

Argentina

Status Index (Democracy: 3.8 / Market Economy: 2.9)		6.7	Management Index		4.5
System of government	Presidential democracy		Population	37.5 mill.	
Voter turnout	72.9 % (Parliamentary elections 2001)		GDP p. c. (\$, PPP)	11,320	
Women in Parliament	31.3 % (1999)		Unemployment rate	17.8 %	
Population growth^a	1.4 %		HDI	0.849	
Largest ethnic minority	n. a.		UN Education Index	0.94	
			Gini Index	54.2 (1999)	

Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Sources: Dresdner Bank Lateinamerika AG (ed.): Perspektiven Lateinamerika Update - January 2003; UNDP: Human Development Report 2000, 2003; CEPAL: Balance preliminar 2002.

1. Introduction

Argentina is currently experiencing its deepest crisis in 50 years. The US dollar/peso peg—the linchpin of the “Argentine model” of economic opening since 1991—was abandoned at the end of 2001 under chaotic circumstances. The country had been trapped in a vicious circle of economic recession, social impoverishment, national budget deficit and external debt since 1998. Neither Menem’s second government nor the De la Rúa and Duhalde governments that followed were able to break the cycle and today, the nation is at a turning point in its history.

Adjustment within the parameters of the current economic regime is no longer an option as the nation simply does not have the financial resources to do so. The government that will be elected in April 2003 will face a threefold challenge: It must redefine Argentina’s economic policy, overcome a profound crisis of legitimacy within the political system, and put an end to social impoverishment all at the same time. While it meets these challenges, Argentina’s new government will be hog-tied by tight international constraints, face structural impediments to reform within the political system, and have to overcome deep frustration and political disaffection across large segments of the population.

2. History and characteristics of transformation

Chronic instability is a key feature of 20th century Argentine history. Frequent changes in the system of government, irregular regime changes, and crises within the dominant power cartels have impeded both development and implementation of coherent policies despite a high concentration of power in the executive branch. The nation found its way back to normalcy and predictability on the domestic and international fronts only at the beginning of the post-authoritarian phase in 1983.

The regime change which followed the economic and military disaster of the 1982–1983 government was essentially a non-negotiated transition initiated primarily by major party elites that had dominated the political landscape for decades (the Peronists and the Radicals), and secondarily by a number of intellectuals, union leaders and human rights advocates. In the 1980s, the unions staged no less than 13 general strikes against Alfonsín's stabilization policy, which was being pursued through both orthodox and unorthodox strategies, and the trials of the former leaders of military juntas led to four army rebellions in just three years. However, Alfonsín was able to ease military-civilian relations with the extremely controversial "Punto Final" law and the law on "Due Obedience".

After the failure of the Austral Plan in 1986 and the 1987 parliamentary election defeat, an escalating economic and political crisis evolved in the first half of 1989 marked by hyperinflation and political stalemate. The crisis forced Alfonsín to hand over office to his Peronist rival, Menem, six months before the end of his regular term. In the years that followed, Menem and Economics Minister Cavallo succeeded in restoring growth to the Argentine economy and winning the favor of both the nation's bourgeoisie and international creditors and investors. They did so by establishing peso-dollar parity through the 1991 Convertibility Law and by steadfastly pursuing a neo-liberal stabilization policy with the help of political support in the Congress. Menem's economic policy successes secured him a majority in Congress in 1993 and a second term in office, the term of which was subsequently truncated to four years through a constitutional amendment in 1995.

From 1990 to 1994, Argentina's overall growth rate averaged about 7.7 % per year; however, the Mexican peso crisis of 1995 revealed the disadvantages of the Argentine model. With the peso pegged to the dollar, the Argentine economy was dependent on the US economy, the dollar exchange rate and the influx of external capital. When long-term investment failed to materialize in the wake of the Mexican peso crisis and portfolio investments were withdrawn on a large scale, Argentina slipped into a recession that deepened in response to the Asian and Russian economic crises in 1997 and 1998, and devaluation of the Brazilian Real in 1999. Menem's government quickly lost credibility at home and abroad as a result of these developments. In the 1997 parliamentary elections, the opposition alliance of the Radical and FREPASO parties defeated Menem's Peronists, who appeared worn out and discredited after 8 years in power. In the 1999 presidential,

congressional and gubernatorial elections, a Peronist government was voted out of office for the first time in Argentina's history.

With the election of the center-left alliance under the leadership of the Radical party's Fernando de la Rúa, an impending crisis of representation appeared to have been at least temporarily averted. However, a Peronist majority in the Senate and among provincial governors left the coalition government prisoner to what had become the Peronist opposition. In addition, Vice President Chacho Alvarez, leader of junior coalition partner FREPASO, resigned in protest over a hushed-up Senatorial vote-buying scandal within the coalition's own ranks. The government failed to present a clear policy agenda—either to political actors or the public—to put the economy back on track, to find solutions to the nation's grave social problems or to initiate a consistent anti-corruption policy.

