THE REFORMS OF THE NINETIES IN ARGENTINA

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This book is published
under the auspices of the
Weatherhead Center For International
Affairs of Harvard University
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Introduction
THE STARTING POINT

What was changed in the nineties in Argentina was not the "Peronist" state built in the forties nor the postwar ISI economy; instead, what was reformed was the state apparatus built by the military since the sixties (untouched during the democratic transition) and its related economic organization of "assisted capitalism", which was characterized by an active state that used inflation as a tax to extract income from society, and public contracts and state-owned firms as instruments to redistribute that income to certain actors in the private sector.

The process of reforms of the nineties in Argentina consisted of a series of "specific solutions" to a series of "specific problems"; the reforms have been "choices" made to solve those problems, and the starting point was the array of problems that was necessary to be solved at the end of the eighties.

That starting point was not a "chaotic" aggregation of problems; on the contrary, it was a "non-chaotic" aggregation of problems. It was an aggregation of problems structured as a "function" of the economic organization that the Argentine democracy inherited from the military dictatorship. That economic organization was a specific type of capitalism that in this study will be referred to as "assisted capitalism"\(^1\), which in Argentina at the end of the eighties used to be named "prebendary capitalism"\(^2\). Here, a brief review about

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\(^1\) See GERCHUNOFF, Pablo and VICENS, Mario: Gasto Público, Recursos Públicos y Financiamiento en una Economía en crisis. El caso Argentino, Instituto Di Tella (Mimeo); Buenos Aires, 1989.

\(^2\) The word "prebendary" comes from the latin "prebenda" that means the right to perceive a rent, associated to certain institutional position or privilege.
that "variety" of capitalism and its collapse will be presented.

1. The State: the "Bureaucratic Authoritarian Model"

Douglass North wrote that the performance of a society in general, and of an economy in particular, is determined by certain structural characteristics, amongst which the structure of the political and economic organizations are the most important. That is why "models of state should be an explicit part of any analysis of secular changes". The models of state in Argentina will be referred to in relation to the reform process.

As regards the reforms in Argentina, the conventional wisdom is that in the nineties, the state that was changed was the old "populist" state that the "Peronists" had built in the forties and fifties. That is wrong. The "Peronist" state had disappeared long before 1989, when the process of reforms began. The model of state that was in place in Argentina at that time was the one built by the military regimes since 1966. Military dictatorships had ruled Argentina for a very long period of time: seventeen years -from 1966 to 1983- with a relative interruption of thirty-five months in the seventies. Those military governments changed the model of "National-Popular State" and its ISI-type economic organization into a new model: the "Bureaucratic-Authoritarian

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3 See: HALL, Peter and SOSKICE, David: An Introduction to Varieties of Capitalism in "Varieties of Capitalism: The Institutional Foundations of Comparative Advantages"; Forthcoming. These authors analyze "legitimate" varieties of capitalism; assisted capitalism could be considered a "bastard" one.


5 Relative parenthesis because since 1973 to 1976 democracy was not consolidated and military formal and informal influence remained significant.

6 In the tradition of the Latin American Political Science, the "old populist state" is called "Estado Nacional y Popular": National-Popular State.
State"\textsuperscript{7} and its own economic organization, Assisted Capitalism.

The first democratic government elected after the dictatorship performed well regarding political aspects of democratic transition, liberties and rule of law; the trial and conviction of the Military Juntas that ruled the country from 1976 to 1983 was the paramount example of this, and Argentines are very proud of it. But the basic structures of the economy remained untouched; most of the economic institutions of the Bureaucratic-Authoritarian State "survived" democratization until the crisis of 1989. So, what was changed in Argentina by the reforms of the nineties were the "surviving" institutional structures of the Bureaucratic-Authoritarian State and its economic organization: "Assisted Capitalism".

