

# Argentina

<b>Status Index</b> (Democracy: 7.85 / Market economy: 6.57) <b>7.21</b>		<b>Management Index</b> <b>5.46</b>	
<b>HDI</b>	0.863	<b>Population</b>	38.0 mn
<b>GDP per capita (\$, PPP)</b>	12.106	<b>Population growth<sup>2</sup></b>	1.3 %
<b>Unemployment rate</b>	13.6 <sup>1</sup>	<b>Women in Parliament</b>	33.6 %
<b>UN Education Index</b>	0.96	<b>Poverty<sup>3</sup></b>	3.3 %
		<b>Gini Index</b>	52.2 (2001)
<small>Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. <sup>1</sup> Centro de Economía Internacional (<a href="http://cei.mrecic.gov.ar">http://cei.mrecic.gov.ar</a>). <sup>2</sup> Annual growth between 1975 and 2003. <sup>3</sup> Population living below \$ 1 (1990-2003)</small>			

## A. Executive summary

Argentina has long suffered from chronic institutional weaknesses. The collapse of its representative institutions in 2001-2002 was profound. Although the country's core democratic institutions survived, many of them were badly weakened, and many of the rules of the game within the democratic regime, in fact, did not survive. The crisis had also a strong impact on the party system. Notwithstanding the relative stability of the Peronist voter base, the system as a whole suffered a partial breakdown. The most important (and oldest) non-Peronist party, the Radical Civic Union (UCR), practically disappeared. The same happened with Front for a Country in Solidarity (FREPASO) and Action for the Republic (AR). The result is a severe fragmentation of the party system, in particular the non-Peronist vote and a de facto single-party government. These weaknesses of the non-Peronist votes and parties might have negative consequences for the democratic process.

Since 1983, the weaknesses of non-Peronist parties at the sub-national level have given the Partido Justicialista (PJ) a virtual lock on both the Senate (in which all provinces are represented equally) and a majority of governorships. One result is that a non-Peronist party or party coalition can win the presidency (as in 1983 and 1999) but then has serious problems controlling Congress or establishing a strong local and regional presence. At the beginning of 2005, there is no movement toward a more consolidated party system. A structured social movement does not exist. The new configuration of some parts of civil society - the poorer segments (piqueteros and escraches) and the middle class (cacerolazos) - are cyclical phenomena, activated through materialist interests. The piqueteros negotiate with the government's social plans and the cacerolazos in the meantime has disappeared.

Democratic stability may be at serious risk in the long run, if the following circumstances come about: the distance between the political elite and the

population grows; social capital and social cohesion is weak; the crisis within representational and mediating structures continues; the balance between the executive, legislative and judicial powers is further disturbed; the tendency toward hyper-presidentialism is strengthened; the process of economic and social exclusion of broad segments of the population is not stopped; and the erosion of the state monopoly of coercion through violence and organized crime is not seriously attacked.

The survival of Argentine democracy and market economy after the profound systemic crisis of 2001-2002 is, in any event, one of the most striking and under-appreciated outcomes of this crisis period. Notwithstanding high levels of social protest and an atmosphere of chaos, the military refused to repress protesters or to change the government. The Argentine government has thus proven surprisingly robust; its citizens have demonstrated a high rate of frustration, tolerance and at the same time, democratic maturity. The level of acceptance of democracy as the most preferable form of government remained stable. The citizen and the democratic institutions have survived the hyperinflation of 1989-1990, the radical economic reforms of the 1990s, and, most recently, a terrible depression unparalleled in the country's history.

## **B. History and characteristics of transformation**

Throughout the 1990s, Argentina had been widely hailed as a case of successful market reform under a democratic government. The radical economic transformation undertaken by the government of Carlos Saúl Menem in his first term (1989-1995) ended hyperinflation and restored economic growth. For international financing institutions, Argentina, with its rigorous implementation of the prescribed policies, was the poster child of the neo-liberal adjustment policies under the "Washington Consensus." Elections were free, civil liberties were broadly protected, the armed forces, which had toppled six civilian governments since 1930, suffered substantial cuts in their budget and largely disappeared from the political scene. Yet in 1998, Argentina entered a phase of recession, culminating at the end of 2001 in an extraordinary economic, political and social crisis. At the end of 1990, the Alliance for Jobs, Justice, and Education, a coalition of the centrist UCR and the center left FREPASO, appeared to offer a viable alternative to Menemism. Yet the De la Rúa government failed to deliver on both political and economic fronts.

On December 18 and 19, 2001, Argentina exploded in a wave of rioting and protest. The government unleashed brutal police repression resulting in at least two dozen deaths. De la Rúa resigned on December 20. On January 1, 2002, congress selected PJ senator Eduardo Duhalde as Argentina's third president in less than two weeks. Confronted with a massive civic rebellion, rallying behind the slogan "throw everyone out" ("que se vayan todos"), the first move of the new

government was to end the monetary convertibility system. Within a few weeks, the peso lost more than 70% of its value, triggering fears of hyperinflation. The economy fell into a full-scale recession, the banking system collapsed and economic activity ground to a halt. At the same time, the democratic institutions were near the breaking point, hostility toward the political elite and social protests increased more and more, to the point of triggering talk of military intervention. After the police had killed two protesters in June 2002, a badly weakened Duhalde was forced to cut short his own mandate. Finally, the presidential balloting was rescheduled for April 27, 2003.