Sinking public confidence resulted in unprecedented numbers of non-voters, abstentions and invalid ballots in the October 2001 parliamentary elections, and at the end of November, the IMF refused to release a loan installment. The crisis escalated, and de la Rúa was forced to resign in the midst of a rapidly deteriorating economic, political and social situation. A wave of protests and violence brought the nation to the brink of chaos. After no less than three caretaker presidents were inaugurated in the space of two weeks, the country finally settled down when Peronist Eduardo Duhalde (ex-governor of Buenos Aires Province and vice president under Menem) became president at the beginning of 2002. However, in the period that followed, the government was unable to halt continuing political, economic and social deterioration or to regain the trust of Argentina's foreign creditors.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

During the period under review, Argentina regressed in almost all evaluated aspects of democratic consolidation. Deficiencies remain, particularly in respect to political representation, accountability, legitimacy, the rule of law, checks and balances, and performance. Democratic stability is at serious risk as a result of increasing anomie, unstable acceptance of the system, a crisis within representational and mediating structures such as parties and organizations, and within civic culture. These factors are compounded by anti-political tendencies, endemic political apathy in broad segments of the population, escalating violent crime and marginalization of the elite.

3.1.1 Political regime

(1) *Stateness*: The definition of and qualifications for citizenship are not disputed in Argentina. The state's monopoly on the use of force prevails throughout the country. However, the Argentine government has been characterized historically by weakness with respect to competing social forces, as between business, industry and the military. The dominant position held by Buenos Aires (both city and province) and the course of development encouraged the emergence of a centralized federalism. This led to an increased shift of responsibility and competence to the provinces after 1983, but without corresponding allocations of resources to fulfill the new obligations.

As a result, the reality in the poorer provinces has been that financial and personnel shortages have impeded their ability to enforce the state's monopoly on the use of force. At the same time, increasing violent crime and the emergence of private security services threaten to at best erode—and at worst overwhelm—the state's monopoly on the use of force in the urban centers. In addition, local protest has emerged recently in the form of street blockades, social revolts and looting.

All citizens enjoy the same civic rights and duties. Church and state are separated, and the political process is secularized. However, the Catholic Church is subsidized by the state and speaks with authority on important issues. In the 1990s, the inefficient and corrupt national administration was subject to various partial reforms. These were initially geared toward macroeconomic improvement, but eventually gave way to attempts to strengthen institutions and increase bureaucratic efficiency; these aims were only partially achieved and some gains were later reversed.

The “second state reform,” initiated after Menem's reelection in 1995, was never completed, although it was intended to include provincial administrations as well. As a result, the current state lacks solid administrative structures and its former ability to regulate entrepreneurial and market activity. Positive exceptions include success in strengthening the tax administration and macroeconomic management. The dramatic political crisis at the end of 2001 sparked renewed doubts as to whether the structural reforms of the 1990s had increased public sector efficiency at all.

(2) *Political participation*: There is universal suffrage and the right to campaign for office. Elections are administered correctly. Elected governments have respected the rules governing open and competitive elections, and isolated attempts to manipulate elections have failed. Elected representatives have sufficient authority to govern; however, corporations still assert considerable influence, although their powers are in decline. Whereas the influence of the military, the church and the agricultural lobby have waned since Alfonsín's time

in office, the same does not hold true for finance, industry and the service sectors, which are all tightly linked to foreign capital.

Citizens are free to establish political and civic organizations. Freedom of information and freedom of speech are safeguarded, but effective access and monopoly controls are lacking, particularly in television, which is dominated by a few companies. On the whole, the media enjoy a good reputation; a 1997 survey reported 65 % support for the media. One result of the political crisis has been the media's ability to establish itself on many occasions as both a stage for and principal actor in politics.

(3) *Rule of law*: There are significant deficiencies in the checks and balances between the executive, legislative and judicial branches. The balance of powers between branches has clearly shifted to favor the executive, resulting in "presidential hegemony." Since Menem's first term in office, the judiciary has become increasingly politicized and governance-by-decree has become common practice; legal infringements of every sort generally go unreported. During Menem's second term, the legislature was able to consolidate more power and influence, which it used at times for constructive cooperation and at others to block government plans.

Corruption is still endemic at all levels. Although criminal prosecution of corruption appears to be a priority in the eyes of the public, it is an exception in actual political practice, and abuse of office by elected officials usually goes unpunished. Furthermore, illegitimate exercise of power has been upheld repeatedly by Supreme Court decisions, and the principles of the rule of law have been violated repeatedly. Civil liberties are guaranteed, but as both the police and the judiciary are politicized and corrupt, poorly paid and inefficient, legal action against violations is usually inadequate.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Democratic institutions, including the administrative and judiciary systems, show only moderate efficiency in the entire period under review. During the de la Rúa government from 1999 to 2001, political stalemate between competing parliamentary factions and the executive branch limited institutional efficiency. Yet even during the second Menem government from 1995 to 1999 and under Duhalde, infighting among the Peronists repeatedly blocked government initiatives. Democratic institutions are viewed as legitimate and accepted by all relevant political and social actors. Yet because these same actors often exploit institutions to benefit special interests, acceptance by the public tends to be low.