To better analyze this starting point, the argument will compare some institutional features of the "National-Popular" model of state with the "Bureaucratic Authoritarian" model. This comparison will have recourse to five legal characteristics based on classic instruments of Administrative and Constitutional Law: i) the juridical "nature" of the state's economic units; ii) the "principle of rationality" that underlies that nature; iii) the "legal status" of the administrators of those economic units; iv) the legal provisions that govern the collection and expenditure of the money of those economic units; and v) the type of legal instrument that linked the state and the economy, defining the juridical and political nature of their relationship.

Table I.1 summarizes the comparison.

\textsuperscript{7} See O'DONELL, Guillermo: \textit{Bureaucratic Authoritarianism}; University of California Press (1988)
Table I.1
Institutional Comparison Between Models of State

<table>
<thead>
<tr>
<th>INSTITUTIONS</th>
<th>NATIONAL-POPULAR</th>
<th>BUREAUCRATIC-AUTHORITARIAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Unit</td>
<td>Public agencies</td>
<td>State-owned Firms</td>
</tr>
<tr>
<td>Rationality</td>
<td>Public interest</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Administrators</td>
<td>Public officials</td>
<td>Managers</td>
</tr>
<tr>
<td>Money</td>
<td>Collection and Expenditure: Public</td>
<td>Collection: Public Expenditure: Private</td>
</tr>
<tr>
<td>Legal Nexus</td>
<td>Regulations</td>
<td>Contracts</td>
</tr>
</tbody>
</table>

These two models of state are very different from each other. Each difference is important in itself; but taken all together, they define two absolutely different institutional structures.

a) In the old National-Popular State (NPS) model, most of the state's economic units were public agencies, which belonged to the organizational structure of the public administration; and its principle of rationality was "public interest".

In the Bureaucratic-Authoritarian (BAS) model, most of the state's economic units were state-owned firms (SOFs), which were part of the public sector but not of the organizational structure of the public administration; and its principle of rationality was "efficiency".

b) In the NPS model, people in charge of the agencies were public officials, with public servants salaries and subject to the hierarchical order of the public administration. In the BAS model, people in charge of the state-owned firms were managers, with "market" salaries and not subjected to the public administration hierarchy.
c) In the NPS model, the agencies' money agencies was "public budget money": with certain privileges for its collection (e.g., special enforceability, as special judicial procedures, privileges of states' credits, "solve et repete" principle) and certain restrictions for its expenditure (e.g., special accountability, as budgetary appropriation, public tenders, previous accountable and legal controls).

In the BAS model, the money of the state-owned firms had a special status within the public budget: it was collected as public money (with special enforceability) but expended as private money (with no special accountability).

d) The main instrument of the NPS model for intervening in the economy were "regulations": basically, laws and decrees. The nature of these instruments defined the relationship between the state and the economy as "public"; regulations as norms are general and compulsory; they have "imperium", and within "Merkl's Pyramid" laws and decrees are immediately below the Constitution; they define a "government" relationship between "the administration" and "the administrated" that is a "statutory" relationship. Laws and decrees have to be obeyed and cannot be "settled" through negotiations.

On the other hand, the most important legal nexus of the BAS with the economy were "contracts"; not only public works contracts, but procurement, service, supply, consulting and—very important in the late eighties—financing contracts. The nature of this nexus defined the relationship between the state and the economy as "private": contracts as norms are "particular" (not general), binding (not compulsory), without
"imperium", and within Merkl's Pyramid are below laws and regulations; they define a "business" relationship between "parties" that is a "contractual relationship". This change from "statutory" to "contractual relationship" is very well illustrated by the "Industrial Promotion Regime": for a private firm to be considered "within" the regime, it was not enough to comply with predetermined requisites established by law or a decision made by the administration—each "promoted" firm signed a contract with the state⁹. Contracts can be fulfilled or not, and can always be "settled" or—as it was the case in the eighties in Argentina—can be "indexed", "adjusted", or rewritten through negotiations, through legal regulations or through judicial decisions. Some mechanisms of this type were applied to private contracts as well, but most of them—and all this "legal technology"—were developed to be applied to the state.¹⁰