Although the economy had begun to recover in the second half of 2002, the political situation remained volatile. The party system was in disarray. FREPASO and Domingo Cavallo's AR disappeared from the political map, and the UCR fell to less than 2% in the polls. Key UCR politicians abandoned the party to launch independent presidential bids. The PJ was paralyzed due to the power struggle between Menem and Duhalde. Desperate for a candidate to defeat Menem, Duhalde resigned and turned to Néstor Kirchner, the little-known governor of the southern oil-producing province of Santa Cruz. Locked on an agreed upon mechanism to select its candidate and the nomination process, the PJ opted for three candidates: Menem, Kirchner and ex-interim President Rodríguez Saá.

Contrary to expectations, the elections went smoothly and participation was strikingly high. Menem won 24.5%, Kirchner 22.4%, López Murphy 16.4%, Rodríguez Saá 14.1% und Elisa Carrió 14.1%. The PJ candidates won the first two places and could win 81% of the vote. The UCR suffered a devastating defeat. Their candidate won a paltry 2.3%. In the second round elections, the polarization that had benefited Menem in the first round turned dramatically against him. Having won in the first round, he dropped out of the second round, handing the presidency by default to Kirchner. Argentines from across the political spectrum had voted massively against a return to the past. The widespread anti-Menem attitude and support for Duhalde were the keys for Kirchner's success.

## **C. Assessment**

### **1. Democracy**

#### **1.1 Stateness**

The state's monopoly on the use of force prevails throughout the country and it is not disputed through functional organizations. The dominant position held by Buenos Aires (both city and province) and the course of developments 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 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 at best to erode, and at worst to overwhelm, the state's monopoly on the use of force in the urban centers. In addition, local protest emerged in the form of street blockades, social revolts and looting.

All citizens enjoy the same civil rights and duties. The preponderant majority fundamentally acknowledges the state's constitution.

The state is defined as a secular order. Church and state are separate, and the political process is secularized. However, the Catholic Church is subsidized by the state and it speaks with authority on important issues. However, its political influence diminished under Kirchner. The president and the church came into conflict on the question of abortion.

The state's fundamental infrastructure extends to the entire territory of the country, but its operation is to some extent deficient. In the 1990s, the inefficient and corrupt national administration was subject to various partial reforms, but the aims were only partly achieved and some gains were later reversed. The political-administrative network and the political parties channel the public funds but the distribution follows particularistic and non-transparent criteria. The state's weakness is revealed by its incapacity to revert the high degree of tax evasion, which is one response of the population to the *corralito*. Tax evasion is also indicative of the population's general mistrust of the public sphere and the prevailing rules of the game among the political class. The implementation of the second generation of structural reform, postponed since the 1990s and demanded urgently from international financial agencies, is not in sight. The public sector's efficiency has not increased.

## **1.2. Political participation**

There is universal suffrage and the right to campaign for office. Elections are administered correctly. With a few exceptions (primarily at the provincial level) governments respect the rules governing open and competitive elections. Some isolated attempts to manipulate elections were cleared up or at least morally sanctioned. General elections are held and accepted in principle as the means of filling leadership positions. The percentage of the absentee vote, blank votes and protest votes decreased considerably in the 2003 presidential and parliamentary elections.

Elected representatives have sufficient authority to govern, and the influence of actors with veto power has declined. The military is subordinated to civilian control. Economic corporations still assert influence, although their power waned visibly during the second half of the 1990s. This process of erosion of lobbying power increased under the Kirchner government. With his autocratic government style, the president knew how to defend himself against interest groups such as the military, industrial sector, privatized public companies, banks and the Catholic Church. In some cases the price was a contaminated atmosphere between the president and organized interest representation.

Citizens are free to establish political and civic organizations. Beyond the articulation of established interest, there was an emergence of basic organizations, self-help groups, and protest forms. With a few exceptions, the government reacted flexibly.

Freedom of information and freedom of speech are safeguarded. However, effective access and monopoly controls are lacking, particularly in television, which is dominated by a few companies. Overall, the media enjoys a good reputation. One result of the political crisis has been the media's ability to establish itself, on many occasions, as a stage for, and principal actor in, politics. On the other hand, the relationship between Kirchner and one conservative sector of the press deteriorated. Based on some criticisms in the 2004 annual report of the International Association of Journalists, the renowned newspaper *La Nación* denounced Kirchner's intervention in freedoms of opinion and the press through a particular policy on information in favor of minority and provincial press.

### **1.3. Rule of law**

During the 1990s, the balance of power between the three branches has clearly shifted in favor of the executive, resulting in presidential hegemony. The judiciary has become increasingly politicized and governance-by-decree has become common practice; legal infringements of every sort generally go unreported. Although Kirchner has taken some important initiatives in the balance of powers, his administration is very autocratic, usually without coordination with the members of his cabinet and his own party, the PJ. His (and his wife's) influence in parliament is visible in the legislation process, the nomination of judges for the Supreme Court of Justice and decisions about the composition of congressional commissions. Kirchner governs mainly by decrees, without any protest of the members of parliament, although the emergency period just finished.

Kirchner took some initiatives toward a more independent and reformed judiciary. He pushed for the resignation of the Supreme Court's president and reformed the process of nominations, characterized until recently as non-transparent and dominated by the president. On the other hand, even Kirchner influenced the

nomination process for the Supreme Court. The gap between expected and real rule of law continues to be extensive. At all political and administrative levels, there is vulnerability to corruption and political influence. The weakness of the rule of law is combined with a system of privileges violating the principle of equality. The system lacks transparency, efficiency and neutrality.

Endemic corruption is attacked, but only with partial success, as demonstrated on March 2005 by the drug trafficking scandal in Ezeiza, the international airport of Buenos Aires. Although criminal prosecution of corruption appears to be a priority in the eyes of the public and it was declared one of the priorities of the Kirchner administration, it is - beyond the presidential level - an exception in actual political practice. Abuse of office by elected officials usually goes unpunished. The new composition of the Supreme Court perhaps will permit a more effective prosecution. Obstacles to an efficient prosecution of corruption are not moral or legal but lie in a set of informal practices that discourage effective prosecution and frustrate investigations.