(2) *Political and social integration*: The complex fault lines delineating social conflicts that developed during the 19th and 20th centuries are not adequately represented within the current political parties. Both main political powers, the bourgeois UCR and the grassroots PJ, which has massive support among the underprivileged, represent concepts of democracy that neither match European cleavages nor fit easily into a right-left schema. Both parties are marked by a high degree of internal division and instability, have a decentralized structure and manifest little ideological cohesion or party discipline.

In 1999, a coalition attempted to form a government for the first time in Argentine history, though it failed just two years later because of its weak performance. Shuffling and rearrangement continues across the party landscape, and only the Peronists have even a relatively stable voter base. Voters increasingly tend to make decisions based on achievement criteria and traditional ties are losing their influence. These changes in voter behavior have disrupted the traditional deadlock between the Radicals and Peronists with a moderate multi-party system that includes PJ, UCR, FREPASO and the regional parties. The landscape is dominated by the Peronists (the majority party) and several minority parties whose ability to form a coalition is uncertain.

Low voter turnout, and a high percentage of blank ballots in the last elections is evidence of the lack of an adequate political alternative to channel voter preference. It remains to be seen how the party system will adapt to deal with a crisis of representation that has manifested itself in mass protests and rejection of the entire political class.

Argentina has a well-differentiated network of corporatist actors, which is dominated by labor and financial organizations. Typical features of these networks include intense politicization and strategies that directly target government decision-makers, which could be described as “class struggle through a middleman.” The potential for integration, cooperation and the mediating performance of Argentine organizations has declined considerably in the wake of globalization and the economic crisis of the past few years.

The union system is marked by increasing fragmentation, shrinking membership, growing mobilization difficulties, and a low level of accountability within its leadership. The traditionally close ties between unions and Peronism are being replaced increasingly by a plural union landscape. Unlike the unions, employer associations were able to assert many of their demands under Menem, but this landscape too has changed dramatically. On the whole, the political influence of special interest groups declined considerably in the 1990s. The general crisis of confidence, articulated in neighborhood movements and protests in the critical months of 2000–2001, affected not only government, parliament, the judiciary, and the parties, it was also aimed at unions and employer associations. On the whole, the conditions for a cooperative system of inter-industrial labor relations

are precarious. The ability of the government and special interest groups to cooperate remains poor.

Acceptance of democratic norms and processes is still high among the population. Sensitivity to rule-breaking has increased, as demonstrated by the 1999 election victory of the Alianza, but the frustration was equally intense when the coalition failed. Confidence in the government, state institutions, parliament, organizations and the judiciary has slipped further in the last few years to just 15 % to 30 %.

Even confidence in democracy, as a system preferable to other political regimes, dropped below 50 % for the first time in 2000–2001, but recovered again until February 2002 up to 62 %. Political protests target the political class as a whole, but the constitutional framework has not yet been called into question. The flip side of increased alienation from politics and its representatives across broad swaths of the population has been burgeoning, grassroots organization driven by adversity. This trend reaches well into the middle class, which has been hit extremely hard by the country's economic decline.

Civil society in Argentina is broadly organized and highly differentiated. However, since the first democratic governments were formed, civil society's key role in the transition phase has been usurped by the established parties. As the economic and social crisis deepened in the late 1990s, and the sweeping failure of the parties as channels to articulate and mediate between society and the state became apparent, the various structures of civic organization and self-help became increasingly important. While these new actors cooperate on the local level, their relationships with parties, Parliament and the government are marked by distance and confrontation.

For the medium term, these forms of civil organization will not be able to displace the aggregating and mediating functions of the parties. On the whole, Argentina remains a country just within the bounds of the law. Fundamental social norms are poorly developed; instead, rule-flouting individualism and interest groups determine behavior, and increasing poverty threatens to further erode their very foundations.

3.2 Market economy

Argentina has made progress toward transforming its economic regime, but deficiencies remain in the political order. These are seen particularly in the area of regulating competition and in the banking and finance sector. The Argentine development model under both Menem governments was in keeping with the neo-liberal spirit of the 1990s and, within the context of hyperinflation, seemed a suitable instrument for quickly achieving stabilization and growth.

However, implementation of the currency board systematically impeded the country's productive development, and by the end of 2001, led to Argentina's economic collapse. Today, Argentina is bankrupt, massively indebted, and caught in the longest recession of its history. It remains to be seen if the recently predicted strong economic growth in 2003 will happen. A successful policy of economic crisis management is presently—May 2003—nowhere in sight.