In 1989, many institutions of the economic organization of the bureaucratic-authoritarian model were in place: i) Most, if not all, economic units of the state were SOFs, within the public sector but outside the public administration. ii) They were leaded by managers, out of the "line" of the public administration hierarchy and with salaries significantly above the level of public officials. iii) The money of these SOFs was collected with certain privileges of special enforceability, as public money; but it was expended as private money, with no special requirements of account-
ability. iv) A dense web of contracts\(^\text{11}\) linked the state with the economy as parties in a "private" relationship; those contracts were not always fulfilled, were frequently "settled", and always "indexed", "adjusted" and rewritten.

In other Latin American political economies (certain forms of "late" ISI), inflation, subsidies and "special relationships" between the state and private firms have been described.\(^\text{12}\) But the systemic function of inflation over a very long period of time, the contractualization of the state's relations with adjustment mechanisms, and the high level of transfers of public money to the private sector, were structural features of the economic organization that was named "assisted capitalism".

This "variety" of capitalism had had a very poor economic performance since the early seventies and collapsed at the end of the eighties. That performance and this collapse posed a series of problems that needed to be solved; the point of departure for the process of reforms in Argentina in the nineties was precisely that conjunction of problems.

2. The Economy: the "Assisted Capitalism"

Douglass North wrote that "Two general types of explanation for the state exist: a contract theory and a predatory or exploitation theory"\(^\text{13}\). The contract theory considers the state the maximizer of social wealth; its functions are to set an institutional framework that makes cooperation possible, to establish efficient property rights, and to be the third party in the enforcement of contracts. The exploitation

\(^\text{11}\) Named by an Alfonsin's Minister of Public Works as "la Patria Contratista".
\(^\text{12}\) Jeff Frieden called my attention to this fact.
\(^\text{13}\) NORTH, Douglass: Op. Cit. pg. 21
theory considers the state an agency of a group or class; its functions are to extract income from society in the interest of that group, to establish inefficient property rights (favoring the dominant group) and to be the third party enforcer. The criterion that differentiates these explanations is the distribution of the "coercion potential", which is a characteristic of state. The contract theory assumes an equal and consensus-based distribution of the coercion potential; in other words, it assumes a democratic state. The exploitation theory, on the other hand, assumes an unequal and imposed distribution of the coercion potential; it therefore assumes an authoritarian state.

The economic organization that was in place in Argentina in 1989 was—substantially—the one built by the military regimes from 1966 to 1983: Assisted Capitalism. It fits to the "exploitation theory" presented by Douglass North fairly well.

The Argentine economy in place until 1989 has been described as a mixed economy, highly dependent on the public sector\textsuperscript{14}. The typical Latin American "mixed" economy has two components: the public sector (constituted by the state-owned firms) and the private sector (the privately-owned firms). But the Argentine "mixed" economy had three: the public sector, the private sector and the so-called assisted sector\textsuperscript{15}, constituted by an array of private firms that were institutionally subsidized by the state. The interplay between the state owned firms and these assisted private firms was the

\textsuperscript{14} GERCHUNOFF, Pablo and VICENS, Mario: Gasto Público, Recursos Públicos y Financiamiento en una Economía en Crisis. El caso Argentino. Instituto Di Tella (Mimeo); Buenos Aires (1989); pg. 8.

\textsuperscript{15} GERCHUNOFF and VICENS, Op.Cit.; pg. 9
core of the assisted capitalism effective in Argentina in 1989.

a) The Public Sector

In 1983 (the year in which democracy was recovered) in Argentina there were 353 state-owned firms and the state had minority participation in 201.\textsuperscript{16} In 1989 (when the process of reforms began) there were 236 state-owned firms (70 national, 4 bi-national and 162 provincial or local).\textsuperscript{17}

Table I.2 presents those numbers.