Civil rights and liberties exist and they are guaranteed, but since the police and the judiciary are politicized and corrupt, poorly paid and inefficient, legal action against violations is usually inadequate. The ability of citizens to seek redress for violations of liberties is disproportionately distributed. Members of the middle and upper classes have more access to justice than members of the lower classes. However, Kirchner embarked on a series of efforts to address past human rights abuses; his progress in this area is remarkable. Kirchner discharged some high ranking military officers, radically restructured the military and police hierarchies, maintained strong relations with the human rights movement, transformed the ESMA, an ill-famed center of torture under the military regime, into a memorial and removed the laws of Obediencia Debida and Punto Final. All this has elevated public sympathy for the president.

#### **1.4. Stability of democratic institutions**

Compared to the quasi breakdown of democratic institutions at the end of 2001 and the first half of 2002, the democratic institutions, including the administration system and the judiciary, have recovered gradually. However, their good operation is not guaranteed nor is their interrelationship balanced and free from friction. On cabinet and ministerial levels, the process of coordination and agreement is very weak. Kirchner monopolizes decision-making power and gives his colleagues in the cabinet little margin for action. The president governs through decrees and the loyal PJ majority in both chambers gives him the necessary backing. The executive disposes exceptional faculties, ceded from the congress to the “jefe de gabinete” who can modify the budget, among other delegated powers. This competence is an innovation coming from the Duhalde

government and only comparable with the extraordinary delegated powers of the governor Juan Manuel Rosas in the 19th century.

Relevant actors are beginning to accept democratic institutions, but do not actively support them. The December 2001 slogan “throw everyone out” disappeared, but mistrust of democratic institutions, their ability to be representative and their performance has not disappeared. One exception is President Kirchner: his popular support oscillates between 60% and 70%. Organized veto powers are not in sight. The various forms of anti-institutional social protest, self-articulation and self-help experienced their peak in the first month of 2002 and have decreased in the meantime. The middle class in particular has lost their interest in direct forms of expression and protest as frozen assets were unblocked.

### **1.5. Political and social integration**

The systemic crisis in 2001-2002 had profound impacts on the party system. Even though there is relative stability in the Peronist voter base, the system as a whole suffered a partial decomposition. The degree of fragmentation is high and the weight of different players is very unbalanced. The UCR is fighting for survival; FREPASO and AR have practically disappeared. The result is a de facto single party (or better, a movement) Movimiento Federal Recreart. Alternativa por un República de Iguales (ARI) and Movimiento Federal Recrear (MFR) are little more than personal vehicles of their leaderships. The weakness of the non-Peronist votes and parties, for instance the opposition, would have negative consequences for the democratic process. The PJ has a virtual lock on both, the Senate (in which all provinces are represented equally) and a majority of governorships.

The existing network of associations is relatively fragmented and dominated by a few strong interest groups. As a whole, the agenda-setting power, the political influence and the mediating capacity of the industrial and financial sectors as well as of the trade unions, have diminished. The established channels between organized interest groups and the executive branch were interrupted through the crisis of 2001-2002 and under Kirchner, with his propensity to unilateral and isolated decisions only partially reactivated. Trade unions weakened since the application of the neo-liberal adjustment programs in the 1980s and 1990s and fragmented into three organizations. In the Menem era, they were additionally weakened through the dramatic de-industrialization process and impoverishment. One result of this economic and social breakdown was that the leading position in the protest movement of 2001 and 2002 was occupied not by the trade unions but the piqueteros, estraches and cacerolazos. The weight and acceptance of these basic forms of protest, political articulation and self-help in vast segments of the society, and the rise of alternative trade unions, increasingly threaten the

hegemonic presumption of established trade unions. In addition, the image of the trade unions as corrupt organizations has by no means disappeared. For a lot of people, trade union bosses form part of the political establishment and are included in the slogan “throw everyone out”.

Support for democracy (65% in 2002, 64% in 2004) is 11 points above the Latin-American average – and has not receded in recent years (1996: 71%, 2001: 58%). The sensitivity to rule breaking is also high. On the other hand, 46% of those interviewed are not against a non-democratic government, if this government is able to attack economic problems successfully. Moreover, 71% are convinced that the country is governed in favor of a minority with good organized interests and not in the interest of the people. The percentage of satisfaction with the performance of democracy grew significantly during the period of review: from pure 8% in the crisis year 2002 to 34% in 2003 and 2004, the same value as 1996. Satisfaction with the political management of Kirchner is, at 73%, the second highest in Latin America (after president Uribe in Colombia with 75%). Political protests target the political class as a whole, but do not tend to call into question the constitutional framework.

Since the 1980s, civil society is broadly organized and highly differentiated. As the economic and social crisis deepened in the late 1990s and parties’ sweeping failure to act as channels to articulate and mediate between society and the state became obvious, the various structures of civic organization, social protest and self-help became increasingly important. Self-organization and the construction of social capital advanced. But, while new social actors cooperate on the local level (more than one-third benefits from horizontal social networks), their relationships with parties, parliament and the government are marked by distance and, in part, confrontation.

However, for the medium term these forms of civil organization will not be able to displace the aggregating and mediating functions of the parties, just as little as the social networks can compensate for an articulated social policy. Regarding social capital, Argentina remains a country just in 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. Mutual confidence is still underdeveloped. Only 15% of Argentineans are convinced that one can trust in the majority of others (2001: 16%; 2002: 22%; 2003: 18%). On the other hand, the strong social crisis in 2001 -2002 triggered a wave of solidarity, mutual help and self-organization. It is uncertain if these new forms of horizontal solidarity and articulations of basic democracy can survive and be utilized through the political parties for constructive responses.