3.2.1 Level of socioeconomic development

Since the mid-1990s, and to a greater extent since 1998, the key socioeconomic indicators have shown a downward trend. The country's development status, measured by the HDI, bars a growing number of citizens from adequate freedom of choice. The economic decline of the past few years has resulted in increasing poverty-related exclusion, which has hit women and young people especially hard. This exclusion is considerable, in both quantitative and qualitative terms and, in part, structural. During the period under review, social disparities have intensified, both relative and absolute poverty have increased dramatically, and the distribution of income has become increasingly unequal (see tables).

3.2.2 Market structures and competition

The key conditions for an orderly market economy exist in Argentina. There are uniform rules for all market participants, but they are weakly anchored in institutions and not sufficiently internalized by all market participants. The finance and banking sector expanded considerably in the 1990s and underwent comprehensive structural transformation under the convertibility plan and liberalization. However, the combination of weak bank supervision and an aggressive credit policy resulted in the accumulation of non-performing loans.

The Mexican peso crisis and the international financial crises that followed forced the Central Bank into a process of consolidation and increased reform efforts. Although the Bank may be independent by law, its chairmen are usually appointed or dismissed at the discretion of the ruling government. The banking system and the capital market are relatively well differentiated, but only foreign banks are internationally competitive and meet international standards. The banks remain susceptible to broad fluctuations because of their substantial dependence on external capital. Privatization and opening brought mergers, oligopoly formations, as well as company and bank collapses.

Foreign trade is completely liberalized, but Mercosur has resulted in multiple protectionist measures and trade disputes—particularly with Brazil, which is Argentina's most important trade partner. Abandonment of dollar-peso parity at the end of 2001 led to a slump in imports and investments. It also sent external

debt (in relation to GDP) soaring to four times its previous level. Thus it seems unlikely that Argentina will ever be able to service all of its debt, payment of which is currently suspended; and, until its debt problems are solved, the country will be excluded from international credit markets. It is utterly unclear how confidence in Argentine economic stability could possibly develop from the ruins of the currency board within the foreseeable future.

3.2.3 Stability of currency and prices

The most important parameter of the convertibility plan was inflation control, and it was successful until the plan was abandoned at the end of 2001. For example, an inflation rate of more than 1000 % in 1989 was reduced to an annual average of less than 1 % in the 1990s. However, since the fixed exchange rate was abandoned, fighting inflation has lost its preeminent status in Argentina's economic policy and consumer price inflation ran at 42 % at the end of 2002. Unfortunately, consistent fiscal and debt policy does not seem any more likely than a clear, efficient long-term stability policy. The problematic relationship between the central government and the provinces has yet to be resolved satisfactorily, particularly in respect to the revision of financial equalization between the provinces demanded by the IMF.

3.2.4 Private property

Property ownership rights and the regulation of property acquisition are defined in principle, but practical enforcement in accordance with the rule of law is problematic. The State Reform Law of 1991 privatized large portions of basic industry, infrastructure and the civil service (sometimes below their true value), and significant segments of local industry were bought up by foreign firms. Privatization was accompanied by a series of corruption scandals, and several undesirable side effects including mergers, monopoly formation, rising unemployment, shrinking real incomes, impoverishment of the middle class and increasing social inequality.

3.2.5 Welfare regime

Historically, "social justice" in Argentina has been shorthand for a populist platform to promote the political integration of excluded groups by allowing participation in the formulation of political objectives, and by addressing socioeconomic disadvantages. What began as a government-sponsored welfare regime has been retrenched in the spirit of neo-liberalism, and this new concept called for compensatory social services to accompany economic growth. However, as the effects of this policy unfolded, the social impact of an economy

open to, but little integrated in the world market coupled with a rigorous neo-liberal adjustment policy have been insufficiently offset by any attempts to compensate for social disparity.

Welfare programs to alleviate poverty and other risks (e.g., old age, illness, unemployment, disability) were characteristic of Argentine development into the 1970s, but have eroded continuously since then. Government efforts to fight poverty generally follow an assistance-based approach or are focused on specific target groups. Empty coffers have led to a drastic deterioration of the state health care system. The social welfare system model has consistently combined private and government funding for the common good in its approach, but both sides have run out of money since the exchange rate was floated. Private sponsors have proven inefficient and regulation of their activities inadequate. In addition, reforms came too late to be of any meaningful relief in the public sector.

High structural unemployment (about 18 %), underemployment and part time employment have meant that a large portion of able-bodied workers have fallen out of the social security system, which will lead to a build-up of potentially explosive social problems in the medium term. As broad segments of the population face increasing exclusion that state mechanisms have failed to remedy, a number of self-help initiatives have recently begun to emerge. However, their ability to affect the situation is sporadic and short-term, and at best complementary to state programs.

Argentine society, once relatively egalitarian with a large middle class, has become increasingly segmented and tending toward further fragmentation and polarization, despite ideological homogenization. Empirical data reveal the coexistence of two dichotomous worlds—a complex geography of human development. Welfare spending—which is relatively high compared with other Latin American countries—does not reach the needy to the extent it should. Efficiency and transparency problems remain unresolved. A rising tide of emigration, itself a sign of further social disintegration, at the same time serves to subdue social conflicts to some extent.