<table>
<thead>
<tr>
<th>Year</th>
<th>SOFs:</th>
<th>Minority Participation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>353</td>
<td>201</td>
</tr>
<tr>
<td>1989</td>
<td>236</td>
<td>70 National, 4 Bi-national, 162 Provincial and Local</td>
</tr>
</tbody>
</table>

The SOFs covered a very wide variety of economic activities: i) Exploitation of Natural Resources (Oil, Gas, Energy); ii) Public Services (Water, Electricity, Railroads, Airlines); iii) Infrastructure (Roads, Ports); iv) Industries (Steel, Plastics, Chemicals, Textiles, Food); v) Banking (State Owned Commercial Banks).

The SOFs were institutionally oriented to purchase inputs, capital goods or services in protected markets (i.e. "buy national" regimes, overpaid public contracts), paying prices above the market level, and to sell their products—goods and services—collecting prices below the equilibrium

\textsuperscript{16} DIAZ, Rodolfo: El Ajuste Estructural como Cambio de Modelo; MTSS, (Mimeo); Buenos Aires (1992); pg. 7.
level (i.e. subsidized prices of the public services). The rationale of this orientation was "to guarantee current output, employment and total investment to levels higher than those of the market"\(^\text{18}\)

These policies resulted in a deficit for the public sector and in a transfer of income to the private sector. Over time, the participation of the SOFs in the Public Expenditure had increased: from 11.9% in 1970 to 23.9% in 1989.\(^\text{19}\)

Table I.3 shows data of every 5 years over a period of 20 years.

<table>
<thead>
<tr>
<th>Year</th>
<th>% PE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>11.9</td>
</tr>
<tr>
<td>1975</td>
<td>16.9</td>
</tr>
<tr>
<td>1980</td>
<td>15.9</td>
</tr>
<tr>
<td>1985</td>
<td>22.9</td>
</tr>
<tr>
<td>1989</td>
<td>23.9</td>
</tr>
</tbody>
</table>

In the decade 1980/1989, the Treasury transferred 22.4 billion dollars to the 10 major SOFs; these SOFs only collected enough for 63% of their expenditures; they had a deficit of 37%.\(^\text{20}\)

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\(^{19}\) DIAZ, Rodolfo and ZULETA PUCEIRO, Enrique: Reform of the State and Infrastructure Policies Today. Paper presented to the VI Argentine-American Forum; Airlie Center, Maryland, (1993), pg. 17.

\(^{20}\) Ibid
b) The Assisted Sector

The Assisted Sector was composed of private firms that were institutionally subsidized by the state. These subsidies were not to compensate emergencies or misfortunes; those firms were institutionally entitled to be subsidized, because they were encompassed in certain specific statuses defined by law or by contracts with the state. That entitlement included not only the right to postpone or to be exempted from tax payments, but also the right "to benefit from inflation". For instance, the General Attorney's Office at that time considered that the contract of industrial promotion entitled investors to postpone tax payments; that the Administration ought to respect the acquired rights of the investor; that those acquired rights included "the right to benefit from inflation, a right which had been expressly recognized by the law".21

The general types of subsidies were: i) Tax Subsidies (industrial promotion, tax exemptions); ii) Price Subsidies (Public services provided by SOFs at below the cost prices) and iii) Credits Subsidies (State Owned Banks Loans at interest rates below inflation). Special types of subsides were: iv) Protected Public procurement or contracting (as "Buy National) and v) Debt Pardons (Unpaid taxes or Social Security dues-"Blanqueos"). All these subsidies produced substantial transfers of income to the private sector.

But the most negative of the subsidies were the legal mechanisms of indexation of contracts, mechanisms which expanded the assisted sector to all the private firms that conducted business with the public sector. There were an ex-

21 PROCURACIÓN DEL TESORO DE LA NACIÓN: Dictámenes 153:11, April 2, 1980
traordinary number of complex legal mechanisms through which the state had to overpay contracts upon the rationale of "to compensate inflation and effects of inflation". In that time, the General Attorney's office decided that the obligations of the state and of the contractor had to maintain their equivalency: if the contractual equilibrium between them was altered because of inflation, its re-establishment required the adjustment of the debt of the state, in order to secure the contractor's constitutional right of ownership. 22

These mechanisms were legal methods to change the nominal amounts of money established in the contract, in order to "correct" currency depreciation caused by inflation. Once these mechanisms were legally accepted, the binding force of contracts began to be undermined, its "self-enforcement" disappeared and a third party arbitrage—in general judges—was always required. The impact of this on transaction costs was enormous.

