increases growth and therefore decreases poverty; however, he affirms that appropriate policies must be instated in order to allow the benefits of trade liberalization to aid the poor. For example, microfinancing and access to credit for the impoverished, as well as job retraining for those displaced by foreign competition, need to be part of a successful globalization effort. With respect to labor standards, the author feels that problems with enforcement of better labor regulations lie within the host country, rather than in policies propagated by multinational corporations; for these multinationals to compel changes in labor standards would infringe on the sovereignty of

the host country. The author stresses that as multinationals increase the demand for labor in a host country, wages and government tax income rise, thus decreasing overall poverty. Finally, domestic firms learn productivity-enhancing techniques from multinationals, as well as increasing their level of technological expertise.

Bhagwati also addresses criticism directed at policies of the World Bank, IMF and WTO. He feels that there is ample room for compromise within the conditionality policies of the World Bank and IMF regarding trade liberalization (for example, countries can propose a tax increase or privatize a public-sector industry in place of rapid trade liberalization), and he affirms that developing countries would greatly benefit from such liberalization. With respect to the conclusion that both international financial institutions offer a standard recipe for growth and reform within liberalization, the author states that only two options actually exist: a country can move toward trade liberalization or against it (i.e., toward greater protectionism); therefore, the standardized liberalization policies are warranted. Finally, while Bhagwati finds no inherent problem with rapid trade liberalization, he strongly advocates well paced rather than rapid changes toward capital account liberalization with government regulations in place prior to policy change (a view similarly expressed by Joseph Stiglitz in *Globalization and Its Discontents*). The author concludes with several recommendations that he believes will augment globalization's force for economic growth and positive social transition: stronger civil society in the form of NGOs (nongovernmental organizations) to assist low-income or underrepresented groups; institutions and policies that mitigate downturns when they occur (such as unemployment insurance); and strengthened review and monitoring functions of the appropriate international agencies.

Kemal Dervis investigates legitimacy within global governance institutions in *A Better Globalization: Legitimacy, Governance and Reform* (2005). Dervis, who worked for the World Bank for 22 years, shares his optimism that greater globalization and trade liberalization can increase growth and help eliminate poverty, disease and suffering worldwide; however, he asserts that “better” globalization needs deliberate intervention coupled with a new institutional setting to govern its processes. Dervis defines legitimacy as acting with the consent of those who are governed, which for the author includes the global governance institutions introduced at the end of World War II (the United Nations, the Bretton Woods institutions and the General Agreement on Tariff and Trade, later to become the World Trade Organization). However, these institutions still reflect the beliefs and divisions of the Cold War rather than the economic and political realities of the 21st century, in which the competition between communism and democracy no longer plays a prominent role and countries have become further integrated through trade, communication and travel. He emphasizes the nearly universal acceptance of the idea of “social-liberal synthesis,” in which private property and competitive markets drive growth, but economic downturns are mitigated by a redistributive and regulatory role played by governments within a democratic setting. Due to the sovereignty of nations, this role does not exist at the international level; therefore, resolutions made within the global governance and international financial institutions lack legitimacy for the populations for whom decisions are made. While stressing that he does not advocate a “world government,” Dervis presents a reformed system of global governance that could provide greater transparency and legitimacy, and thus ownership of reforms within affected countries (for example, economic reforms that would allow for

greater trade liberalization while at the same time providing a social safety net, under the auspices of the IMF).

Dervis proposes reforms within two spheres: political (the UN) and economic (the World Bank, IMF and WTO). In the political arena, he recommends enlarging the UN Security Council to include greater world representation, as well as changing the voting structure to one of weighted votes (with weights based on relative populations, GDP, financial contribution to funding global goods, and military capability). The author further advocates the creation of a UN Economic and Social Security Council (UNESC), on par with the UN Security Council, that would be a governance umbrella for all economic and social agencies within the UN, including, for example, the UN Development Program and the International Labor Office, as well as drawing in the World Bank, IMF and WTO. While the UNESC would not manage these three financial institutions, it would appoint their presidents (rather than the current exclusive practice of U.S. and European leadership) and evaluate the efficacy of their programs. With respect to the WTO, the author also suggests that the UNESC (coupled with nongovernmental organizations) address issues such as labor or health, thus leaving the WTO free to negotiate trade issues in an expedited manner. The author feels that a reformed UN and the creation of the UNESC would substantially increase the legitimacy of the organizations, and thus create domestic support and in-country ownership for needed reforms and programs. This support would subsequently allow for further trade liberalization, growth and development.

In two articles (“What Washington Means by Policy Reform,” published in 1990, and “What Should the World Bank Think about the Washington Consensus?”, published

as a follow-up in 2000), John Williamson summarizes the policies that have come to be known as the “Washington Consensus,” which in Latin America have become synonymous with the policies of economic globalization. Williamson coined this phrase in his discussion of the ten policies thought to comprise a desirable set of economic reforms agreed to in Washington with respect to Latin America after a decade of financial crisis in the 1980s (the “lost decade”). In his discussion, “Washington” is composed of the economic agencies, senior administration and members of Congress of the US government, the “technocratic Washington” of the international financial institutions, and the U.S. Federal Reserve (1). The original policies for which Williamson finds a consensus in Washington are: (1) fiscal discipline (especially in order to reduce the extraordinarily high rates of inflation in many countries of the region and avoid further capital flight); (2) redirection of public expenditure toward primary education, primary health care and infrastructure; (3) tax reform (to create a broader tax base); (4) interest rate liberalization; (5) a competitive exchange rate; (6) trade liberalization; (7) liberalization of foreign direct investment to bring capital, technology and skills to the region; (8) privatization; (9) deregulation; and (10) secure property rights. (Williamson later recanted on the fifth policy, a competitive exchange rate, stating that no consensus existed on this policy) (2000).

In 2000, Williamson revisited his examination of the Washington Consensus and found that the policies he presented as the “lowest common denominator” (or the ones for which a consensus existed) for growth and development in Latin America had come to signify neoliberal or economic liberalism policies, often blamed for increasing poverty and income disparity within the region. Williamson also admits that little progress has

been made in redirecting public expenditure toward priorities such as primary education, health and infrastructure, as these are areas that often suffer budget reductions in the pursuit of fiscal responsibility. While Williamson emphasizes that the Washington Consensus advice remains valid for the region and promotes development and growth, he feels that further emphasis on anti-poverty and development policies is necessary.

Editors Pedro-Pablo Kuczynski and John Williamson present a series of articles on policy reform in Latin America in *After the Washington Consensus: Restarting Growth and Reform in Latin America* (2003). One of the central ideas of the book is that globalization and liberalization have not been responsible for the renewed economic problems and increased poverty of the 1990s because growth stemming from these policies has the power to decrease poverty. However, as the authors examine the implementation of the Washington Consensus policies, they emphasize that poor growth rates coupled with a failure to diminish poverty and income distribution disparity have allowed for a vicious cycle in which the low growth rates exacerbate poverty while at the same time, poverty intensifies low growth rates. The Washington Consensus policies, although they have diminished the high inflation prevalent in the region, have failed to address the underlying structural problems that inhibit growth for the poor, such as basic infrastructure, primary education, primary health care, lack of access to credit, and lack of property rights. Additionally, while trade liberalization promised to open new markets for unskilled labor (and subsequently decrease unemployment rates), the authors stress that this has not been the case due to labor market regulations, loss of jobs to competition from imports (from China, for example, where labor is less costly), and the lack of tertiary education that would enable employment within the higher-demand skilled labor

markets of finance, insurance and banking. The authors admit that unemployment rates in the 1990s were higher than those in the “lost decade” of the 1980s and stress that a large number of Latin Americans remains in the informal sector of the economy, without access to health care, pensions, long-term contracts or a minimum wage. In order to overcome some of the problems that continue to hold the region back from growth and greater income equity, the authors recommend fiscal and monetary policy to reduce instability (boom and bust cycles and capital flight, for example); greater investment in the social agenda (education, health care and a social safety net) and infrastructure; and greater flexibility within labor market regulations.

Opponents of Globalization

Unholy Trinity: The IMF, World Bank and WTO (2003) examines the history and development of these three global governance organizations from their post World War II creation to their current position as bastions of economic liberalism (or “neoliberal economic policy,” as it is termed by the author). Author Richard Peet argues that, while globalization is not inherently negative for society, the undemocratic processes and neoliberal policies espoused by the International Monetary Fund, the World Bank and the World Trade Organization might destroy the potential of a globalized world. In his examination of the IMF and the World Bank, Peet discusses Structural Adjustment Programs (SAPs), originally devised to tackle the structural economic problems that cause high inflation and low growth rates in many countries, but which have become a recipe for greater wealth disparity. Coupled with enormous debt from IMF and World Bank loans, people in developing countries suffer from greater poverty as their governments attempt to comply with policies stipulated in SAPs. The WTO, according

to the author, presents itself as a neutral meeting place where governments can amicably resolve disputes regarding trade policy; however, this organization also presents economic liberalization as the surest route to growth and prosperity, a prescription disputed by Peet due to the lack of transparency practiced by the organization as well as policy prescriptions that have increased wealth disparity in developing nations. The author ends his analysis with an argument against the hegemony of the IMF, World Bank and WTO based on policies of the Washington Consensus and combined with the banking industry, and demands reform toward more open, democratic processes within these global governance institutions.

System in Crisis: The Dynamics of Free Market Capitalism (2003) by James Petras and Henry Veltmeyer offers an anti-imperial, revolutionary perspective of the current state of the capitalist system, as well as a sampling of the forces that fight against it (primarily in Latin America). The authors assert that the capitalist system has been pushed beyond its functional limits economically, ecologically, financially and politically, especially given the unsustainable levels of external debt and disparities in social conditions in many developing nations. They further claim that these enduring problems are a result of neoliberal policies propagated by Western countries and international financial institutes (IFIs) such as the IMF and the World Bank. One of the authors' central ideas is that the United States has been forced into a new, post-9/11 phase of imperial pursuit via the military due to diminishing effectiveness of IFIs and neoliberal policy. The Right, led by the U.S., has consolidated its power through neoliberal policy and military force while the Left has taken to the streets in the form of protests, social movements, indigenous movements, etc. The authors present two

movements, in Argentina and Ecuador, to exemplify the reaction to neoliberal policy that has failed to improve living standards in the developing world. Coupled with movements against the U.S. military (the FARC and Hamas are two examples given by the authors), these social movements have the power to resist further incursion by the U.S. and the West. In closing, the authors argue that the neoliberal model of development and globalization is actually a “dummy target” for the anti-globalization movement (AGM), as most governments and theorists acknowledge that the current system is unsustainable and in need of reform (224); they add that the persistent North-South gap will generate further social unrest that will cause political and economic upheaval within the entire capitalist system.

In *Global Backlash: Citizen Initiatives for a Just World Economy* (2002), editor Robin Broad explores the historical foundations of globalization, arguments for and against continued economic integration, and the current worldwide “backlash” against the phenomenon. She explains that participants in the citizens’ backlash include farmers, indigenous groups, women’s organizations, workers, students, environmentalists, consumer advocates and human rights activists that are not strictly the radicals portrayed by the mainstream media. Although each group has different objectives, they have unified in their opposition to corporate control of the global economy. Broad presents the disparate groups’ attempts to alter the effects of globalization (the vast majority does not expect nor necessarily want to end it): some groups have had success promoting “social clauses” that attach workers’ rights or environmental protection to trade and investment agreements and are regulated by governments. These clauses allow for trade sanctions in the case of noncompliance. Other groups have requested self-regulation and codes of

conduct to regulate corporations, which have been most successful in reducing child labor or other highly publicized cases like sweatshops. Yet others promote alternative and fair trade programs that have helped small businesses, farmers and artisans overcome the effects of economic globalization. Broad closes with the acknowledgement that it remains difficult to measure the effectiveness of the backlash movement. Some groups have been effective in changing aspects of various industries, but the scope has thus far been limited. She does emphasize, however, that the citizens' backlash is more sophisticated, powerful and organized than portrayed in the media and will remain more than solely a protest movement.