Women have more or less equal access to higher education; however, the economic crisis has prevented many from taking advantage of this opportunity. On the other hand, Argentina has a lot of catching up to do in respect to equal pay and access to public office; even though a third of all candidate slots in legislative elections are reserved for women.

3.2.6 Strength of the economy

Since 1998, economic productivity has suffered from recession. During this period, cumulative GDP declined 20 %, and negative growth since 1999 has gone

hand in hand with persistently unfavorable macroeconomic data. In real terms, GDP at the beginning of 2002 matched that of the first quarter of 1993. Wholesale prices shot up more than 79 % in mid-2002 (compared with 2001), and prices continue to rise at an increasing pace. The dramatic shrinkage of both investments and imports is not least the result of a plummeting exchange rate. External debt is currently more than 240 percent of annual economic output, unemployment still hovers between 15 % and 18 %, and the chronic budget deficit has not been reduced.

3.2.7 Sustainability

The goal of sustainable development was incorporated in Article 41 of the reformed constitution of 1994, as is the “polluter pays” principle. Nevertheless, many open questions remain regarding, for example, the economic exploitation of the environment, as there is still no successful cooperation between the different levels of government in this area. Macroeconomic growth is unbalanced and only partially environmentally sound. Sustainability lacks strong institutional roots, and short-term growth objectives have taken precedence over sustainability considerations. Public environmental awareness is still underdeveloped, and punitive measures for infringements are more of an exception than the rule.

Argentina has a well-articulated system of primary and secondary education, but this too is increasingly under-funded. The same holds true for the otherwise well-developed public university system, which has been complemented by a network of private universities since the 1980s. Academic offerings increased in quantitative terms on all levels in the shift from the welfare state to a “post-welfare state” under Menem, but at the expense of quality. Further, the structures necessary to administer the school system efficiently can only be developed in a few provinces, and the widening quality gap between rich and poor provinces is spawning a disturbing development.

On the whole, and despite shortcomings in reform, the foundations for a modern educational system exist. However, the country is still far from having an independent science and technology policy. Total government spending in this area between 1997 and 1999 averaged only 0.23 % of GDP. The majority of national enterprises focus on taking in rent rather than innovation. The wretched state of the economy has resulted in a massive “brain drain” which, in turn, impedes the country’s development chances even further.

4. Trend

(1) *Democracy*: Although the political regime largely meets the minimum requirements of a democracy based on the rule of law, regressive tendencies are

apparent in several key areas. These are found in the state's monopoly on the use of force, balance of powers, administrative and judicial efficiency, stability of the party system, cooperation between and the mediating capacity of public interest groups, and public acceptance of government institutions and the political class. Since the forced resignation of the de la Rúa government, these deficiencies have reached an intensity that threatens to lead Argentina to the brink of chaos. As a result, the level of democratic consolidation has dropped sharply with respect to institutional elements, the government's performance and popular acceptance. Diminishing public safety resulting from increased violent crime, social exclusion, and fear of the future among some officials and broad segments of the population only make matters worse.

The fight against corruption has stagnated. The stability of basic constitutional institutions has been safeguarded, but flaws in the checks and balances between the three branches of government and a need to improve overall efficiency within political administration systems have not been seriously addressed. Autonomous organization and interest articulation in civil society have developed progressively, though primarily as a response to adversity. An evaluation of development in the organizational landscape is ambivalent. While the liberation of all participants from ideology has reduced polarization and made room for more pragmatic behavior, organizations have, on the whole, lost much of their capacity for articulation and aggregation as a result of globalization and the turn to a neo-liberal domestic policy.

Development of a political culture that supports democracy is regressing. A loss of confidence observed for years has reached a new level, and the rift between government and the governed is widening.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	Gini index	UN education index	Political representation of women ^a	GDP per capita (\$, PPP)
1997	0.827	0.814	0.77	53.0	0.91	22.8	10,300
1998	0.837	0.824	0.8	n/a	0.91	21.3	12,013
1999	0.842	0.833	0.8	54.2	0.92	21.3	12,277
2000	0.844	0.836	0.8	n/a	0.92	31.3	12,377

a) percentage of female members of Parliament.