The technical procedures of adjustment used indexes that were constructed upon general averages, not specific variations of prices. This property of the indexes distorted the pursued correction and produced significant "distributional effects": the higher the rate of inflation, the more significant the secondary effects. The state was greatly harmed by these effects.

c) Interplay between Two Actors

In this model of assisted capitalism, there were two main actors: i) in the public sector, the type of state owned firms described earlier: organized as firms, ruled by managers, its money collected as public but expended as private,

and linked to the economy through contracts. ii) In the private sector, the assisted private firms, which were entitled to be subsidized because of institutional provisions of law.

The business interplay between the state owned firms and the assisted private firms, was established basically through contracts that were the object of different "correction" mechanisms. These produced more substantial transfers of income to the assisted private firms. Transfers through subsidies and through correction of contracts produced a deficit—substantial as well—for the public sector. That deficit was financed by inflation.

3. The Means: Inflation

a) Fiscal Deficit

The fiscal deficit increased significantly since the beginning of the assisted capitalism: from 1.8% of GDP in 1970, it surpassed 15% twice, in 1974 and in 1984; in 1989 it surpassed 20%. To better assess this level of deficit, it can be reminded that the Maastricht acceptable standard for the European Union is 3%.

Graph I.123 shows a series of 20 years variations.

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23 Data: MEOSP: Argentina: A Country for Investment and Growth; Buenos Aires (1993); cited in DIAZ, R. and ZULETA PUCEIRO, E.: Op.Cit., pg. 18. (There are other figures for this measurement; it is due to changes in the method to correct de effects of hyperinflation).
Transfers to the assisted sector were the single most important component of the fiscal deficit over this period. For instance, in 1989, the Ministry of Public Works transferred 8.7 billion US dollars to the State Owned Firms: 1.8 billion for salaries, and 6.9 billion for payments to private contractors; and out of those 6.9 billion, 5.0 billion was deficit.\textsuperscript{24} Economists say that transfers to the assisted sector could explain half of the Argentine fiscal deficit at the end of the eighties.\textsuperscript{25}

\textit{b) Financing the Deficit}

The typical options for financing a fiscal deficit are four: in the external market, bonds or credits from International Institutions or Commercial Banks; in the internal market, bonds or emission of monetary base. Bonds and credits

\textsuperscript{24} Ibid
\textsuperscript{25} GERCHUNOFF, P. and VICENS, M.: \textit{Op. Cit.}, pg. 39
have a term of maturity and, when it comes, the bond or the loan has to be paid by the state. But both (bonds and loans) are costly: they have an interest rate that—for countries with fiscal deficit—are usually high. Moreover, bonds and credits "shine in red" on the National accounts; and the IMF and international financial markets pay close attention to them.

However, "emission of monetary base" does not have interest rate or term of maturity; so, it is not supposed that the state has to pay for that printed paper. And, although the "monetary base" is actually registered on the national accounts, it does not "shine" as bonds and credits do. In the eighties, the Central Bank became an active player in the financing of the Argentine public deficit, by "emitting monetary base"; in plain English, by printing money. From 1980 to 1989, the fiscal deficit was financed 17.4% by credit, and 82.6% by "emission of monetary base".  


c) Inflation Rate

Since the seventies and until the reforms of the nineties, Argentina had an unusually high level of inflation. For instance: in 1976, 347.5%; in 1984, 688% and in 1989—the moment when the process of reforms began—the crazy record of 5,000% (actually, 4,923%).