Alternative Theories of Development

Charles Gore examines a potential paradigm shift in development theory in "The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries," published in *World Development* (2000). Gore explores the prevalence of neoliberal economic policy (or the Washington Consensus) stemming from the 1980s (and manifested in the shift from state-led to market-led policies), as well as the fact that development policy analysis has concomitantly shifted from a national frame of reference for explanation and evaluation to a global one. This global perspective has avowed that conforming to the tenets of a liberal international economic order (LIEO) will lead not only to greater economic outcomes for individual nations but also for the global community; however, this has not been the case for many developing nations. Thus, the author argues that a "latent Southern Consensus" provides a potential paradigmatic shift in development theory, one that merges East Asian developmentalism with Latin American neostructuralism. The so-called Southern Consensus focuses on economic

growth but allows for various policy stipulations: (1) Greater state control in opening up to international markets is important, especially with regard to timing, speed and sequence. Use of tariffs enables national enterprises to build production capabilities, while capital account liberalization should be gradual. (2) Macroeconomic policy is growth-oriented (described as “productive development policy”) that reduces inflation and deficits but also ensures full production capacity. Aspects of this policy include human resource development, technology policy, infrastructure development and industrial organization. (3) The State is responsible for development in partnership with the business community, through private initiative whenever possible. However, State capacity is enhanced, especially when focusing on overcoming specific problems such as missing markets or technology. (4) Wide asset ownership and productive employment assist a production-oriented approach to growth, rather than redistributive transfers. (5) Regional integration and cooperation are important for integration into the global economy, particularly in order to develop regional production chains and markets. These five elements aim to enhance national capabilities and long-term growth. Additionally, the author stresses the importance of structural change stemming from partnership, participation and consensus rather than being externally imposed.

In “Globalism as Development Strategy: In Search of Alternatives,” W.D. Lakshman (2004) argues that there are actually two modes in which to search for alternative models of development to economic globalization: one is the search for alternatives to globalization (as preferred by socialist thinkers and activists), while the other is to search for alternatives *within* globalization. Working within the latter perspective, the author presents six policies for development: (1) Acknowledge that the

state has a significant role in development policy and that state-owned enterprises can pioneer industries in promising fields and then hand them over to private enterprise. Infrastructure remains the responsibility of the state, but it can benefit from private sector participation. A key concept is that the State has a wider role than that advocated by neoliberalism, but doesn't encroach on private enterprise. (2) Greater emphasis lies on a more balanced approach to internal and external economic processes in that infant industries are protected by tariffs, and timing of opening to imports and global influence is important. However, openness to the rest of world is necessary and beneficial due to gains in technology and market access. (3) It is important to accept the necessity of producing basic food items and manufacturing (rather than strict focus on exports) to alleviate poverty and provide jobs. (4) Rather than focusing strictly on profits, it is necessary to recognize the benefits of wages that enable workers to achieve and maintain a comfortable standard of living, which subsequently increases aggregate demand, reduces societal inequality, and improves work incentives. (5) SAPs from "above" (the IMF, World Bank, etc.) need to be replaced by adjustment programs from "below" (with participation of the populace) because they can facilitate investment in education, research, health and productivity for sustained development purposes. (6) Tailor development policy to the conditions and culture of each particular nation, rather than providing one policy approach for all developing nations.

Based on the above literature, it is clear that there are many disparate beliefs and theories concerning economic globalization and its instruments, as well as the positive and negative effects of globalization policy. In addition, as problems have arisen, authors have examined and theorized possible alternatives to this prevalent theory of economic

development. What is the most useful strategy for assessing the ideas discussed above? As stated in the introduction, the paper presents a case study of Argentina; it is thus important to delineate the methodology with which to do so.

Methodology

In order to examine whether policies pursued by leftward-leaning presidents in Latin America present a potential development alternative to the policies of economic globalization, my method will be a case study of Argentina. Although several Latin American countries have elected leftist presidents who campaign against policies of economic globalization, it is difficult to generalize the policies that each of them has pursued and implemented. Each administration has its own priorities, problems and methods, from the populist approach utilized by Hugo Chávez in oil-rich Venezuela to an approach more in concert with neoliberal policies, such as that of Luiz Inácio Lula de Silva of Brazil. Therefore, rather than presenting a summary of the disparate policies of the continent, I believe it will be more advantageous to examine the results of one country's approach to the problems faced by several Latin American countries in order to discern whether the policies are truly different from those of economic liberalism. Argentina provides an excellent example.

In order to present a case study of Argentina, I will employ a longitudinal approach. Carlos Menem, who was the president of Argentina from 1989-1999, implemented many neoliberal policies during his two terms in office. In December 2001/January 2002, the Argentine economy collapsed and Argentina saw five presidents in less than one month. The current president, Néstor Kirchner, was elected in 2003. Therefore, I will examine the policies implemented under Menem before the crisis and

compare them to those that Kirchner has initiated. One source of comparison will be the actual policies that both administrations implemented and the subsequent results. Another source of comparison will be aggregate statistics of such indicators as growth, poverty rates, unemployment and inflation from sources such as the World Bank and the Economic Commission on Latin America and the Caribbean (ECLAC) (*The Statistical Yearbook for Latin America and the Caribbean*), as well as the CIA *World Factbook*, the *Latin American Weekly Review*, and the Instituto Nacional de Estadística y Censos (INDEC) of Argentina (National Statistics and Census Institute). (It is important to note that the selected primary sources are considered reliable; however, the potential for these sources to misrepresent data based on missing information or human error does exist). I will compare the statistics from the ten-year period of Menem's presidency (1989-1999) to statistics on the same indicators during and after the economic crash, and then during Kirchner's presidency (2003-2005, or the most recent data).

An additional advantage stemming from a case study approach is the ability to examine in depth the causes of the rejection, at least partially, of economic globalization in a less developed country. With the promise of increased growth and decreased poverty offered by economic liberalism that should appeal specifically to countries with low growth rates or high rates of poverty, what has happened to create an atmosphere of rejection and protest against economic globalization? While an examination of one Latin American country does not provide a description of the situation in every Latin American country that rejects neoliberalism, it can furnish a background to the phenomenon of leftist presidents winning elections on campaigns that reject tenets of economic globalization. Moreover, a case study approach that requires broad investigation of a

country allows the writer to better understand potential problems and manage contingencies that may arise.

Argentina provides an exceptional model for a case study approach within Latin America. In the 1990s under President Carlos Menem, Argentina adopted many of the reforms proposed under the Washington Consensus and subsequently witnessed the end of decades of hyperinflation, increased government revenue from privatization, and growth from trade liberalization. However, the economy crashed at the end of the decade as Argentina defaulted on its debt and poverty rates increased greatly. Because Argentina implemented neoliberal reforms and subsequently suffered economic devastation, it provides an outstanding opportunity to examine the effects of those reforms and may serve as a representative case for the region. Since the economic failure of 2001-2002, Argentina has not completely rejected policies of economic liberalism; it has, however, maintained greater control of policies under President Néstor Kirchner (elected in 2003), and has recently renegotiated its bondholder debt and paid off the IMF.

Another important factor in choosing Argentina for the case study is the fact that data concerning Argentina are abundant due to the amount of time that has passed since Argentina's economy collapsed. The intervening four years allow for examination of recent factors that remain relevant to Argentines, but also provide time for analysis and publication of high quality and scholarly works.

Chapter Three: Economic Liberalism

Economic liberalism builds on classic liberalism, which argues that state borders or governments should not impose false barriers to the efficient allocation of goods and capital in the world economy. Current economic globalization policy capitalizes on that idea through the elimination of state-imposed restrictions on the movement of money, capital and goods between countries; hence support for the reduction of tariffs and trade barriers is preeminent (i.e., trade liberalization). The policies favor an outward-oriented, export-based economy. According to J. Nef and W. Robles (2000), neoliberalism as a concept arose in the United States and Europe in the 1950s and 1960s, but appeared in full force in the 1970s. Since that time, it has become the predominant economic policy with respect to globalization.

John Williamson (1990) examines ten common policies associated with economic globalization, often termed the “Washington Consensus”. Williamson coined this phrase in his discussion of the ten policies thought to comprise a desirable set of economic reforms agreed to in Washington with respect to Latin America after a decade of financial crisis in the 1980s (the “lost decade”). The policies for which Williamson found a consensus in Washington are: (1) fiscal discipline (especially in order to reduce the extraordinarily high rates of inflation in many countries of the region and avoid further capital flight); (2) redirection of public expenditure toward primary education, primary health care and infrastructure; (3) tax reform (to create a broader tax base); (4) interest rate liberalization; (5) a competitive exchange rate; (6) trade liberalization; (7)

liberalization of foreign direct investment to bring capital, technology and skills to the region; (8) privatization; (9) deregulation; and (10) secure property rights. (Williamson later recanted on the fifth policy, a competitive exchange rate, stating that no consensus existed on this policy) (2000). While not Williamson's intention, these policies have become synonymous with economic globalization and continue to be promoted by international financial institutions as the best means to sound growth (although in his reexamination of the policies in 2000, Williamson found the least progress in the area of redirecting public expenditures toward primary education, health care and infrastructure).

Richard Peet (2003) discusses the ascent of economic liberalism in the 1970s and 1980s, primarily as a reaction to Keynesian economic policy. As a result of the depression of the 1930s and World War II, economic policy shifted to include the right of the state to intervene in and to regulate the market economy in order to redistribute wealth and promote the well being of the majority of citizens (within Western democracies). Social democratic policies included welfare programs, unemployment compensation and the subsidization of education and social services (6). Keynesian economists also advocated state deficit spending to mitigate fluctuations in employment and reduce the likelihood of another devastating depression; consequently, growth and employment policies were to incorporate social policy. These beliefs remained at the forefront of economic policy until the 1970s and the rise of economic liberalism.

Advanced in several intellectual centers worldwide, economic liberalism is associated most prominently with the Chicago School of Political Economy. Founded on principles contrary to those of Keynesian economic policy (and harkening back to classic liberalism), economic liberalism advocates faith in the market to regulate the world

economy, coupled with the freedom of individuals to pursue their own financial interests outside the bounds of state intervention. As stated above, trade liberalization, privatization of state-owned entities, and deregulation, in addition to reduced state provisions of welfare guarantees, are the most prominent facets of economic liberalism. These policies earned respect when problems such as stagflation in the 1970s could not be solved by Keynesian economics (Peet 2003). In the 1980s, the Republicans under Ronald Reagan (in the U.S.) and the Conservatives in Margaret Thatcher's government (in the U.K.), supported by large corporations and banks, advocated the policies of economic liberalism as an unparalleled method to promote growth and development worldwide.