Sources: UNDP (ed.): Human Development Report 1999-2002, www.undp.org; CEPAL (ed.): Panorama Social de América Latina 2001-2002, www.cepal.cl/publicaciones

Table: Development of macroeconomic fundamentals (1998–2002)

	1998	1999	2000	2001	2002
GDP growth, in %	3.9	-3.4	-0.5	-4.4	-11.7
Export growth, in %	0.95	-11.8	13.2	1	-5
Import growth, in %	3.1	-18.1	-1	-19.9	-55.6
Inflation, in % (CPI)	0.7	-1.8	-0.7	-1.5	41
Unemployment, in %	12.4	13.8	14.7	18.3	17.8
Budget deficit, in % of GDP	-2.2	-4	-3.5	-5.9	-2.6
Current account balance, in billions of \$	-14.6	-12	-9	-4.4	7.5

Sources: Dresdner Bank Lateinamerika AG (ed.): *Perspektiven Lateinamerika Update* - January 2003, www.dbla.de; Instituto Nacional de Estadística y Censos de la República Argentina, www.indec.mecon.ar

(2) *Market economy*: The fundamental macro-economic development indicators for the period under review show a continuous deterioration of Argentina's situation. The socioeconomic indicators for modernization improved slightly until 2000, when they too were dragged down by the recession. Almost all indicators have been backsliding since the exchange rate was floated, and this trend appears most pronounced in the Gini index. While it was still at 42.0 in 1990, it rose to 45.0 over the next nine years to near the Latin American average of 49.0, and by 1999 it had reached 54.2. The institutional framework for free market activity has also deteriorated dramatically in some areas and on the whole, macroeconomic development has shown sharply negative movement in both quantitative and qualitative terms.

5. Transformation management

5.1 Level of difficulty

The effect of existing development potential on developmental and transformational management achievement is varied. The high level of economic and social development, market-based economic reforms already in place, a very high level of education, ethnic homogeneity and strong civic traditions set the stage for continued transformation at the beginning of the period under review.

At the same time, however, structural deficiencies existed in the rule of law, administrative efficiency and transparency, and institutional stability. In addition, the de la Rúa government never had a majority in parliament. On the international level, the government inherited from the Menem period a significant loss of

confidence in Argentina's ability to reform, an enormous external debt, and an elevated vulnerability to international economic crises. The same adverse conditions existed for the Duhalde government, but were exponentially worse.

5.2 Reliable pursuit of goals

Menem's second government, the Alianza government, and the Duhalde government were all incapable of taking action focused on long-term, consistent reform. Pressing external constraints, such as constant negotiations with the IMF, and domestic challenges forced these governments into actions characterized by *ad hoc* measures, lack of clear planning and attempts to maximize short-term political gain.

Consistent, coherent reform policies are not discernable. Tentative reform initiatives in some areas, such as the labor market, education policy and decentralization, never really got off the starting blocks, while trench warfare within the parties and coalitions displaced a constructive search for appropriate solutions. The political agenda was dominated by a limited set of topics: the search for an appropriate currency regime, the quest for budgetary stability, maintenance of external debt service and the accelerating impoverishment of broad sections of the population. Damage control and short-term crisis management replaced targeted, strategic thought and action. With the country's economic, political and social collapse at the end of 2001, the lack of reliability and predictability, which was already a prominent trait in Argentinean politics, reached a level that threatened to destroy the entire system. Under the Duhalde government, political debate became increasingly removed from the real needs of citizens, intensifying a political disaffection that had been on the rise since the 1990s.

5.3 Effective use of resources

The government's organizational, financial and human resources dwindled in the period under review, and the government's use of them was only partially efficient. The brain drain effect has intensified in the wake of the crisis. The ratio of government staff to government services has decreased since the reforms implemented during Menem's first term. Performance criteria have assumed a greater importance in hiring, promotion and dismissal, but patronage practices have not yet been eliminated. The debt of the central and provincial governments remains one of the country's key problems.

Financial auditing has improved, but neither the planning nor the implementation of the national budget is transparent enough. Professional criteria have gained importance within the administration, but are still often thwarted by short-term

political calculation, clientelism and patronage. Though government capacities and functions were increasingly decentralized, provincial and local governments in the interior have only been provided with a portion of the funding necessary to assume their responsibilities. Arrangements for administrative controls and policy coordination are only found to a limited extent, and the second state reform ended before it began. Grounding government and administrative actions in law has not yet been sufficiently internalized, and the practical battle against corruption is underdeveloped to the same degree as transparency and accountability.

5.4 Governance capability

The spirit of reform lost momentum when already poor internal and external conditions deteriorated even further in the second half of the 1990s. Empty coffers led increasingly to political stalemate and intensified conflicts over the allocation of resources. When the stable anchor of the currency board was abandoned, short-sighted crisis management replaced any form of clear policy. The political class was primarily concerned with regaining trust lost from the public and international creditors, controlling the economic and psychological damage caused by the currency floatation, and finding a solid position for the 2003 elections.

The established parties lost much their mediating function, and as they became increasingly distanced from the real needs of the population, they reverted to a state of sterile division between the parties. At the same time, new forms of interest articulation, neighborhood assistance organizations and social protest emerged at the grassroots level. The thrust of these new civic organizations against the political class was clear, but their political messages remained vague. Overall, the government has lost much of its organizational capability. It is increasingly unable to maintain the scope and quality of public services or to reign in social polarization.