## **2. Market economy**

### **2.1. Level of socioeconomic development**

Argentina is ranked 34<sup>th</sup> in the 2004 Human Development Report and has changed its position little between 1995 and 2004. Social exclusion dramatically intensified quantitatively and qualitatively since the second half of the 1990s. Key socioeconomic indicators, consequently, show a downward trend. Between 1999 and 2002, the GDP dropped a fourth of previous levels. The process of poverty related social exclusion hit the middle class, women and young people especially hard. Moreover, 20% of children were undernourished. This exclusion (in part structural) remained present in quantitative and qualitative terms, during the period of review. Though the Kirchner government started an emergency program for the most affected people, 57% of the population still lives under the poverty line, and 27% are absolutely poor. The program started during the Duhalde presidency under the name “plan jefas y jefes”, a program that considerably calmed social tensions. Income inequality also increased during the same period (the Gini Index is 52.2). On the other side, some important macroeconomic indicators were looking better in 2004: the inflation rate was moderate (6.1%), however with an upward tendency. The growth rate was spectacular (9%), as was the growth of tax receipts (36%) and foreign exchange reserves (from \$14.1 billion to \$19.6 billion). In the back of everyone’s minds though are the very low level of incomes and the growing preoccupation with the future inflation rate.

### **2.2. Organization of the market 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. Free competition and the protection of property rights are limited by corruption and political influence on the administration and the judiciary. Because of the economic crisis and the process of growing pauperization, the informal sector expanded dramatically during the last years. According to *Latinobarómetro*, only 16% of the population is satisfied with the functioning of the market economy, 54% are convinced that private enterprises are important for the development of the country and 56% think that only a market economy system makes development possible.

The privatization of public services led to the formation of monopolies and oligopolies, without adequate regulation mechanisms.

Foreign trade is completely liberalized. However, in the case of Mercosur, it has resulted in multiple protectionist measures and trade disputes, particularly with Brazil, Argentina’s most important trade partner. Even though a court for dispute

settlement was established in 2004, protectionist measures and trade disputes did not disappear. Abandonment of the dollar-peso parity at the end of 2001 led to a slump in imports and investments.

The banking system and the capital markets are relatively well differentiated, but only foreign banks are internationally competitive and meet international standards. Banks remain susceptible to broad fluctuations because of their substantial dependence on external capital. Privatization and market opening brought mergers, oligopolic formations, as well as company and bank collapses. The economic breakdown in 2001-2002, including the default and the dry up of foreign capital, produced a banking system collapse. Some private banks closed and a number of international banks left. The remaining banks demanded compensation from the state for the abolition of the *corralito*. Credit volume stagnated despite the economic recovery. Therefore, the profitability of banks was threatened. If no new capital injections come, additional mergers and collapses are expected.

### **2.3. Currency and price stability**

The most important parameter of the convertibility plan was inflation control, and it was successful until the plan was discarded at the end of 2001. However, when the fixed exchange rate was abandoned, fighting inflation lost its preeminent status in Argentina's economic policy. As a result, the consumer price inflation index hit 42% at the end of 2002. Under Kirchner, controlling inflation and an appropriate foreign exchange policy are recognized economic policy goals. The inflation rate was under control in 2003 and 2004 (2003: 6.1%; 2004: 4.3%). This is, of course, not a guarantee for the future because the institutional framework is continuously weak. In addition, in recent times, the fear of rising inflation reappeared because of the spectacular 9% growth rate in 2004.

There are some signs of a consistent policy for stability, but they are not sufficient and lack sound institutional safeguards for the future. Until now, a political and institutional guarantee against populist policy changes does not exist. On the other hand, in February 2005 Kirchner succeeded in forging a surprising debt swap arrangement with the majority of Argentina's private creditors. The arrangements with the remaining (approximately 25%) of private creditors not participating in the debt swap are just as clear as the characteristics of a new longtime arrangement with the IMF. Another point of concern is the problematic relationship between the central government and the provinces with respect to the revision of financial equalization, emphatically demanded by the IMF.

## **2.4. Private property**

Property rights and the regulation of property acquisition are defined in principle, but practical enforcement in accordance with the rule of law is problematic because of deficiencies in the judicial and administrative systems.

Private companies represent the backbone of the economy. The 1991 State Reform Law privatized large portions of basic industry, infrastructure and other public services (sometimes below their true value). At the same time, 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. The crisis of 2001-2002 motivated the government to freeze the tariffs of privatized public enterprises. This provoked a strong conflict between the government and the firms. While the government complained about lacking investment, the companies demanded compensation for their lost revenues because of the end of the dollar-peso parity. In consequence, the country slipped into an energy crisis. In addition, the *corralito* strongly violated private property rights and destroyed trust in the state as guaranteed by this right. The partial loosening of bank deposit regulations since autumn 2002 has partially restored this loss of trust. Another sign of regained confidence is the unexpected high participation of Argentine private investors in the new government bond deal. However, it will be a long way until local and international investors restore their commitments.

## **2.5. Welfare regime**

Social networks are developed, but do not cover all risks for all strata of the population. Considerable portions of the population live in poverty and have no access to social safety nets. What began as a government-sponsored welfare regime has been retrenched in the spirit of neo-liberalism. This new concept called for compensatory social services to accompany economic growth. Until now, the government could not combat poverty systematically.