Intergovernmental Organizations

Intergovernmental organizations, or global governance institutions, play a prominent role in economic globalization. Agencies such as the International Bank for Reconstruction and Development (the World Bank), the International Monetary Fund (IMF) and the World Trade Organization (WTO) advance economic liberalism in the form of privatization of state-owned entities and reduction of subsidies (the World Bank and the IMF), as well as the elimination of trade barriers (the WTO). Originally founded as part of the Bretton Woods agreement of 1944, the World Bank was to spearhead the reconstruction and development of Europe after World War II, while the goal of the IMF was to promote stability for trade through exchange rate controls and balance of payments loans (Peet 2003). However, in the 1960s and 1970s, both organizations began to play a more instrumental role in Third World countries. The World Bank became involved in development projects, whereas the IMF shifted to granting loans to

developing nations. Both organizations increasingly employed policies of economic liberalism, particularly in making financial aid and debt restructuring contingent upon conditionality, or Structural Adjustment Programs.

Structural Adjustment Programs (SAPs) became popular in the late 1970s as a means to urge reform in recipient countries (Welch 2001). Structural adjustment was enacted as a condition to loans with the goal of promoting export-orientation and trade liberalization. Requirements of SAPs include potentially higher growth rates through an “outward oriented” trade strategy and lower deficits through reduced public spending, along with fewer price controls, labor market regulations and investment regulations (Peet 2003). Countries are able to increase foreign reserves (and thereby service their debts) through capitalizing on comparative advantages of low labor costs, for example, and maintaining high export levels. Additionally, in order to integrate these countries into the world economy, SAPs advocate liberalizing trade, investment and finance, which includes a reduction in government spending and employment, currency devaluation, higher interest rates, reduction of trade barriers, and privatization of government-owned enterprises.

Much controversy surrounds the implementation of Structural Adjustment Programs in developing nations. While SAPs have generally succeeded in decreasing government budget deficits and halting hyperinflation, the policies utilized have also increased poverty and unemployment rates (Welch 2001). Moreover, policies advocated by SAPs can actually add to the structural causes of poverty because they advance reforms that deregulate labor, reduce the availability of social programs, weaken environmental standards and urge rapid privatization that can increase unemployment.

Another argument against SAPs stems from the fact that all countries, regardless of culture, historical background or financial requirements, are given the same economic dictates to solve their financial woes (Peet 2003; Welch 2001). What works in Mexico should work in Ghana, should work in Pakistan, etc. While one perspective states that there are only two options, toward greater liberalization or toward greater protectionism, (Bhagwati 2004), other globalization advocates support an approach that considers the historical or cultural background of each country in addition to specific financial requirements (Peet 2003; Stiglitz 2003; Lakshman 2004).

Structural Adjustment Program policy requirements can also weaken the hand of sovereign nations by demanding policy changes as a condition for access to much-needed funds, often to service already existing debts. If the struggling government wants a loan or debt restructured, it must comply with externally enforced austerity measures, often without input from its citizens. Joseph Stiglitz (2003) feels that these policies, particularly those stemming from the IMF, often fail and that when they do, the citizens who had no voice in debating or selecting the failed policies must ultimately pay for them through higher taxes, decreased subsidies and a lower standard of living. The policies can thus be very politically destabilizing, which can in turn affect the climate for foreign investment. Additionally, Victor Ferkiss (2000) emphasizes that these IFI prescriptions do not support democracy in weaker nations because citizens soon come to realize that regardless of whom they elect, their leaders are powerless before the demands of the global governance institutions.

Another influential intergovernmental institution promoting economic globalization is the World Trade Organization. Established in 1995, the WTO is a more

formal version of the General Agreement on Tariffs and Trade (GATT) created in 1947. The purpose of the WTO is to promote trade liberalization through the belief that competition and free markets on the international level engender rapid economic growth that is beneficial for all. Jagdish Bhagwati (2004) confirms the idea that increased growth decreases poverty through higher demand for labor and subsequently higher wages. However, both Bhagwati and Joseph Stiglitz (2003) argue that necessary regulations must be implemented in order to promote the diffusion of growth and to protect those workers displaced by new industries or technological change.

According to Richard Peet (2003), as of 2002, the WTO was comprised of 144 member states that accounted for 97 percent of world trade (157). He adds that the WTO promotes itself as a “forum for trade negotiations” whose declared goal is to help trade flow “smoothly, freely, fairly and predictably” (158), but emphasizes that the WTO holds no public hearings and does not open its processes to the public. Moreover, the WTO does not adopt a neutral stance on trade policy but prescribes trade liberalization, even in the face of evidence that it has not decreased poverty in less developed countries (Peet 2003).

Transnational Corporations

The power and reach of transnational corporations (TNCs) is not a new phenomenon in world history, although the presence and strength of such corporations has greatly increased in the past few decades with the prevalence of globalization. Companies such as General Motors, Unilever, Motorola, Panasonic and Nestle simultaneously maintain headquarters and factories in different countries, employing local workers in various stages of production. These corporations supply foreign direct

investment to host countries and provide new job opportunities. However, the corporations also have the ability to rapidly shift production and capital from one country to another, and thus subsequently benefit from lenient government regulations employed to maintain their operations within a host country. Consequently, the capacity of less developed countries to pursue national goals such as domestic production or human development is often restricted by the government's need to attract and maintain capital (Carty 2003).

Current World Bank, IMF and WTO directives toward trade liberalization greatly aid transnational corporations. TNCs are able to maintain different stages of production in various nations (taking advantage of low wages or lack of environmental standards) and import or export manufactured goods in order to complete assembly of complex goods (such as automobiles) or sell finished products. Additionally, IMF and World Bank obligations that reduce state welfare provisions for citizens serve TNCs because they can capitalize on poverty conditions to force long working hours or low wages. Sovereign nations must walk a fine line between state-directed development policies and those that will maintain capital and development from TNCs. Hence, along with global governance institutions, transnational corporations benefit from current economic globalization policies, while less developed countries struggle to develop and escape from their burden of debt.

Conclusion on Economic Liberalism

The worldwide trend toward economic globalization has tended to benefit a minority of actors. Wealthy industrialized countries, transnational corporations and well-connected elites in less developed countries have realized gains from the policy shift.

However, the current development model has been less advantageous to those outside these groups; they have often suffered deteriorating living standards, increased income disparity, environmental degradation and undermined sovereignty (Nef & Robles 2000). Victor Ferkiss (2000) emphasizes that economic globalization policies are socially destabilizing as well, especially when considering uprooted farmers, migration to cities and the loss of community as people change their lifestyle in order to seek employment. Structural Adjustment Programs advocated by the World Bank and the IMF are intended to increase growth that will benefit all citizens; however, greater underdevelopment and poverty, as well as weakened sovereignty, have often been the results. John Sherman (2000) adds that policies of the IMF and the World Bank, including SAPs, “facilitate wealth extraction” from developing nations, and he states that since 1983 they have taken several hundred billion dollars more from less developed countries (in debt servicing payments) than they have contributed in loans (159). Therefore, while some groups clearly benefit from economic globalization, many citizens of developing nations believe the policies have not fulfilled the promise of poverty reduction. What has been the reaction to economic globalization in less developed countries of the world?

Chapter Four: Economic Liberalism within Latin America

High levels of debt in Latin America have been instrumental in allowing neoliberal policies to dictate economic (and by extension, political) control in the region. During the Cold War, and especially with the onset of high inflation in the U.S. in the 1970s, cheap credit became available to Latin American countries in order to promote development and fend off communist influence in the region, while at the same time allowing U.S. banks to increase their earnings (Sherman 2000). After 1970, Latin American countries began to borrow from private First World banks in addition to servicing loans from international financial institutions. John Sherman (2000) states that the region began the decade with relatively low public and private debt, but ended it owing \$250 billion (155). However, when Ronald Reagan's administration changed U.S. fiscal policy in 1981 in order to reign in inflation, the region saw interest rates jump at the same time that prices for oil and other commodities exported by the region dropped precipitously. The result was the "lost decade" in Latin America, a name given to the 1980s as a decade lost to development and mired in shrinking growth rates, per capita income and investment, and hyperinflation.

In the early 1980s, the U.S., the IMF and international banks negotiated with Latin American countries to arrange new conditions for repayment of the region's debt. During these negotiations, the IMF moved to center stage within the debt management program and began to cooperate with the World Bank in the implementation of conditionality policies to address underlying structural deficiencies within each country

(Structural Adjustment Programs) (Sherman 2000). Privatization followed, as did foreign influence and capital. Many state-owned entities were sold below their value, enriching domestic elites and foreign corporations. Additionally, in order to combat hyperinflation, high interest rates and reduced spending on public services were advocated.

Hyperinflation ended, but many countries fell into recession (Sherman 2000).

During the 1990s, the international financial institutes pushed for further austerity measures, including cutting government expenditures and increasing revenues (i.e., the Washington Consensus policies). Export-oriented policies were promoted, along with free trade and reduction of tariffs. NAFTA (the North American Free Trade Agreement) began in 1994 between the U.S, Canada and Mexico, and the WTO was founded in 1995. All the countries of Latin America joined the WTO in 1995, except Ecuador and Panama, which joined in 1996 and 1997, respectively (The World Trade Organization 2006). Therefore, the free trade policies advocated by the IGOs have had profound influence in the region. However, since these Washington Consensus policies have been advanced in Latin America, wealth has increasingly concentrated upward. The income disparity between rich and poor, already one of the highest worldwide, has grown, while the region ended the millenium with over \$700 billion in debt (Sherman 2000).

Nancy Birdsall and Miguel Székely (2003) emphasize the fact that low growth rates in the region, coupled with high rates of inequality stemming from the era of colonization, have also contributed to the persistence of poverty and income disparity in Latin America. However, they stress that continued poverty is part of a vicious cycle in which poverty and inequality in turn perpetuate low growth rates, keeping the region underdeveloped and exacerbating the problems of the poor. The poor are in want of

access to credit due to lack of collateral (especially access to land or housing deeds). In addition, they cannot afford to keep their children in school, so the family is cut off from future earning potential that an education would provide. Economic reforms in the past two decades have thus failed to address the underlying structural problems that inhibit growth for the poor.

Labor issues are yet another source of persistent poverty in Latin America. According to Jaime Saavedra (2003), low quality jobs and the prevalence of the informal sector within Latin America are the two key problems facing workers. The informal sector consists of employment without social benefits, unemployment protection or compliance with occupational safety regulations, and it accounts for more than 50 percent of jobs in urban areas, as well as the vast majority of rural jobs (214). Trade liberalization and foreign direct investment that can increase labor opportunities have seen the biggest demand for *skilled* workers in the areas of service, finance and insurance; however, poor quality education due to decreased government funding and lack of tertiary education have provided mostly *unskilled* workers who do not meet these needs. Due to globalization, demand for unskilled labor has also flourished in countries with lower labor costs, such as China or Southeast Asia, thus decreasing demand for unskilled labor in Latin America. Additionally, privatization of state enterprises supported by economic globalization also demands skilled employees, rather than unskilled workers, to prosper in a competitive environment. Further exacerbating these problems is the lack of a social safety net for those who become or remain unemployed. Thus poverty persists despite growth provided by globalization and trade liberalization,

while decreased government spending cannot mitigate the effects of unemployment and poverty.