5.5 Consensus-building

All of the major political actors agree that a market-based democracy should be Argentina's development goal, although ideas about the obstacles that will be encountered and the strategies that should be applied vary widely. In the wake of the failure of the Alianza government, a fundamental consensus about the political order has begun to show signs of erosion. More and more, the loss of confidence in the political leadership threatens to become a crisis of representation for Argentine politics and a crisis of legitimacy for the political system as a whole. Fortunately, no actors have anti-democratic veto powers.

Nevertheless, it remains to be seen whether the established parties will manage to channel the new forms of grassroots organization and social protest—which are

spreading at an epidemic rate—in constructive directions. It is also uncertain whether Peronism will establish itself as a hegemonic power for the long term, or whether a moderate multiparty system will emerge as a stable foundation for coalition governments that are capable of compromise. The first signs of constructive cooperation, which might point toward developing a moderate presidentialism, have begun to show in the relationship between the executive and the legislature since Menem's second term, but antagonism and patronage within the parties, and obstructive behavior have by no means been eliminated. The relationship between the central government and the provinces also remains precarious. Some progress has been made toward confronting the past; and, declaration of the Due Obedience and the Punto Final Laws as unconstitutional will open the way for the criminal prosecution of all cases for which amnesty had been granted. However, the Supreme Court has not yet issued a ruling.

The fact that there was no threat of a military coup after de la Rúa's forced resignation and that, in fact, constitutional procedures was followed meticulously, can be interpreted as a sign of the Argentine people's maturity when it comes to overcoming its dictatorial past. On the other hand, events leading to and accompanying de la Rúa's resignation make it clear that the government has not fully expunged its inclination to criminal action, and that it is still a threat to the public.

It also remains to be seen whether the leading employers associations' liberation from ideology will suffer a reversal if the systemic crisis continues, or whether tendencies toward pragmatic behavior will be strengthened and a long-term, viable form of neo-corporate conflation of interests will develop among companies, unions and the government. Certainly, impoverishment of the middle class and the massive brain drain have depleted the country's reservoir of reform energy and potential agents of change.

5.6 International cooperation

When fighting inflation was the cornerstone of Argentina's domestic and foreign policy, and the government followed a rigorous policy of deregulation and privatization in the 1990s, Argentina became a model student of the IMF and foreign creditors, and a preferred partner of the United States. Credit flowed freely and the repeated rescheduling of loans obscured the structural weaknesses of the Argentine economy. Dollar-peso parity, repeatedly praised by the IMF, and designation as a "major non-NATO ally" by the United States government led many in the political sphere and the public feel that Argentina was part of the "First World."

However, in the later half of the 1990s, more and more cracks appeared in the Argentine model, and abandonment of the currency board in December 2001 dealt

the final blow. In its negotiations with international creditors, and above all the IMF, Duhalde's transitional government has been trying to restore lost confidence, but with limited success so far. For all intents and purposes, Argentina has been cut off from international capital markets with no constructive solutions to its debt problem in sight, and the conditions demanded are only partly being met. Although the IMF concedes that it shares the blame for Argentina's current situation (with its one-sided concentration on price stability, budget discipline and market deregulation), it is not willing to negotiate long-term solutions until the political situation is settled, and a realistic budget plan has been presented.

The diversification process in foreign relations that began under Alfonsín (with emphasis on the US, Europe, and Mercosur) was continued by Menem and his successors, although Menem's excessively cozy relations with the US gave way to a more pragmatic relationship in the years that followed. The rigid positions of the IMF and the Bush administration boosted anti-American sentiment under the Duhalde government, but its fundamentally pro-American position remained unaffected.

Until the systemic crisis erupted, political actors cooperated actively with bilateral and multilateral actors, but only sometimes used their help constructively. With currency parity as the anchor of stability and with a continuous flow of credit from the IMF and creditor banks, Argentina could afford to fill budgetary gaps with less politically risky spending cuts. It also delayed implementation of inter-governmental financial equalization between the provinces as demanded by the IMF, and only initiated internationally-mandated reforms in areas that would not burden an already strained budget, and where limited organization among those affected (e.g. pensioners, youth, students and the infirm) limited political costs.

The Duhalde government did try to utilize what little scope for action remained in domestic and foreign policy, but to little success. The new government's primary task will be to regain the confidence lost at home and abroad, to implement targeted reforms in order to present itself as a predictable partner, to bear the costs of international cooperation and to use its advantages constructively. In light of the current accumulation of problems on the national and international levels, the prospects for success are probably limited.

6. Overall evaluation

With respect to the baseline conditions, current status and evolution, and management achievements by the actors, this report comes to the following conclusions:

(1) *Baseline conditions*: The baseline conditions for transformation show an ambivalent picture. Viable democratic and free market structures had already

become established during Alfonsín's term in office from 1983 to 1989. External and internal factors favored political and economic stability during Menem's first term from 1989 to 1995, but increasingly eroded during his second term, 1995 to 1999. The limitations of a "hyper-presidential" political model and the neo-liberal market economy focused on world markets became apparent. The economic crisis was accompanied by deepening social and political crises (e.g. mass poverty and crises of legitimacy, representation and performance). Defects and pathologies in the substrata of the political and economic regimes led to a crisis across the entire system at the end of 2001. The failure of the government and the parties came to be perceived increasingly as a failure of the entire political class.