Welfare programs to alleviate poverty and other risks (such as old age, illness, unemployment and disability) were characteristic of Argentinean development until the 1970s, but have eroded continuously since then. Government efforts to fight poverty generally follow an assistance-based approach or they are focused on specific target groups. Empty coffers have led to a drastic deterioration of the state health care system. The social welfare model has consistently combined private and government funding for the common good, but both sides have run out of money since the exchange rate was floated. There are a number of institutions, government initiatives and basic organizations to compensate for gross social

differences; however, they are insufficiently financed, uncoordinated or based on an articulated and integrated approach. Meanwhile, the most negatively affected groups are women and young people. 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 with respect to equal wages and access to public office even though one-third of all candidate slots in legislative elections are reserved for women. Public attitudes about gender are traditional: 37% of the population is convinced that women are better at taking care of the family and men are better at working outside the home.

## **2.6. Economic performance**

During the period of review, the economy has performed extremely well, as evidenced by macroeconomic indicators. The most promising elements are the growth rate (2004: 9%), balanced budget (2003: +1.3% of the GDP), inflation rate (2004: 4.3%); export growth (2004: 16.5%), unemployment rate (2004: 13.6%, compared with 18.3% in 2001) and the development of the public debt (a reduction 2004 of approximately \$50 million). On the other side, the structural base for a sustained economic development remains fragile since dependence on external factors, investment and savings are relatively weak.

## **2.7. Sustainability**

Although the goal of sustainable development was incorporated in Article 41 of the 1994 reformed constitution (known as the “polluter pays” principle), ecologically compatible growth receives only sporadic consideration and has only a weak institutional framework. Many questions remain open regarding, for example, the economic exploitation of the environment, as there is still no successful cooperation between 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 an exception than the rule.

Argentina has a well-articulated system of primary and secondary education, but this 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 opportunities increased in quantitative terms in all levels after the shift from the welfare state to a “post-welfare state” under Menem, but at the expense of quality. Furthermore, 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. During the economic crisis of 2001-2002, many educational institutions suffered big financial problems. In 2004, the government started a campaign to equip 1,200 schools with computers. The public expenditures for education and culture amount to \$3.3 billion (6.4% of the public budget). Overall, and despite shortcomings in reform, the foundations for a modern educational system exist. However, the country is still far from having an independent and elaborated science and technology policy. Total government spending in this area between 1997 and 1999 averaged only 0.23% of the GDP. The majority of national enterprises focus on increasing profit 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.

### **3. Management**

#### **3.1. Level of difficulty**

The structural constraints at the beginning of the Duhalde government (January 2002) were very high. The economic, political and social situation of the country, after the breakdown of the alliance government, was a disaster. The democratic institutions were at a breaking point, the party system in disarray, the public trust in politics and politicians declined and the confidence in the external environment strongly affected. In addition, structural deficiencies existed in the rule of law, administrative efficiency and transparency, and institutional stability. The country showed marked rates of poverty and social exclusion, widespread corruption and severe deficiencies in infrastructure. Since the second half of 2002, however, there was a trend reversal, above all marked by the president's majorities in the two chambers and the good figures in the international economy (high raw material prices, a weak U.S. dollar, recovery of most Latin-American economies after three years of stagnation and recession). The political affinities between the center-left governments in the Cono Sur also favored governability.

Civil society organizations played an important role during the transition period from authoritarian to democratic government. However, with the strengthening of the two major political parties, the PJ and the UCR, the political influence and weight of those organizations diminished. Nowadays, the field is very fragmented and the objectives are very diffuse. In the context of the 2001- 2002 crisis, many so-called civil society activities were spontaneous, minutely organized and focused on day-to-day problems.

There are no ethnic or religious cleavages, but recently society and political elites are increasingly polarized. The lines of division are decreasingly along social or ideological differences as consequence of a widespread discontent with bad

political management and the meager output. One characteristic of the Argentinean society, some time ago, was the high influence of their middle class. Since the implementation of the radical reforms of the so-called “Washington Consensus” in the 1980s and 1990s, a big part of the middle class has disappeared, increasing the gap between a very rich profit-seeking minority and the impoverished majority. This process culminated in the 1980s and 1990s in different forms of social protest, such as rioting, street blocks and supermarket plundering. In 2001-2002, they turned into new social movements and forms of protest (piqueteros, cacerolazos), which, however, during the period of review, increasingly declined in intensity, violence and mobilization of power. The majority of protests was peaceful, did not infringe the legal order and were deactivated through concrete government responses or isolated from the societal environment. Violent incidents were exceptions.

### Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	5
System of government:	<i>Presidential</i>	Latest parliamentary election:	04.-11.2003*
		Effective number of parties:	3
1. Head of State:	<i>Eduardo Duhalde</i>	Cabinet duration:	1/2002-5/2003
Head of Government:	<i>Eduardo Duhalde</i>		
2. Head of State:	<i>Nestor Kirchner</i>	Cabinet duration:	05.2003-
Head of Government:	<i>Nestor Kirchner</i>		<i>present</i>
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: <math>\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}</math>; <math>v_i</math> is the share of votes gained by party <math>i</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties reflects the political weight of parties (Laakso/Taagepera index) = <math>1 / (\sum p_i^2)</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>.</p> <p>* Chamber of Deputies (257 seats; members are elected by direct vote; one-half of the members elected every two years to a four-year term); elections were held by province between April and November 2003.</p>			

### 3.2. Steering capability

Duhalde’s transition government was relatively successful, taking into account the absence of active external support and the fact that Argentina stood on the brink of chaos. After a disastrous initial six months, the government’s performance improved somewhat. An economic recovery was decisive to this performance, of which much of the credit went to the economy minister, Lavagna. His pragmatic approach contrasted sharply with those of his predecessors over the previous decade. Duhalde ended the convertibility system, accepted a reduction of his government term, selected and favored an anti-establishment outsider and governor of the oil province of Santa Cruz with Kirchner, without losing his high political influence in the PJ and the political process. Duhalde restored a degree of governability through a combination of old-school machine politics and effective social policies. At the end of his term, incipient economic recovery and a

restoration of social peace had substantially improved public approval for the government. Medium or long-term strategic priorities were not formulated, but the available time for that was too short. However, his successor, Kirchner, formulated some political (strategic) priorities, which correspond to the intensification of democracy and a market economy with some Keynesian accents. He pursues long-term aims, but postpones them sometimes in favor of short-term political benefits.