How has the region responded to increased poverty and social upheaval? In several countries in the region, there has been a decided shift against proponents of market reform as the only route to solving Latin America's economic problems. In Venezuela, Ecuador, Brazil, Argentina, Uruguay and Bolivia, presidents campaigning on progressive policies contrary to economic globalization have won elections in the past decade: Hugo Chávez of Venezuela in 1998, Lucio Gutiérrez of Ecuador in 2002 (forced from office in 2005), Luiz Inácio Lula da Silva of Brazil in 2003, Néstor Kirchner of Argentina in 2003, Tabaré Vázquez of Uruguay in 2005, and Evo Morales of Bolivia in 2006 (although it is quite early to discern whether the viewpoints of Vázquez and Morales will change in office, as happened in the 1990s in Argentina (Menem) and in Ecuador after Gutiérrez took office). None of these officials has bucked the prescriptions of the IFIs completely, as all remain members of the WTO and have continued to pay international loans. But all have claimed to be working to benefit their citizens more and reduce poverty, rather than working strictly for elite or foreign interests. This paper will now explore one of these presidents, Néstor Kirchner, and his role in Argentina's response to economic globalization.

Chapter Five: Argentina

Historical Background

Argentina is a country with abundant land and natural resources that has historically exported commodity goods such as grains and beef. The country was long one of the most prosperous in Latin America, with a large, educated middle-class and opportunity for upward mobility (especially through education). However, from 1930 to 1983, Argentina experienced great political instability due to numerous military coups and dictatorships, along with financial crises and high inflation. After the return to democracy in 1983, crippling rates of hyperinflation (until 1990), economic problems and corruption were common, culminating in the economic collapse of December 2001/January 2002. What led to the collapse, and how have Argentina's political and economic prospects changed since that time?

One of the most defining aspects of Argentine politics (and consequently, economic policy) is its history concerning former president General Juan Domingo Perón. Perón was president from 1946-1955, and again from 1973 until his death in 1974, and gave his name to arguably the strongest political movement within the country, Peronism (also known by its formal name, the *Partido Justicialista*, or the Justicialist Party). Peronism, the Argentine rendition of populism, was an ideological union of socialism, fascism and Keynesian economics (Nef 2002). Perón gleaned much of his political strength from the working class, and augmented his power by promoting trade unions (especially under the General Labor Confederation, or CGT) and their bargaining

power, along with workers' rights and benefits. Perón employed strong state government in order to ensure full employment and a healthy domestic market, and was inspired by Keynesian ideas popular in many parts of the world after World War II (Romero 2002). In the post-World War II world in which Europe was greatly weakened, Perón and the state stepped in to nationalize many industries formerly owned by Europeans, including the railroads, utilities, telephone and gas companies. Additionally, he began a national airline and nationalized the central bank. He also supported Import-Substitution Industrialization in order to reduce reliance on foreign imports and expand Argentina's domestic market. (Import-Substitution Industrialization, or ISI, attempted to produce previously imported goods domestically, aided by protective tariffs, and fell out of favor throughout Latin America in the early 1980s).

At the same time that Perón increased state power via the aforementioned policies, he sought greater control of the state through authoritarian measures. His administration controlled the judiciary and manipulated the radio and press, often disbursing Peronist propaganda through the media (Vacs 2006). Additionally, Perón consolidated all power in the hands of the executive, not only in the position of president, but also in the role of governor and mayor of each province and city (ostensibly to fill each with a Peronist) (Romero 2002). Perón also instituted 5-year plans in which he increased worker benefits (including paid vacations, pensions and health care), as well as increasing state regulation and protectionism of state industries.

While strong state government by means of the above policies is associated with the Peronist party, its doctrine also includes the idea of social justice. Perón sought to

strengthen class identity through integration with the state, and promoted the recognition of working people along with social mobility (through education) and a welfare state.

A second historical aspect relevant to the proposed examination of Argentina under Néstor Kirchner is the brutal military dictatorship of 1976-1983. The military government promised to establish order within yet another era of financial crisis in Argentina's history, this time stemming from Isabel Perón's presidency after the death of her husband in 1974; however, economic problems continued while the government simultaneously executed a period of terror and genocide that culminated in the loss of 30,000 people (*los desaparecidos*, or "disappeared persons") and a pervasive climate of fear (Vacs 2006). During this six-year period, political party activity was prohibited, as were labor movement and trade union activities. At the same time, the Peronist party was divided into several factions that included the Montoneros, a socialist-inclined branch of the party that engaged in guerrilla activities against the government, and the labor and rights groups that upheld Perón's principles within Peronism.

According to Luis Alberto Romero (2002), the military government destroyed Argentina's economy. In what can be seen as the beginning of reforms continued under presidents Alfonsín (elected in 1983) and Menem (elected in 1989), the military government eliminated state controls and dismantled the mechanisms for protecting local industry in what it hoped would be a panacea for the economic problems of the previous decades. Believing the failing economy stemmed from interventionist state policy and a semi-closed market, the military leaders and their economic advisors attempted to replace state intervention with the market. At the same time, they hoped to reduce the contentious influence of political groups that tried to dictate public policy because

forthwith the market, rather than the state, would allocate resources (Vacs 2006).

However, the rapid changes, coupled with the overvaluation of the Argentine peso, led to a flood of cheap imports, loss of jobs in local industry, and reduced buying power for the Argentine population. High inflation persisted, at rates of up to 100 percent per year, while the government instituted a policy guaranteeing all bank deposits in the event of bankruptcy. Thus, when several large banks collapsed, the state acquired the burden of the guaranteed deposits; additionally, in 1982, the state nationalized the private debt of many failed companies. Due to the flailing economy, all of these changes occurred during an era of decreasing tax receipts, making it increasingly difficult for the government to fund its policies and responsibilities. An additional strain on the system was the influx of petrodollars that followed high interest rates throughout Latin America, especially with the onset of high inflation in the U.S. in the 1970s. Cheap credit became available to promote development and fend off communist influence in the region, while at the same time U.S. banks tried to increase their earnings via high interest rates (Sherman 2000). Partially as a result of these policies, Latin America suffered the “lost decade” in the 1980s. Argentina thus suffered from the combination of the “lost decade” and its own, homegrown economic problems under the dictatorship. The unstable economy, in conjunction with a war with Great Britain over the Falkland Islands in 1982, ultimately led to the end of the dictatorship, and the government returned to democracy with the 1983 election of Raul Alfonsín of the *Unión Cívica Radical* (the Radical Party, or UCR).

The economy continued to suffer under Alfonsín, with high inflation, increased foreign debt and payment demands, and insufficient resources for state employee salaries

and social needs such as education and health care (Vacs 2006). The foreign debt under Alfonsín nearly doubled from \$35 billion in 1981 to \$63 billion in 1989, due at least in part to accumulated interest (*Statistical Yearbook* 1982-1990). Alfonsín had plans for deeper reforms, including privatization of state industry and deregulation; however, he faced enormous opposition to those ideas due to ideas rooted in society, Peronism and even his own party, UCR (Romero 2002). In July 1989, inflation reached 200 percent and people began looting supermarkets, prompting Alfonsín to hand the presidency over to newly-elected Carlos Saul Menem six months early.

Argentina under President Menem

The election of Carlos Menem restored the Peronist party to presidential power. During the election campaign, Menem promised the return of the welfare state (Romero 2002), but once in office, he fully embraced economic liberalism. While attempts at liberal reform had been tried under the military government and Alfonsín, it wasn't until the population was so mired in the economic crisis of 1989, when inflation rates reached 3,000 percent (*Statistical Yearbook* 1990) that it was ready to accept additional reform. Menem and his Economy Minister Domingo Cavallo implemented numerous policies to halt hyperinflation and spur the economy, one of the most important being the Convertibility Law. Passed in 1991, the Convertibility Law pegged the peso to the U.S. dollar at a one-to-one ratio. Additionally, under the new law, the president was prohibited from either modifying exchange rates or printing money above the country's dollar reserves. At the same time, the government reduced trade barriers by 33 percent to increase the level of cheap, imported goods. Both policies helped stabilize the economy

and end high inflation, which dropped to 25 percent in 1992 and 10 percent in 1993 (*Statistical Yearbook* 1996).

In addition to the Convertibility Law, Menem also implemented two further policies between 1989 and 1991: the Law of Economic Emergency and the Law of State Reform (Romero 2002). The former eliminated government subsidies and special privileges, and authorized the laying off of state employees; the latter declared the necessity of privatizing state-owned entities, giving the president the authority to do so as he deemed necessary. In order to demonstrate his ability to obtain funds to pay down the foreign debt, Menem authorized the sale of ENTEL (the state telephone company) and Aerolíneas Argentinas. The highway system, TV networks, railroads and parts of the state oil industry (Yacimientos Petrolíferos Fiscales, or YPF) followed at a rapid pace, often benefitting those with personal ties to the president (Romero 2002). One further policy instituted by Menem at this time was to raise the sales tax to provide additional income for the government.

After 1991, Cavallo continued with the privatization measures begun by Menem, albeit more carefully. The government privatized the electric, gas and water utilities and, stemming from the culmination of its policies, saw economic gains from 1991-1994, with annual growth rates of 9.5 percent, 8.4 percent, 5.3 percent and 6.7 percent respectively (*Statistical Yearbook* 1996), and higher rates of foreign investment. However, high unemployment accompanied privatization as many state workers were laid off in the name of productivity. Additionally, the peso became overvalued due to higher inflation in Argentina than the U.S. (the currency to which the peso was pegged). The overvalued peso kept salaries high, which not only factored into unemployment from privatization,

but also played a role in reducing the work force as increasingly uncompetitive local industries declined. As a result of cheap imports from trade liberalization and high labor costs due to overvaluation of the peso, much local industry was wiped out.

Unemployment in 1994 stood at 11.5 percent, passing the long-established ceiling of 10 percent (*Statistical Yearbook 1996*).

In 1994, Argentina revised its constitution to allow Menem to run for an unprecedented second consecutive term in office, which he easily won in 1995. However, 1995 also saw the beginning of an economic downturn. Devaluation of the peso that might have made Argentine goods more competitive (and thus eased unemployment) was unthinkable, as the faith in the markets and trust of foreign investors lay in the Convertibility Law (Romero 2002). The economy survived the downturn of 1995 and returned to strong levels of growth, reaching 8 percent in 1997 (*Statistical Yearbook 2000*), while unemployment remained at 15 percent (*Statistical Yearbook 2004*). At this point, Cavallo instituted further privatization (until he was removed from office in 1996 for attempting to fight the corruption endemic to Menem's administration). He was replaced by Central Bank president Roque Fernández.

1998 began a new, more serious economic crisis that evolved into a recession. GDP declined 4 percent, while interest rates on the foreign debt increased and export prices fell (Vacs 2006). Protests mounted against not only expanding economic problems but also the corruption within the administration. While Menem's policies reigned in inflation and expanded faith in Argentina's markets, international debt obligations jumped from \$63 billion in 1989 to \$145 billion when Menem's presidential term ended in 1999 (*Statistical Yearbook 1990-2000*).

The Economic Crisis of December 2001/January 2002 and Aftermath

Fernando De la Rúa of the newly created *Alianza para la Justicia, el Trabajo, y la Educación* (Alliance for Justice, Work and Education) won the presidential election of 1999 and inherited an economy in the midst of the recession that had begun in 1998. De la Rúa, who returned Domingo Cavallo to the Economy Minister position once again, maintained the policies of economic liberalism and the Convertibility Law begun under Menem, and the economy worsened. Unemployment increased from 13 percent in 1998 to nearly 18 percent three years later (*Statistical Yearbook* 2004). At the same time, funds for social services were limited due to high levels of debt servicing (Nef 2002). Throughout the country, members of the middle class resorted to bartering as an alternative social safety net (Krauss 2001), while at the same time payment in “scrip” became widespread in the provinces (Hornbeck 2002). In July 2001, the government passed a law cutting government salaries and pensions by 13% in order to attempt compliance with debt payments. In November 2001, the government froze all bank deposits in order to end a run on the banks (known as the *corralito*). On December 13, 2001, the *Confederación General del Trabajo* (General Confederation of Labor, or CGT) called a general strike against current conditions, and several days later protests spread as people looted supermarkets and participated in demonstrations. Middle-class families protested as well, banging pots in the *Plaza de Mayo* in Buenos Aires to demonstrate their lack of food (and their anger at the inaccessible bank deposits). The overwhelming anti-government sentiment current at the time was epitomized in the often-expressed, “*¡Que se vayan todos!*” (Everyone must go!) (Llanos 2004). The government then

attempted to suppress the protests, and 32 people were killed (Burbach 2002). De la Rúa resigned on December 20.