(2) *Current status and evolution:* Since the mid-1990s, political and particularly economic consolidation have been in crisis. Since the failure of de la Rúa's coalition government, the crisis has taken on proportions that threaten the viability of the entire system. None of the three governments in power during the period under review was able to strengthen the process of democratic transformation in qualitative terms, halt the country's economic decline or mitigate its social repercussions with targeted reforms. The political leadership is largely discredited, the independence of the judiciary is not secured, and the parties are no longer accepted as the "transmission belts" to formulate political demands and objectives.

The formal, democratic structure of the political system has been undermined by an informal, undemocratic sub-structure of corruption, patronage and impunity. New forms of articulation and organization are emerging on the local level, but their potential impact on the renewal or erosion of democracy is not yet clear. On the whole, consolidation is currently regressing and marked by significant deficiencies.

The road to market-economy transformation has been long for Argentina. The change from a model that supported domestic industry by means of import substitution to an export-based economy focused on world markets was consistently promoted by Menem to the flagrant disadvantage of large segments of the population and equally flagrant benefit to a small group. Growing internal debt was compounded by the progressively expanding external debt of both public and private actors. The Convertibility Act intensified this trend, as important economic policy intervention mechanisms were deliberately withdrawn from the hands of policy-makers. Now, after the transition to the floating exchange rate system, the rules of the game must be redefined and the costs of "pesification" must be distributed among affected banks, companies, and citizens in a socially just way.

(3) *Management:* Conclusions regarding the management of affairs by the key actors are largely negative, although the considerable worsening of the external circumstances relieves them of some responsibility. All of the governments during

the period under review neglected to implement reform policies to offset the social consequences of fiscal adjustment. The second Menem government's egoism and unwillingness to reform, de la Rúa's amateurism and internal division, infighting within Duhalde's transitional government, and recurrent intransigence on the part of Congress, provincial governments and social actors should all share blame for the fact that managerial achievements were weak overall and foreign aid (particularly from the IMF) was inadequately applied.

The three governments' actions can be characterized across the board by short-term crisis management, a dearth of clear planning, partisan calculation, and a shortage of long-term perspective. The gap between political rhetoric and political reality, between promises and performance widened, and the end of the de la Rúa government ushered in a period of regression in almost every area that put the entire system in jeopardy.

7. Outlook

The relatively high level of confidence the Argentine people placed in the system until the mid-1990s showed increasing signs of weakness by the end of the decade. Although no attack from within on democracy itself is apparent (e.g. by the military, paramilitary groups or social revolt), there is a persistent threat of continued erosion and increasing anomie. Above all, the country needs to reestablish a system of governance and accountability and restore the system of checks and balances. This will require parliamentary and party reform, but also intervention in the judiciary and in the relationship between the central government and the provinces.

Under the current conditions of impoverishment, disappearance of the middle class, high unemployment and underemployment, high capital costs and a lack of funds for investments, domestic demand will not become a wellspring of economic development in the foreseeable future – in spite of the signs of economic recovery during the last months. For this reason, export growth must be boosted and a long-term solution to the debt problem must be found. For the former, expansion of the integration process through Mercosur and close cooperation with Brazil will be extremely important. A constructive solution to the debt problem will not be possible without renewed engagement on the part of international creditors, in particular the US, the EU and its member states.

Cultural and social traditions such as the propensity for excessive individualism, group particularism, a focus on personalities, cronyism and use of the law as a tool for special interests continue to hamper the process of democratic consolidation. The same applies to the increasing alienation between the political elite and the masses. An erosion of democratic values that would put the system in jeopardy is not yet apparent. However, as the population's disaffection from

politics grows, the economic and social crises persist, and the government's performance remains poor, a resurgence of authoritarian practices cannot be ruled out any more than an increase in dubious populist solutions. At the same time, the growing sensitivity and self-articulation within civil society is encouraging.

The days of easy foreign money are long gone, and if Argentina is not to remain an emerging nation forever—or even slip into the fourth world—it needs leadership willing to implement reforms. Hopes for such a turnaround in connection with the presidential elections in April 2003 have been restrained at home and abroad. A new political class has not yet appeared on the horizon, and it will take time to develop. Meanwhile, the government, the parties and the people will all need endurance as an end to the crisis is unlikely without far-reaching reforms. Yet in order for reform policies to take root again, Argentina needs a government that can give hope to the nation, and this will require new blood and new ideas. The new government is condemned to succeed: If it does not manage to communicate the urgent necessity of structural reforms to all political actors, Argentina is in danger of an even deeper crisis.