Since Kirchner won 22% of the votes in the first round of elections, he had only a weak legitimacy at his disposal. However, he reached high public acceptance in just a short time. This has to do with his good and pro-active management of some of Duhalde's legacies. He embarked on a set of bold reforms, making it clear he sought a sharp break with the past. He brought a new generation of Peronists into his government, restructured the military and police hierarchies, began to purge the government agencies from corruption, distanced himself from the neo-liberal economic policies of the 1990s, and strained every nerve to address past human rights violations. Until now, a solid arrangement with the IMF and with those 24% private creditors who did not participate in the transformation of debt into new bonds, and with some of the province governors is not yet implemented. Second generation reforms were postponed.

The two presidents during the period of review responded relatively effectively to mistakes and failed policies of the past with changes and learning processes. During the Duhalde government, damage control, short-term crisis management and, at the end, the presidential election campaign dominated the political agenda and replaced targeted, strategic thought and action. Isolated from the external environment and confronted with serious domestic challenges, the government was forced into actions characterized by ad hoc measures, lack of clear planning and attempts to maximize short-term political gains. Kirchner, an anti-establishment politician, concentrated government action on a few priorities, implementing them accordingly and, sometimes, for example on the question of debt, against a strong international opposition. Kirchner's style of government is an advantage to implement short-term political reforms, but at the same time it is a weakness: he is very autocratic, sometimes imperious, and un-cooperative. His decisions are based on the opinions of a few advisors. The ministers of his cabinet are, with a few exceptions (Lavagna for example), pure super-numeraries. During the first year of his presidency Kirchner preferred the strategy of the so called "transversalidad", that is, to build bilateral (ad hoc) coalitions beyond his own party, the PJ, based on personal loyalty. In the meantime, this strategy was given up and Kirchner is better placed in his own party, negotiating with other Peronist power tenders. His wife, Cristina Kirchner, is the candidate for the second chamber in the province of Buenos Aires, the political domain of Duhalde. With his new strategy to build flexible coalitions within his own party, the president tries to go beyond the old strategy to ground his power almost exclusively in

public opinion, and not on political coalitions. This was a dangerous trap, and at the same time, a real advantage for his strong competitor, Duhalde.

### **3.3. Resource efficiency**

The government's organizational, financial and human resources dwindled dramatically until 2002, the year in which the economy started its path toward a spectacular growth rate of 9% in 2004 (2001: -4.4%) and a balanced state budget (2001: -5.4%). With the declaration of default (January 2002), the Duhalde and then Kirchner governments gained a little more financial margin of action. The same happened with the debt arrangement with private creditors in February 2005. On the other hand, the remaining debt burden of more or less \$125 billion is very high and offers only a modest margin for active public policies. The government's use of them was only partially efficient. The labor market situation continued to be unsatisfactory and consequently the brain drain rate high. The ratio of government staff to public 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 and "clientele-istic" practices have not yet been eliminated, nor has tax evasion. The great debt burden 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. The battle against corruption is underdeveloped to the same degree as transparency and accountability.

The government tries to coordinate conflicting objectives and interests, but it has only limited success. The president's usual response to resurging conflicts with cabinet or party members is a decision from above or a non-decision. With the tacit approval of the parliament, Kirchner governs for the most part by decrees. The number of conflicting issues between the president and the legislative branch is reduced. The opposition is too fragmented and weakened in order to provoke serious conflicts with the executive power and prevent government decisions.

At all political and administrative levels, there is vulnerability to corruption and political influence. The weakness of the rule of law is combined with a system of privileges violating the principle of equality. The system lacks transparency, efficiency and neutrality. Corruption is attacked, but only with partial success, as demonstrated the scandal of drug trafficking in Ezeiza, the international airport in Buenos Aires, in March 2005. Although criminal prosecution of corruption appears to be a priority in the eyes of the public and was declared one of the priorities of the Kirchner government, it is - beyond the presidential level - an exception in actual political practice. Abuse of office by elected officials usually goes unpunished. The new composition of the Supreme Court perhaps will permit prosecution that is more effective. The obstacles to an efficient prosecution of



corruption are not moral or legal but lie in a set of informal practices that discourage or destroy an effective prosecution and frustrate investigations.

### **3.4 Consensus-building**

All relevant 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. The acceptance of democracy as political organization, preferable to all other forms, is one of the highest in Latin America, and the high rates are still maintained in 2005, despite the systemic crisis of 2001-2002. Widespread dissatisfaction is not a sign of a refusal of democracy or political apathy, but it has to do with poor performance and modest output. The gap between the high rates of consent to democracy as organization and the discontent with performance and results - more than 50 points - is alarming.

The fact that the approval of democracy continues to be very high, that there was no threat of a military coup after de la Rúa's forced resignation and that constitutional procedures were followed meticulously, can be interpreted as a sign of Argentinean democratic maturity when it comes to overcoming its dictatorial past. The most important former veto players - the military and trade unions - are seriously weakened. Relevant anti-democratic veto actors are not in sight. Kirchner's capacity to make decisions is high, but his inclination to isolated action is dangerous in the long term. In addition, the number of reformers in the political elite is reduced.