Between December 20, 2001, and January 2, 2002, five different presidents succeeded one another. After the third president, Adolfo Rodríguez Saá, was appointed by the Senate, he suspended all payments on the foreign debt (Nef 2002). Protests continued and Saá was forced from office. On January 2, the Congress chose Peronist Eduardo Duhalde to serve the remaining two years of De la Rúa's term.

As one of his first presidential acts, Duhalde ended the practice of convertibility and devalued the peso. This act made Argentine products more competitive in international markets, but it also wiped out the savings of middle-class families. The devaluation caused the recession that had begun in 1998 to become a depression, and fear of hyperinflation increased. It did not materialize, however, and the economy began to expand in the second half of 2002 (Llanos 2004).

Theories of what caused the economic collapse in Argentina abound. Argentina followed all the prescriptions for growth promoted by institutions of economic liberalism, or the policies of the Washington Consensus. However, while Gross Domestic Product (GDP) expanded from 1990-1994 and again from 1996-1997, and hyperinflation ended, unemployment and poverty levels grew. Additionally, due to (among other factors) corruption and interest, the national debt doubled from \$63 billion in 1989 to \$145 billion in 1999 (*Statistical Yearbook 1990-2000*) in a time of increased government income from privatization. Michael Mussa (2002) of the IMF sees the economic collapse stemming primarily from Argentina's inability to maintain a responsible fiscal policy (although he admits to two grave errors on the part of the IMF, as well), while James Petras and Henry

Veltmeyer (2003) view the economic collapse as a direct result of economic liberalism. Many Argentines (politicians and citizenry) also fault the policies of the international financial institutions. However, other authors and experts fall between these two extremes, with many overlapping ideas stemming from the policies implemented by Menem and his successors.

The Convertibility Plan that Menem instituted in 1991 clearly had both beneficial and detrimental aspects. The Plan aided economic stabilization and eliminated hyperinflation (from over 3,000 percent in 1989 to 10 percent in 1993) (*Statistical Yearbook* 1996). After decades of instability, the population (including the middle class) supported the Covertibility Plan (Hershberg 2002; Mussa 2002), while at the same time, the Plan helped maintain investor confidence and access to funds from international sources. However, it also allowed for overvaluation of the peso that led to greater unemployment and, after the currency was devalued, decimation of middle-class savings. Additionally, the price of Argentine goods was higher than what could be justified by productivity. Prices rose steadily from 1991 until 1994, thus making goods more expensive in export markets (Llach 2004). The high level of external debt in 1998 (\$142 billion) fueled expectations of an impending devaluation as well, causing capital flight to begin that same year (Llach 2004). When De la Rúa finally took the necessary step of ending the plan in order to make Argentine goods more competitive, depression ensued.

Michael Mussa (2002) addresses two additional factors leading to the economic crisis: failure to maintain a responsible fiscal policy and fiscal irresponsibility in the provinces, which the central government funded. Essentially, Argentina spent more than it collected in taxes and revenue, even as Menem privatized numerous state industries

(corruption thus played a role as well, as state industries were sold below market value, decreasing the government's potential income). Debt escalated from \$63 billion in 1989 to \$145 billion when Menem's presidential term ended in 1999 (*Statistical Yearbook 1990-2000*). Due to the Convertibility Plan and increased financial stability, creditors were very willing to fund Argentina's burgeoning debt, which only facilitated the problem. However, when Argentina experienced a period of strong economic growth from 1991-1994, it neglected to implement more responsible fiscal policies that might have reduced debt levels and diminished the likelihood of economic collapse (Mussa 2002). Additionally, as the recession of the late 1990s set in and the expectation of devaluation grew, creditors demanded higher interest rates for new loans; at the same time, the IMF required further austerity measures as a condition for granting loans – loans that were destined to ensure Argentina's ability to cover debt payments, not help Argentines (Hershberg 2002). This factor only increased the Argentine population's animosity toward IFIs and the government during and after the crash.

Argentina's history (as well as the history of the region) also plays an important role in the economic collapse. Jorge Nef (2002) asserts that four factors (political, economic, social and cultural aspects), coupled with economic globalization, led to economic crisis. Endemic poverty in the region was exacerbated by developmental failure and high debt levels stemming from the "lost decade" and the pre-existing conditions of high income disparity and underdevelopment. Stabilization policies instituted by Menem, while ending hyperinflation, diminished the social safety net available to the poor. Additionally, as addressed above, privatization led to widespread unemployment. Thus, when De la Rúa's policies culminated in cutting government

salaries and pensions and instituting the *corralito* in order to service the foreign debt and avoid capital flight, the populace saw no other choice but to protest to change the unbearable economic and political situation that they attributed to government policies.

Chapter Six: The Kirchner Years

Background to Néstor Kirchner

Peronist Néstor Carlos Kirchner became president of Argentina on May 25, 2003, succeeding Eduardo Duhalde. Prior to being elected president, Kirchner served as governor of the southern province of Santa Cruz for three consecutive terms. Kirchner is married to Cristina Fernández, a senator in Buenos Aires, with whom he painstakingly planned his political ascension from lawyer to mayor of Río Gallegos, then to governor, and finally president. Kirchner was elected on an anti-neoliberal platform and currently maintains a 75 percent approval rating in Argentina (“Argentina’s Néstor Kirchner” 2006).

Néstor Kirchner is a strong-willed man who prefers to maintain negotiating and decision-making power in his own hands. Argentines have named his approach to governing and negotiation the “K Style,” which has included a confrontational stance toward creditors (albeit mitigated by moderate action) (Gastaldi 2005), as well as challenging the powerful and prestigious of Argentine society, such as the military (Rohter 2003). He frequently shuns protocol, exemplified by his ignoring security concerns to join the crowds that cheered him after his inauguration because he was “one of them” (Garrone & Rocha 2003, p. 21). As president, he remains obsessed with the economy, as was the case in his positions as both mayor and governor.

In law school, Kirchner was a member of the *Federación Universitaria de la Revolución Nacional* (the University Federation of National Revolution, or FURN), part

of the Young Peronists movement that sought the return of Perón (this movement also spawned the Montoneros, a militant guerrilla group; however, Kirchner denies being part of the Montoneros). Nevertheless, he was briefly jailed by the military government that ruled from 1976 until 1983 (Garrone & Rocha 2003).

After one term as mayor of Río Gallegos, Kirchner was elected governor of Santa Cruz in 1991. During his three consecutive terms in this post, Kirchner bolstered the economy of the province (which had suffered a deficit), lowered unemployment, and invested in education, health care and housing for the poor. He also focused on infrastructure, including roads, ports and airport construction. With Domingo Cavallo (the Economy Minister under President Menem), he attempted to create a duty-free zone in Santa Cruz to promote industry and improve the economy; however, after problems developed between Kirchner and Menem, Menem annulled the project (Garrone & Rocha 2003). Kirchner further distanced himself from Menem when he sided with striking coalminers who were protesting privatization of their mine in Río Turbio, Santa Cruz, in 1994 (Garrone & Rocha 2003).

The presidential election of 2003 provided a battleground between the two most prominent forces within Peronism: Carlos Menem and Eduardo Duhalde. Menem wanted to be reelected, while Duhalde preferred that the Peronists offer the public a new candidate, one which he could ostensibly control while at the same time preventing Menem from gaining the presidency (Gaudin 2005). In this respect, Kirchner was widely thought to be Duhalde's puppet, a belief Kirchner soon corrected by instituting his own policies (Garrone & Rocha 2003). This election was also the first time in its history that the *Partido Justicialista* (PJ) presented more than one candidate. In the election of April

2003, Menem gained 24 percent of the vote, while Kirchner won 22 percent. After numerous polls predicted that Kirchner would win the scheduled run-off election in a landslide victory, Menem withdrew from the race. The withdrawal made Kirchner president; however, after winning with only 22 percent of the votes, he was left without a strong mandate.

In order to establish a positive image and distinguish himself before the populace, Kirchner confronted two influential groups during his first 100 days in office: the military and the Supreme Court. First, he propelled the retirement of 19 generals, 13 admirals and 12 brigadier generals, essentially purging the military of high-level actors from the military regime of 1976-1983 (Garrone & Rocha 2003). Additionally, in order to enhance the rule of law and rid the court of corrupt judges from the Menem era who might oppose his reforms, Kirchner urged Congress to expedite impeachment proceedings against the Supreme Court justices (a process they had initiated several weeks before). Availing himself of research completed by six NGOs (nongovernmental organizations), he then established a more transparent selection process for new justices that included publishing their qualifications and allowing organizations to register an opinion prior to their selection (Farmelo & Cibils 2003).

In addition to the steps discussed above, Kirchner also advanced the human rights situation within Argentina soon after becoming president. He met with human rights groups (including the Mothers of the Plaza de Mayo who seek justice for the 30,000 “disappeared” people from the era of the military dictatorship), and then reversed an executive order that prohibited extradition of military officers to countries whose citizens had disappeared under the military regime. Finally, he exhorted Congress to repeal the

“impunity laws” that forbade prosecution of members of the military for crimes against humanity during the military dictatorship. Congress soon complied (Farmelo & Cibils 2003). In June 2005, the Supreme Court declared the impunity laws unconstitutional, opening the way for more than 500 potential prosecutions (“Argentina’s Supreme Court” 2005).

President Kirchner’s Policies

When Kirchner took office in 2003, he faced two difficult government defaults from the economic crisis of 2001/2002: the IMF and private bondholders. Kirchner, who had campaigned for president on an anti-neoliberal platform, promised that he would neither allow the IMF to dictate Argentine policy, nor further impoverish Argentines for the sake of paying back debt (especially to the IMF, which was widely viewed in Argentina as having played a role in the economic crisis) (Rohter 2006). He thus assumed a confrontational, “K Style” stance with both entities, accompanied by his Economy Minister Roberto Lavagna.

In September 2003, Kirchner refinanced \$21.6 billion in debt with the IMF over three years, on terms largely seen as beneficial to Argentina (Smith 2003). The primary advantage for Argentina was a commitment of only 3 percent GDP fiscal surplus to pay toward the debt (although this was equivalent to the total annual budget appropriations for health, science and technology, education, housing, water supply, energy and fuels, communications, environmental protection, transport, the judiciary, security and prisons) (“Argentina: Dissecting IMF Deal” 2003). Nevertheless, by comparison, the Fund-set fiscal surpluses at the time for Brazil and Ecuador were 4.25 percent and 5 percent, respectively (Smith 2003). In return, Argentina agreed to maintain inflation in the single

digits (a goal it has not managed to keep), enact tax and banking reform, renegotiate utility contracts to seek higher rates, and restructure its debt to bondholders (“Argentina: Dissecting IMF Deal” 2003). In order to comply with his vow not to allow the IMF to dictate policy to Argentina, Kirchner made the country’s final payment of \$9.8 billion to the IMF in January 2006; at the same time, he stated that he was liberating Argentina from an entity that made demands that contradict economic growth (Rohter 2006). (The government was able to pay this debt due partly to the fact that Venezuela has bought Argentine debt and is now accepted as a “lender of last resort” for the country) (“Populist Economic Policies?” 2005). While Argentina maintains outstanding debt to other sources, paying off the IMF has been an important symbol not only of Kirchner’s power, but also for a country deeply suspicious of policies propagated by international financial institutions.

President Kirchner’s second significant financial success was restructuring \$100 billion of defaulted bondholder debt at a 75 percent reduction of the market value. After three years of negotiations and court battles, the administration made a formal offer to bondholders in January 2005, with which it hoped to reach an acceptance level of at least 50 percent (“Tracking Trends” 2005, January 18). Two months later, in March 2005, 76 percent of creditors had accepted the proposal, allowing Argentina to issue new bonds at no more than 30 cents on the dollar (Rohter 2005). While obviously an important financial achievement for Argentina, the president’s stance and success also created a potential new model for negotiations for other nations in debt, who typically pay 50-65 percent of debt under restructuring (Rohter 2005). Moreover, Kirchner linked the country’s loan payments to its economic performance; thus, Argentina will make higher

payments when the country is doing well, and lower payments if it declines (Sánchez 2006). This policy allows the government to fulfill its commitments to its citizenry without risking another default – a potent plan that other nations could adopt that would benefit both the indebted nation and its citizens, as well as its creditors who avoid potential loss from default. Through his negotiations with both the IMF and the bondholders, Kirchner fulfilled his promise of not further impoverishing Argentines, while also attempting to strengthen the country's sovereignty in the face of the fallout from the economic crisis four years before.

Before investigating some of the specific policies that President Kirchner has implemented, it is important to examine Argentina's current economic status. Since the crisis of December 2001/January 2002, the country has experienced strong annual growth rates. Growth of Gross Domestic Product before and during the crisis was negative: -0.8 percent in 2000, -4.4 percent in 2001, and -10.8 percent in 2002 (the country experienced a recession beginning in 1998, which lasted until it developed into the economic crisis of 2002) (*Statistical Yearbook* 2004). Since that time, however, GDP has grown immensely: 8.8 percent in 2003, 9.0 percent in 2004, and 9.2 percent in 2005 (Instituto Nacional de Estadística y Censos 2006), with projected growth for 2006 of 7.5 percent, the highest projection in the region (Sánchez 2006). Continued high growth rates have allowed the country to satisfy its external debt commitments (even paying off its IMF debt) and expand social welfare benefits. Nevertheless, the increased growth does not appear to be a result of Kirchner's policies, but a recovery based on devaluation of the peso due to the end of the Convertibility Plan and a positive international climate (Gastaldi 2005; Petras 2004). In recent years, the dollar has weakened in value, China

joined the World Trade Organization (thus increasing demand) and markets opened in India, while interest rates dropped worldwide (Gastaldi 2005). Additionally, Argentina saw strengthened demand and higher prices for its commodity goods (meat, grains and soybeans), at the same time that it increased utilization of unused, existing capacity in manufacturing (Petras 2004). However, growth could be unsustainable without greater development of a domestic market and further investment in existing industry (as well as access to capital, which Argentina's debt restructuring in 2005 appears to have ameliorated; investment rose from \$29 billion in 2004 to \$41 billion in 2005) (Sánchez 2006).

In order to investigate Kirchner's policies with a view to determining whether he is providing Argentina with a potential new model of development, two areas of examination are imperative: nationalization of previously privatized industries and social welfare policies. During Menem's presidency (1989-1999), the government privatized ENTEL (the state telephone company), the highway system, TV networks, railroads, parts of the state oil industry (Yacimientos Petrolíferos Fiscales, or YPF) and the electric, gas and water utilities. Since Kirchner took office three years ago, he has renationalized the post office, a passenger rail line and most recently, the French water company Aguas Argentinas in March 2006 (Sánchez 2006). Aguas Argentinas, which was partly owned by Suez of France, had not fulfilled contractual obligations nor improved the quality of water that it provided to Buenos Aires, according to the government; however, Suez had also requested rate increases of 60 percent in 2005 to compensate for prices that had been frozen since 2002. The water utility will now be managed by Aysa, which is 90 percent state-owned and 10 percent employee-owned ("Argentina Severs Suez Deal" 2006).

Kirchner has not nationalized the energy or telecommunications industry; however, in 2004 the government created Energía Argentina Sociedad del Estado (ENARSA), of which 65 percent is government held and 35 percent is traded on the stock market (“Tracking Trends” 2004, May 18). The goal of ENARSA is to promote exploration and development of petroleum, gas, coal and electricity resources, and it works in conjunction with private enterprises including Repsol-YPF of Spain and Petrobras of Brazil. ENARSA does not have the same status as state-owned oil companies such as Petróleos Mexicanos (PEMEX) or Petróleos de Venezuela SA (PDVSA); however, in 2005, it signed an agreement with Aeropuertos Argentina 2000 to form a company to provide fuel to all the airports in Argentina (Cantón 2005, June 4). In addition to forming ENARSA, the government has raised taxes on oil and gas exports (oil exporters now pay 25 percent, an increase of 5 percent, while gas exporters pay 20 percent instead of the former 5 percent) (“Tracking Trends” 2004, May 18). Argentina suffered a severe energy crisis in 2004, and energy has since become a primary government policy concern. Kirchner has accused the private oil companies of not fulfilling contractual obligations for investment, exploration and development, thus causing the energy crisis and fueling the founding of ENARSA (Cantón 2005, April 26; “Tracking Trends” 2004, May 18).

While trying to ameliorate energy concerns in Argentina through the above policies, Kirchner has also taken a confrontational stance with at least one foreign oil company: Shell. In March 2005, after Shell announced a 4.2 percent price increase in the price of fuel, Kirchner called for a boycott of the company, entreating the population not to buy anything from Shell, “ni una lata de aceite” (not even a can of oil) (Cantón 2005,

March 11). Fear of increasing inflation played a part in the boycott demand; however, negotiations between Shell and Petróleos de Venezuela SA (PDVSA) that involved Shell selling its refineries and 900 service stations to PDVSA had also recently failed, raising suspicion of an ulterior motive (Cantón 2005, March 11).

The second area through which Kirchner has tried to further Argentina's national development is social welfare policy. After the economic crisis of 2002, then President Eduardo Duhalde instituted the *Jefes y Jefas de Hogar* ("Heads of Households") work plan in which more than 2 million unemployed heads of households with children received \$50.00 (150 Argentine pesos) per month in exchange for small amounts of work (Petras 2004). Kirchner continued this program, which is the government's largest social welfare plan and now serves 1.5 million beneficiaries (the remainder having found work) (Ministerio de Trabajo, Empleo y Seguridad Social 2006). However, in February 2006, the government announced plans to restructure the Heads of Households work plan into two social programs that will target different groups: Capacity and Employment Insurance, whose beneficiaries will receive approximately \$75.00 (225 Argentine pesos) per month, and Families (originally announced in 2004), whose beneficiaries will receive between \$65.00-\$75.00 (200-225 Argentine pesos) per month (Braslavsky 2006). The Capacity and Employment Insurance program dictates that beneficiaries fulfill training requirements and utilize an Employment Office to look for work; it provides higher subsidies than the Heads of Households work plan, but places stricter demands on participants in order to encourage a "culture of work" (Braslavsky 2006). Conversely, the Families program is designed specifically for families or single mothers whose primary responsibility is the health and education of children; it provides a higher

payment than the Heads of Households, as well. In announcing the restructuring of the social welfare plan, Kirchner admitted to enduring income disparity in the country and promised further “redistributive measures” to ameliorate poverty (Braslavsky 2006).

With respect to pensioners, Kirchner’s administration raised their monthly payment from \$65.00 (200 Argentine pesos) to approximately \$71.00 (220 Argentine pesos) per month in 2003. The minimum wage was also raised at that time, from \$65.00 (200 Argentine pesos) to \$81.00 (250 Argentine pesos) (“Argentina: Unemployment and Poverty” 2003). Additionally, the administration instituted the Generic Prescription Law, which guarantees government provision of drugs at 90 percent discount in primary care clinics that aid low income families (approximately 15 million people). According to the Ministry of Health, this law includes 82 percent of drugs prescribed in Argentina, thus opening drug treatment to many who previously could not afford it (Petras 2004).

In the area of education, the President recently (May 2006) convoked a 180-day “debate” period within which the government will study various aspects of the National Education Law of 1993 and propose changes (Presidencia de la Nación Argentina 2006). Areas of study will include the universalization of preschool and the obligation of attending secondary school. Additionally, launched in May 2005, the government is piloting a program in Buenos Aires for children aged 11-18 who have quit school but want to return. The children who participate in *Todos a Estudiar* (“All Study”) receive scholarships (400 Argentine pesos, or \$130 annually), while the schools and teachers each receive additional funding for every student enrolled (Presidencia de la Nación Argentina 2006). The program currently includes 146 schools and over 3,600 students (“Todos a Estudiar” 2005), although the government ultimately plans to offer

scholarships to 40,000 students in 800 schools (Presidencia de la Nación Argentina 2006).

Finally, included as part of Kirchner's social welfare policy is his attempt to mitigate slowly rising inflation rates through price controls. As examined above, the policies of President Menem in the 1990s ended hyperinflation and stabilized the currency. Since the end of the Convertibility Plan and the devaluation of 2002, inflation has remained relatively low but has begun to increase in the past two years: 26 percent in 2002, 13 percent in 2003, 9.7 percent in 2004, 12.3 percent in 2005, and projected at 13 percent for 2006 (*Statistical Yearbook 2004*; *The World Factbook 2006*; "Brazil and Southern Cone" 2006). In the last quarter of 2005, Kirchner convinced Argentina's large supermarket chains to commit to 15 percent lower prices on food, personal hygiene products and apparel, and then persuaded their suppliers to do the same ("Tracking Trends" 2005, December 6; "Tracking Trends" 2005, December 13). The administration is also in the process of renegotiating contracts with 46 utility, transportation and telecommunications companies that were privatized under Menem, all of which had their rates frozen by presidential decree after the economic crisis in 2002. The only contract that has been completed and approved by Congress thus far is with the regional electric company Edelap (*Empresa Distribuidora La Plata, SA*), which allows for a 15 percent rate increase (Rossi 2005). Due to inflation fears and to avoid price increases before the midterm elections in October 2005, the administration requested an extension in the renegotiation process; however, renegotiation (and probable rate increases) will occur in 2006 and be applicable for 2007 (Rossi 2005).

Results of Kirchner's Policies

Néstor Kirchner has been president of Argentina for three years and, while he maintains a high popularity rating within his country, assessing the efficacy of his policies requires acknowledgement of the fact that three years is a relatively short period of time to appraise structural change. Moreover, as stated above, many of the causes of Argentina's high growth rates these past three and one-half years have been based on devaluation of the peso and a positive international climate. In light of his goals of a more equitable society and his leftist label, a more accurate evaluation of Kirchner's policies is based on changes in poverty levels, unemployment and income distribution.