During the period of review, both Duhalde and Kirchner tried to prevent cleavage-based conflicts from escalating, but succeeded only in part. Kirchner responded to social protests with a high degree of flexibility, moving between the implementation of a set of social programs, co-optation strategies and isolating the radicals.

Kirchner proclaimed "a culture of dialogue" in his inaugural speech and he sees himself as a president of a new era under the keynote "change is the name of the future". Though the government has made various attempts to promote the population's sense of solidarity, it failed to strengthen interpersonal solidarity and to transform the existing social commitment at local level in civic engagement in order to strengthen representative democracy. Kirchner prefers a populist top down approach to urgent social, economic and political problems, taking some spectacular measures to get popular support. Isolated presidential decisions with high popular support will not be able to compensate deficient articulation, channeling and aggregation capacities of the political parties in the long run.

The political leadership takes into account and accommodates the interests of civil society only in part and, above all, when these organizations can put pressure on the government or when they form part of the power base of the government and/or the leading party, for instance the piqueteros regarding the social situation, the human rights movement on military affairs and the treatment of the authoritarian past, civic protests against the deterioration of public security (the Axel Blumberg case) and the international finance agencies and, finally, benefits for the exporting sector.

The political leadership has given the issue of human rights violations and acts of injustice during authoritarian regimes high priority. With the abolition of the Due Obedience and Punto Final laws, Kirchner closed a chapter and it gives a clear sign of distance from the military regime. Two symbolic gestures - the removal of the pictures of Generals Videla and Bignone from the gallery of honor in the former military academy, and the transformation of the Escuela Mecánica de la Armada (ESMA), an ill-famed torture center, into a memorial place underline this policy in favor of human rights. An unanswered question remains as to whether these, in part radical measures, help to bring about a process of reconciliation between the victims and perpetrators of past injustices.

### **3.5. International cooperation**

The declaration in default (January 2002) provoked the isolation of the country from most of Argentina's international partners. The dramatic economic, social and political situation of the country forced political leaders to concentrate a large amount of time and resources on crisis management at the cost of reform policies and an active foreign policy. Since the slow recovery of the economy in 2003, the government began, gradually, to reopen the country to the international community and to make use of international assistance. Kirchner intends to restore lost international trust, visiting other countries and asking for comprehension for the complicated situation in his country. Making well-focused use of international assistance was not possible because this assistance was practically frozen from December 2001 until 2003.

The government tries to present itself as a credible partner, but is not trusted by the international community. Regarding foreign policy, Kirchner changed some priorities. The integration process within Mercosur with Brazil occupied the first place. The unconditional alliance with the United States ended. The relationship with this hegemonic power and Europe should be based on mutual respect and the national interests, in accord with repeated declarations from Kirchner and his foreign minister, Bielsa. Additionally, Kirchner gives priority to the strengthening multilateralism in international politics and with the UN. The government maintained the default until the swap deal with private creditors in February 2005, as well as an aggressive strategy against international creditors, above all the IMF.

The arrangement with the private creditors was a shock for the international donor community. At that time, Kirchner intended to present Argentina as credible partner, gain international comprehension for his debt and foreign policy and receive assistance for the internal reform process through a round of state visits to the main creditor countries. Until now, it is not clear if Kirchner succeeded and if the distrust among the international creditors disappeared.

Argentina is member of Mercosur, along with Brazil, Uruguay and Paraguay. The population generally supports belonging to this integration regime, even though the country has suffered from a high degree of dependency from the leading power, Brazil, and its macroeconomic volatility. Kirchner has given the strengthening of Mercosur, its extension and intensification, high political priority. Regarding this, the political affinity between the governments in the Cono Sur (Argentina, Chile, Brazil and Uruguay) is very helpful. The government cooperates actively and successfully in the integration process, favors the intensification of south-south cooperation beyond the region, but is partially reluctant with respect to implement some rules set by regional and international organizations.

#### **4. Trend of development**

##### **4.1. Democratic development**

The state maintained its earlier level of democratic development with one exception: the state monopoly of power is increasingly under attack by organized crime and the privatization of security. Political participation on the grassroots level increased substantially because of the 2001-2002 crisis, but diminished step by step with the first signs of economic recovery. The new forms of direct participation could not be transformed and channeled toward established mechanisms of representative democracy. The distrust against the political establishment did not disappear. Voter participation, which reached its lowest level in the October 2001 election, returned to be normal in 2003. The government began to attack corruption, reform the judiciary system and give more attention to human rights violations, but the scope of corruption and deficiencies in the judiciary have changed little. The party system continues to be fragmented and the non-Peronist vote lacks substantial political weight and clear alternative programs. All parties place short-term power interests above political reforms and democratic development. The party elites learned only marginally from the crisis of representation. The parties' deficiencies in articulating and aggregating interests have led social actors to impose their interests directly through various forms of protest. The autonomy of the Supreme Court of Justice was reinforced, but the relationship between the executive, legislative and judicial powers continues unbalanced and in favor of the executive power. This tendency is strengthened by Kirchner's very autocratic government style.

The feared breakdown of democracy failed to appear. The support for democracy as a form of government continues to be high (around 65%), but the approval of its functions and performance is very low (8%). In the long term, this gap can be dangerous for democratic consolidation. In some segments, the institutional stability improved or did not change, whereas the social and political integration continues to be a challenge. In general, it is too early to judge whether democracy has become more consolidated in 2005 compared with 2001. What we can say is, on the other hand, that democracy has passed the worst crisis in Argentine history without collapsing.

#### **4.2. Market economy development**

While the HDI value increased from 0.832 to 0.854 between 1995 and 2000, it decreased to 0.853 in 2002. The country's level of development has not changed significantly between 2000 and 2005. The per capita income continues to shrink, poverty indices are still high and the gap between the rich and the poor broadened.