According to Argentina's *Instituto Nacional de Estadística y Censos* (National Statistics and Census Institute, or INDEC), poverty rates have gradually decreased since the high point of 57.5 percent in 2002. Poverty rates dropped to 47.8 percent in 2003, 40.2 percent in 2004 and 33.8 percent in 2005 (the most recent data available). At the same time, unemployment rates have also decreased steadily: 19.7 percent in 2002, 15 percent in 2003, 14.8 percent in 2004 and 11.1 percent in 2005 (*Statistical Yearbook 2004*; *The World Factbook 2006*). However, it is important to note that the government counts as "employed" participants in the Heads of Households program; thus the decline in unemployment rates is not due solely to expansion of the job market. If the Heads of Households recipients were included in unemployment rates, they would increase by approximately three percent ("Tracking Trends" 2006, March 7).

The second primary measure of improved living standards due to policy changes by the current administration is income distribution. Rates of income distribution in Latin America have historically been some of world's most unequal (Sherman 2000),

although Argentina was long one of the most prosperous countries in Latin America, with a large, educated middle-class and opportunity for upward mobility. However, in the past three decades, disparity in income distribution in Argentina has increased greatly: the income share of the poorest decile fell from 3 percent in 1974 to 1.2 percent in 2003, while the income ratio between the poorest decile and the richest grew from 8 to more than 30 (*Monitoring Socio-Economic Conditions* 2005). In examining income disparity under President Kirchner, the negative trend has not abated. For the two years of his presidency for which there is information (2003-2004), the poorest decile maintained 1.2 percent of the share of income, while the richest decile received 39 percent in 2003 and 38.4 percent in 2004 (*Monitoring Socio-Economic Conditions* 2005). However, a longer term perspective is necessary to fully judge whether Kirchner's policies will alter this disparity.

As stated above, inflation has become a primary concern for the Kirchner administration, prompting price controls and postponement of renegotiation of utility prices frozen since 2002. However, while Argentina has experienced high growth rates the past three years, investment has not kept pace due to negative real interest rates ("Argentina: 9.1% Growth" 2006). Price controls are being utilized to control inflation, rather than the standard recipe of raising interest rates. However, without increased investment that would follow higher interest rates, it will be difficult for the country to sustain growth and build a stronger domestic market ("Argentina: 9.1% Growth" 2006). A well-developed domestic market would help cultivate a larger middle class (as had historically been a common factor in Argentina) and further decrease unemployment and poverty rates.

One further aspect of Kirchner's policies requires examination: his consolidation of power. While not a linear result of the administration's economic and social welfare policies, Kirchner's consolidation of power certainly plays a role in his ability to fulfill his promises. As stated above, Kirchner became president in 2003 without a strong mandate, receiving only 22 percent of the national vote. He has since built a strong popularity rating, currently at 75 percent of the population ("Argentina's Néstor Kirchner" 2006). When elected, Kirchner was viewed by some as a puppet of former president Eduardo Duhalde in his ongoing political battle with Carlos Menem; Kirchner soon overcame that misperception through both his confrontational political style and his policies. However, Kirchner's split from Duhalde has developed into a widening rift within the Peronist party. During his Patagonia years in the government, Kirchner founded his own branch within the Peronist party: *Frente para la Victoria* (Front for Victory, or FPV) (Garrone & Rocha 2003). Duhalde also has his own branch of support within the Justicialist Party: the Justicialist Front. The rift between these two branches of the Peronist party (the *kirchneristas* and the *duhaldistas*) has at times blocked the passage of legislation within Congress ("Argentina: Kirchner-Duhalde Rift" 2005), although *kirchnerista* gains in the midterm election of October 2005 helped ease the situation somewhat.

A powerful symbol of his success is the fact that Kirchner's wife, Cristina Fernández, won her election for Senator of Buenos Aires province (a former Duhalde stronghold) in the midterm elections of October 2005, beating Duhalde's wife. Kirchner's Front for Victory Party (within the Peronist party) gained seats in both the Senate and the Chamber of Deputies, although it does not hold an outright majority (*The*

World Factbook 2006). (Although coupled with Duhalde's Justicialist Front (FJ) within the Peronist party, the Justicialist Party maintains a majority).

While Kirchner's success in the midterm election increases the likelihood of implementing more of his policies before the next presidential election in 2007, there is also a risk inherent in investing too much power in one person. As stated above, Kirchner is strong-willed and maintains a confrontational political style – a fact that increased his popularity in Argentina during his negotiations with the IMF and the bondholders. However, too much power granted to one person creates the potential for corruption, in addition to the fact that it will be nearly impossible for Kirchner's successor to replicate his personalistic style and policies. Moreover, Kirchner has taken to ruling by decree when necessary, having availed himself of his Congress-given right to do so in cases of urgency and necessity. In the first two years of his presidency, Kirchner submitted 140 bills to the legislature for approval; during the same time frame, he issued 166 decrees covered by the “economic emergency” he inherited when he became president (“Kirchner Basks in Strong Approval” 2005). However, the country has experienced three successive years of strong economic growth and is poised for a fourth, leading many opponents to claim that the economic emergency has ended and Kirchner's use of decree should be revoked.

Based on the above information on poverty, unemployment and income distribution, it would seem that the results of Kirchner's policies thus far are mixed. Growth continues to be steady (although it is aided by the international climate and the high price of commodity goods), poverty levels have decreased and unemployment is lower (even when the recipients of the Heads of Households subsidy are excluded from

the count). Kirchner has increased payments to pensioners, increased the minimum wage and divided the social welfare program (Heads of Households) to better serve two distinct communities: those seeking work (the Capacity and Employment Insurance program) and families headed predominantly by single mothers (Families). Moreover, his administration has instituted the Generic Prescription Law to provide medicine to the poor, and recently called for a renewed examination into education policy and programs.

Opposed to these gains, however, is the fact that income distribution has not begun to decrease and inflation continues to rise, eroding gains from the above social welfare programs. Price controls provide a temporary measure to stem inflation, but they also have the potential to stymie investment in certain sectors of the economy which, coupled with negative real interest rates, will further hamper the expansion of a domestic market. Without a strong domestic market and further development of industry, a drop in commodity prices or a shift in the international climate could cause growth levels to diminish, leading to higher unemployment and a return to higher levels of poverty.

It is important to reiterate that Kirchner has been in office for only three years, a limited amount of time to judge the long-term success or failure of his new policies. He recently replaced his Economy Minister Roberto Lavagna with Felisa Miceli (December 2005), which could signal a shift in policies. Additionally, he is widely expected to run for president in the 2007 election, which may cause him to alter his policies and, if he wins, provide him with the opportunity to become more leftist or more centrist in his second term.

Chapter Seven: Conclusion

The research question proposed in the introduction was to determine if the policies pursued by the recently elected (in the last decade) leftward-leaning presidents in Latin America suggest a potential development alternative to the policies of economic globalization, as seen through a case study of Argentina. The hypothesis was that the new president of Argentina, Néstor Kirchner, while not completely rejecting trade liberalization or globalization, is pursuing policies of stronger state intervention and government control in order to direct the economy and provide greater stability within Argentina following the economic collapse of December 2001/January 2002. Stability in this context signifies sustained economic growth, declining or low poverty rates (below 20%; poverty in Argentina in 1994 stood at 16%), low or stable rates of unemployment (historically at less than 10% in Argentina, until the 1990s), and a low rate of inflation (10% per year). (Inflation in Argentina has historically been high, but President Kirchner's stated target is 10%) (Miguez 2005). The methodology proposed for the study was a longitudinal approach to investigate the policies of both President Carlos Menem (1989-1999) and President Néstor Kirchner (2003-present), using aggregate statistics of such indicators as growth, poverty rates, unemployment and inflation to assess the results of each president's policies. In addition, it will be necessary to evaluate Kirchner's policies against the criteria for development alternatives presented in the Literature Review, specifically the works of Joseph E. Stiglitz, Charles Gore and W.D. Lakshman.

The first factor to address is whether Kirchner is providing greater stability in Argentina following the economic collapse of December 2001/January 2002. Utilizing the four benchmark standards for stability discussed above (economic growth, low or declining poverty rates, low or stable unemployment and low inflation), Kirchner's policies (coupled with devaluation of the peso and the international financial climate) have created greater stability in Argentina. While growth was negative from 1999 to 2002, GDP has grown immensely since that time: 8.8 percent in 2003, 9.0 percent in 2004, and 9.2 percent in 2005 (Instituto Nacional de Estadística y Censos 2006), with projected growth for 2006 of 7.5 percent (Sanchez 2006). While poverty has not declined to the benchmark statistic of 20 percent, it has progressively dropped from 57.5 percent in 2002 to 33.8 percent in 2005 – a three-year decrease that affects nearly 25 percent of the population (Instituto Nacional de Estadística y Censos 2006). It is possible to surmise that if growth rates remain positive and Kirchner's social welfare policies are maintained, poverty will continue to diminish. With the higher growth rate, unemployment has also declined from 19.7 percent in 2002 to 11.1 percent in 2005 (*Statistical Yearbook 2004; The World Factbook 2006*) (including beneficiaries of the Heads of Households work program).

While the above three indicators of stability are positive, the fourth indicator, rate of inflation, has begun to increase (9.7 percent in 2004, 12.3 percent in 2005, and projected at 13 percent for 2006) (*The World Factbook 2006; "Brazil and the Southern Cone" 2006*). Kirchner has instituted price controls and postponed renegotiation of utility contracts in order to halt the increase, but these are temporary policies. The government will need to reassess monetary policy to overcome negative real interest

rates; higher interest rates could decrease inflation and increase investment, potentially cultivating a stronger domestic market and the return of the middle class.

To judge Kirchner's policies as an alternative model of development for Argentina, it is first essential to compare them to those of President Menem, who embraced neoliberal economic policy after becoming president in 1989. Menem instituted Washington Consensus policies, including privatizing state entities, reducing tariffs, increasing taxes, eliminating subsidies and instituting a form of fiscal reform in order to reign in hyperinflation (the Convertibility Plan, which was not specifically an IMF dictate) (Mussa 2002). (It is important to note that fiscal reform did not preclude the provinces from excess spending, and that Menem's administration was widely known to be corrupt; thus, money from privatization did not necessarily benefit the state). Under Menem, inflation decreased from 3,000 percent in 1989 to 10 percent in 1993 (*Statistical Yearbook* 1996), and then to 0.7 percent in 1998 (*Statistical Yearbook* 2004). Growth rates over the decade were mixed, as 1991-1994 (9.5 percent, 8.4 percent, 5.3 percent, 6.7 percent) and 1996-1998 (5.5 percent, 8.0 percent, 3.8 percent) were positive; 1989, 1990 and 1995 (-6.5 percent, -0.1 percent, -4.6 percent) were negative (*Statistical Yearbook* 1990-2000). Additionally, 1998 began a recession that developed into a depression with the economic crisis of December 2001/January 2002. However, while the decade saw mostly positive growth rates, unemployment and poverty increased.

When the decade began, unemployment stood at 7.4 percent (1990). In 1994, unemployment reached 11.5 percent, passing the long-established ceiling of 10 percent. As Menem left office in 1999, the rate had reached 14.3 percent (*Statistical Yearbook* 1991-2000). Under Menem, Congress passed the Law of Economic Emergency (1989)

and the Law of State Reform (1991) (Romero 2002). The former eliminated government subsidies and special privileges, and authorized the laying off of state employees; the latter declared the necessity of privatizing state-owned entities, giving the president the authority to do so as he deemed necessary. Menem thus authorized the sale of ENTEL (the state telephone company) and Aerolíneas Argentinas. The highway system, TV networks, railroads and parts of the state oil industry (Yacimientos Petrolíferos Fiscales, or YPF) followed, as did the electric, gas and water utilities after 1991. As each entity was sold, the newly privatized company laid off former state employees, increasing unemployment. Additionally, lower tariffs and fewer protections for local industry also led to higher unemployment as local businesses folded or downsized due to competition from cheaper imports.

Higher unemployment, coupled with reduced subsidies affecting social welfare programs under the 1989 Law of Economic Emergency, also increased poverty. Poverty rates, which stood at 33.7 percent in 1990, initially decreased under the economic growth of 1991-1994 (and the end of hyperinflation). In 1993, poverty affected 16.8 percent of the population, but by 1999 it had jumped back up to 27 percent (Instituto Nacional de Estadística y Censos 2006). While obviously lower than the 33.7 percent registered at the beginning of the decade, it is important to remember that during the same period that poverty increased (1994-1998), economic growth was positive for all but one of the years (1995). One of the principle presumptions of economic liberalism is that high economic growth will decrease poverty; however, this was not the case in Argentina under Menem. At the same time that levels of poverty grew, income disparity increased. From 1992 until 1998, the share of income held by the poorest ten percent of the population declined

from 1.9 percent to 1.3 percent. During the same period, the richest decile increased its share of income from 33.8 percent to 37.2 percent (*Monitoring Socio-Economic Conditions* 2005). Based on levels of unemployment, poverty and income distribution, Menem's policies clearly did not help all sectors of society achieve a better standard of living. And while Menem's Convertibility Plan is credited with ending hyperinflation (a benefit to all segments of society), the inflexibility of the Plan has also been discussed as one of the primary causes of the economic crisis of 2001/2002, which ultimately increased poverty and unemployment and decimated the middle class.

When Néstor Kirchner became president in May 2003, he inherited a weak economy, albeit one that had begun to recover under the guidance of interim President Duhalde's Economy Minister, Roberto Lavagna. As discussed above, economic growth rebounded in 2003 (8.8 percent) and has remained strong to date (Instituto Nacional de Estadística y Censos 2006), aided by devaluation of the peso and a positive international climate. Poverty and unemployment have decreased; poverty stands at 33.8 percent (2005), down from its high point of 57.5 in 2002, while unemployment in 2005 was 11.1 percent (including recipients of the Heads of Households work program) (Instituto Nacional de Estadística y Censos 2006; *The World Factbook* 2006). Admittedly, the current poverty rate is higher than the 27 percent rate in 1999; however, the trend under Menem was *increasing* poverty during years of positive growth rates, while the trend during Kirchner's three years has been *decreasing* poverty during years of positive growth rates. Comparing unemployment rates between the two administrations is more difficult as the rate under Menem did not include members of the Heads of Households work program, which was begun in 2002. However, allowing for the approximately 3

percent of Heads of Households recipients currently excluded from unemployment rates, unemployment at the end of Menem's second term (14.3 percent) would be approximately the same as the current rate (11.1 percent plus 3 percent from Heads of Households, or 14.1 percent). Again, it is important to examine the trend under the two presidents: unemployment *increased* during positive growth during Menem's administration, while it has *decreased* during three years of positive growth under Kirchner. (Income disparity has remained essentially the same, following the 30-year trend in the region) (*Monitoring Socio-Economic Conditions 2005*).

Coupled with the above comparison between poverty and unemployment during years of positive economic growth during both administrations, discussion of actual policies is necessary. Menem instituted policies of economic globalization that included privatizing state entities, reducing tariffs, increasing taxes and eliminating subsidies. Kirchner has not widely rejected policies of economic globalization; he has not renationalized privatized industries (although three have been nationalized: the post office, a railroad line and Aguas Argentinas, and his administration created a weak state-run oil company, ENARSA, that works in conjunction with private oil companies). In his goals for 2006, Kirchner discussed reforming the tax structure to make it more progressive; however, this has been postponed in order to concentrate on inflation (Miguez 2005). Regarding trade liberalization, Argentina remains a member of the World Trade Organization as well as a key partner in Mercosur (*Mercado Común del Sur*), which facilitates regional trade between Argentina, Brazil, Uruguay, Paraguay and associate Andean members. At the end of 2004, though, Kirchner postponed auto trade liberalization with Brazil that was to begin in 2006, stating that it needed to be further

strengthened beforehand (“Tracking Trends” 2004, September 14). One year later, the auto industry had grown in the first seven months of the year by 27.5 percent over the same period in 2004 (“Tracking Trends” 2005, August 09), and further increases were expected for 2006 (“Tracking Trends” 2006, January 10). Thus, while not renouncing the benefits of freer trade, Kirchner also values strengthening local industry to make it more competitive before reducing tariffs.

Regarding social welfare policy, Kirchner’s administration has increased the minimum wage and pension benefits, and recently (February 2006) announced the restructuring of the Heads of Households work program, which will also provide higher beneficiary payments. The administration also instituted the Generic Prescription Law, which gives approximately 15 million poor people access to prescription drugs subsidized by the government (Petras 2004). Government spending in the first 10 months of 2005 was 43 percent higher than the same period in 2003 (“Argentina” 2006), which, while it may increase inflation, has helped raise the standard of living of poor Argentines.

Based on the above policies, as well as Kirchner’s IMF and bondholder debt negotiations and early termination of the IMF loan, it is obvious that Kirchner has implemented stronger state intervention and control in the first three years of his presidency. He has not rejected tenets of economic globalization but has attempted to mitigate their negative effects via increased control and greater state spending on social welfare programs. These policies appear to have benefitted Argentina as poverty and unemployment have decreased; do these policies also provide an alternative model of development for Argentina?

Three authors in the Literature Review discussed alternative development strategies to economic globalization: Joseph E. Stiglitz, Charles Gore and W.D. Lakshman. Based on their writing, following are the nine primary components of a new development model (considered alternatives within globalization, as opposed to a complete break from globalization): (1) Greater state control in opening up to international markets is important, especially with regard to timing, speed and sequence. Use of tariffs enables national enterprises to build production capabilities, while capital account liberalization should be gradual. (2) Acknowledge that the state has a significant role in development policy and that state-owned enterprises can pioneer industries in promising fields and then hand them over to private enterprise. Infrastructure remains the responsibility of the state, but it can benefit from private sector participation. A key concept is that the State has a wider role than that advocated by economic liberalism, but it also supports private enterprise. (3) Macroeconomic policy is growth-oriented that reduces inflation and deficits but also ensures full production capacity. Aspects of this policy include human resource development, technology policy, infrastructure development and industrial organization. (4) Wide asset ownership and productive employment assist a production-oriented approach to growth, rather than redistributive transfers. (5) Regional integration and cooperation are important for integration into the global economy, particularly in order to develop regional production chains and markets. (6) It is important to accept the necessity of producing basic food items and manufacturing (rather than strict focus on exports) to alleviate poverty and provide jobs. (7) Rather than focusing strictly on profits, it is necessary to recognize the benefits of wages that enable workers to achieve and maintain a comfortable standard of living,

which subsequently increases aggregate demand, reduces societal inequality, and improves work incentives. (8) SAPs from “above” (the IMF, World Bank, etc.) need to be replaced by adjustment programs from “below” (with participation of the populace) because they can facilitate investment in education, research, health and productivity for sustained development purposes. (9) Tailor development policy to the conditions and culture of each particular nation, rather than providing one policy approach for all developing nations.

Before assessing Kirchner’s policies on the above criteria for an alternative model of development, it is imperative to reemphasize that this model provides an alternative *within* globalization rather than a radical shift or renunciation of globalization advocated by socialist thinkers. As stated above, Kirchner has not rejected globalization nor many of its key elements: Argentina remains part of international and regional trade organizations, has not nationalized key sectors of the economy, welcomes foreign investment, and continues to pay its foreign debt. While Argentina may have shifted to the left, it has not become a socialist country.

The first two criteria in the new development model concern greater state control both in development policy and with regard to timing, speed and sequence in opening up to international markets. The most prominent examples in support of this component are Kirchner’s postponement of auto trade liberalization with Brazil (discussed above), and the fact that, after taking office, one of Kirchner’s first policy changes was the restriction of short-term speculative capital inflows (“Argentina: Lavagna” 2003). Foreign funds (not linked to trade) must remain in the country for 180 days in an attempt to maintain currency stability. Thus the government is attempting to control the timing and speed at

which it opens to international markets (in this case, financial speculation). The third factor pertains to macroeconomic policy to control inflation and increase production capacity; to date, Kirchner's policies have permitted an increase in inflation (which he is trying to control with price controls). Therefore his policies do not currently fulfill this test, although production capacity (the other factor in this component) has greatly increased since Kirchner took office.

The fourth criterion refers to wide asset ownership and a production-oriented approach to growth. Asset ownership is dispersed in Argentina due to privatization under Menem (and the fact that Kirchner has not renationalized key economic sectors); however, many of the privatized industries are foreign owned (especially by European companies). Moreover, according to a World Bank study (2005) on income distribution in Latin America over the past 30 years, wealth has concentrated upward. Assets are owned by the elite of Argentina, a trend that grew worse as endemic corruption under Menem allowed those with government connections to benefit from privatization in the 1990s (Romero 2002). With regard to a production-oriented approach to growth, Argentina primarily exports commodity goods (meat, soybeans, grains, oil, natural gas) in addition to automobiles (*The World Factbook* 2006). Its non-commodity goods production is therefore limited predominantly to agricultural production and automobiles (while a growing service industry makes up 53.7 percent of GDP) (*The World Factbook* 2006).

The fifth component, regional integration and cooperation, is a considerable factor in Argentina's trade relations due to its participation in Mercosur (as discussed above). The sixth and seventh components concern provision of basic food items, jobs and

wages to achieve and maintain a comfortable standard of living. The strongest evidence of this aspect of development is Kirchner's policies that have increased minimum wage, pension and social welfare payments (discussed above), as well as the educational program All Study (scholarships for 11-18 year olds) and the current examination of education policy. Furthermore, declining unemployment rates in the past three years have also improved the standard of living.

Finally, the last two criteria of the development alternative pertain to conditionality and development policy stemming from "below" (rather than from the IMF, the World Bank, etc.) and development conditions specific to one country. In this regard, Kirchner's fulfillment of the IMF loan and subsequent ability to reject its economic dictates provide the most powerful evidence of his desire to develop Argentina on the country's own terms.

Given the analysis above, it is clear that many of Kirchner's policies do provide a new development model for Argentina. While his policies do not fulfill all of the listed criteria (namely, inflation is on the rise, asset ownership is highly elite, and the economy is led primarily by commodity goods), Kirchner has broken from some of the key elements of economic liberalism: state and social welfare spending have increased and he has expanded state intervention and control.

President Kirchner's continued popularity and success also provide a powerful example of the shift against economic globalization within Latin America. As stated in the introduction, none of the new leaders of the growing anti-economic globalization movement in Latin America has advocated a complete break from trade liberalization or cooperation with multinational corporations. However, the trend toward greater state

intervention, regional integration and social reform is growing. While it is imperative to remember that each country in the region has its own priorities, problems and approaches to economic growth and poverty reduction, Kirchner's policies that promote production, trade, regional integration and social well-being provide a potential development model for other states, as well. Investment in education, health and well being, in addition to policies that increase growth, ultimately lead to a more flexible and productive workforce that can sustain a domestic market. Moreover, maintaining a well-educated, healthy and productive society will reduce the likelihood of transnational problems such as the drug trade, illegal immigration, human trafficking and failed states. Finally, it is hoped that promoting economic development and greater opportunity for all citizens will have positive consequences for the Argentine people.

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