The institutional framework for a market economy has not changed significantly. Most of the state administration lacks efficiency, corruption runs high, and the justice system is deficient. A great number of administrative barriers brings disincentive and increases the costs of private investment. There are no channels and platforms for the participation of economic and social actors in the definition and implementation of development policies.

Overall, economic development has improved both quantitatively and qualitatively, but is restricted to some indicators. The growth and inflation rates progressed significantly, as well as export and import rates. The progress of domestic and foreign investment, unemployment and the tax revenue is more modest. On the other hand, the absolute rates of poverty, inequality, unemployment and underemployment continue to be dramatically high.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in % <sup>1</sup>	- 0.8	- 4.4	- 10.9	8.8	9.0
Export growth in % <sup>1</sup>	16.4	1.0	- 3.4	15.0	16.5
Import growth in % <sup>1</sup>	- 1.0	- 16.9	- 57.2	53.9	61.4
Inflation in % (CPI) <sup>1</sup>	- 0.9	- 1.1	25.9	13.4	4.3
Investment in % of GDP <sup>3</sup>	16.2	14.2	12.0	14.9	16.6
Tax Revenue in % of GDP <sup>3</sup>	18.1	17.6	16.8	19.6	20.5
Unemployment in % <sup>1</sup>	14.7	18.3	17.8	14.3	13.6
Budget deficit in % of GDP <sup>4</sup>	- 3.4	- 5.9	- 1.8	1.1	3.7
Current account balance in billion \$ <sup>2</sup>	- 8.9	- 4.0	9.6	7.8	8.1

Sources:<sup>1</sup> Centro de Economía Internacional (<http://cei.mrecic.gov.ar>)

<sup>2</sup> Dresdner Bank Lateinamerika AG (Hrsg.): Latin American Spotlight, March 2004

<sup>3</sup> IMF: IMF Country Report Nr. 04/195, July 2004

<sup>4</sup> IMF: IMF Country Report Nr. 05/236, July 2005

#### D. Strategic perspective

Since the failure of the alliance government, loss of confidence in the political leadership has expanded into a crisis of representation, culminating in the slogan “throw everyone out!” President Kirchner, with his autocratic style and anti-establishment discourse, succeeded in regaining a portion of the lost trust. However, the high popular support for Kirchner, the so-called “K-effect”, until now, has not conveyed itself into Argentina’s democratic institutions. Fortunately, there are no actors with anti-democratic veto powers. The new grassroots mobilization is, of course, a positive element under the perspective of democratization. Nevertheless, it is still an open question whether the established parties will manage to channel these new forms of direct political articulation and social protest in constructive directions in the long term. It is also uncertain whether the highly fragmented party system with a hegemonic, but strongly balkanized Partido Justicialista (PJ), will be maintained or whether a moderate multiparty system will emerge as a stable foundation for coalition governments capable of compromise. Antagonism and patronage within the parties and obstructive behavior have not been eliminated.

The relationship between society and the party establishment is troubled. An additional problem is that leading political party personalities have not learned sufficiently from the 2001-2002 systemic crisis. The PJ is balkanized and without leadership (2004-2005). The fragmentation of the PJ and the non-Peronist party spectrum, as well as the maintenance of clientele-ist networks and personal rivalries, is a serious obstacle for innovative learning processes in the political elite. Until the time of this writing, the internal battle for the leadership within the PJ and the UCR is not decided. Kirchner is isolated in his own party and will have

to deal with his rival Duhalde and his allies. Maintaining this cooperation will be critical to democratic governance. Additionally, Kirchner will have to broaden his support base in the provinces, but that will be very difficult. The relationship between the central government and the provinces remains precarious. The power of some of the provinces is too strong. The combination between parties, organized power in the provinces and the internal democracy favors clientele-ism and permits only ad hoc coalitions. A positive factor in a society with a traumatic history is the fact that the government has resolutely confronted its past, repealed the Due Obedience and the Punto Final laws as unconstitutional, and opened the way for the criminal prosecution of all cases for which amnesty had been granted.

In the economic sphere, the strength of trade surplus and the high growth rates are the result of high prices for minerals and agricultural products in world markets, a weak dollar and a strong demand from China. All this has the potential to change rapidly. There are clear signs of inflation increases and in the number of poor. A big part of the debt problem (\$125 billion) still wants a solution. The 25% of private creditors who did not participate in the debt swap (\$25 billion) and an arrangement with the IMF are also waiting for a solution. The structural problems (in the energy sector, for example) are still unresolved: the industrial, technological and educational infrastructure remains underdeveloped, and the cooperation between the productive sector, the national and local governments and the scientific community is very low.

It remains to be seen whether the leading employers associations' ideological liberation will suffer a reversal if the process of economic recovery moves too slowly, or whether tendencies toward pragmatic behavior will be strengthened and a long-term form of neo-corporate conflict of interests will develop among companies, unions and the government. It is also undetermined whether the demands of the economically and socially excluded will be radicalized or channeled into concrete policy options by political parties, especially the hegemonic PJ, while the existing gap between a rich minority and an impoverished majority continues to spread. Certainly, impoverishment of the middle class and the massive brain drain has depleted the country's reservoir of reform energy and potential agents of change. Only 36% of the population is convinced that the development of the country is headed in the right direction. At this rate, Argentina falls in the last rank in Latin America.

The Latinobarómetro (2004) brings up one of the central problems of the country with a direct question: "How can democracy be consolidated in a country where a population with high democratic values does not know how to better guarantee the functioning of democratic institutions and at the same time does not know how to get a political elite who guarantees exactly that?"