Table I.4 presents the peak years.
Table I.4
Inflation Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>347.5</td>
</tr>
<tr>
<td>1984</td>
<td>688</td>
</tr>
<tr>
<td>1989</td>
<td>4,923</td>
</tr>
</tbody>
</table>

d) Institutional Impact of Inflation

Inflation always has institutional effects that vary in direct relation to the level of the rate. When the rate of inflation is at a "normal" level (for international standards) say, from 10% to 25% a year, the country still has functioning monetary institutions, and the macroeconomic instruments developed by economic science have proved to be effective in managing and correcting the phenomenon. However, when inflation is 300% or 600%, the country has very imperfect monetary institutions; so, to maintain the function of the currency, very complex (and costly) methods of measurement and adjustment, such as indexation, are needed; with those "orthopedic" mechanisms the country can use its currency, but at a very high level of transaction costs. But when inflation is 5,000%, the country does not have monetary institutions; in plain English, the country does not have a currency. It is not possible to use that printed paper at any cost; the costs of measurement, adjustment, transaction and enforcement become almost infinite.

Inflation in Argentina over the last 30 years has not been "normal": more than 300% in the late seventies, more than 600% in the mid-eighties, and 5,000% in 1989. This level of inflation means that the country was losing—and finally
lost completely—a central social institution: the currency. Without a "currency" there are no "wages" or "contracts"; without contracts there are no "transactions"; without transactions there is no "cooperation"; and without cooperation there is no "society". Argentina was very near to such a situation at the end of the eighties; it was described as "the risk of Lebanon-ization".

The complexities of this historical experience contributed significantly to explain the Argentine response to the crisis of 1989: the strong political support to the process of reforms of the nineties, to accomplish one central objective: the elimination of inflation.

e) Inflation as a Tax

Economists have explained how inflation functions as a tax: "High inflation is considered as a tax on persons' currency holdings. Its collection base is the named M1 monetary aggregate, that is the conjunct of monetary assets held by private individuals which do not yield interest or indexation, and hence are exposed to inflationary erosion".27

In Argentina inflation was indeed, a tax and by the end of the eighties it was almost the only tax that was actually collected by the state. It was also the most antidemocratic, regressive and impossible to evade of all taxes: antidemocratic, because it was imposed "de facto", not by law; regressive, because it impacted much more on the poor than on the rich; and impossible to evade, because it was collected by the state in advance, by lowering the currency value. Inflation was regressive in regional terms too; most of the provinces' financing come from "shared revenues", that are

27 MEOSP: Argentina en Crecimiento; Buenos Aires (1995); pgs. 16/17
taxes collected all over the country by the federal government and partially distributed to the provinces; revenues from the "inflation tax" were however not distributed

By means of the inflation tax, the Argentine state appropriated income from society and with it financed transfers to the assisted sector of the private economy; thus, inflation was an instrument to transfer income from the whole society to the assisted private sector and from the provinces to the federal government. The inflation tax was also an instrument to transfer income from the poor to the rich: it is well known that inflation has distributional effects, and in Argentina at the end of the eighties, these effects were extremely regressive.

f) The Social Impact of Inflation

Estimates of the impact of inflation on the distribution of personal incomes from 1980 to 1990 confirm that the inflation tax was indeed severely regressive. The average burden borne by the poorest quintile of the population as a percentage of their income was 8.6%, almost three times the burden borne by the highest-income quintile: 3%. In the third quarter of 1989 the ratio was 13.6% for the most vulnerable sectors, compared to 4.8% for the group with the largest relative income.28

Other estimates abound on the importance of this phenomenon. Without considering the decline in real wages that accompanied the long period of inflation in Argentina, nominal wages effectively earned in the period were severely affected by the inflation tax. With a given income pyramid and

a given structure of spending for each level, the inflation tax has an exponentially greater impact on low and middle-income wage earners than on the upper income strata.

An exercise conducted in 1989\textsuperscript{29} showed this effect very clearly. It assumed two agents of different incomes: one of A500,000\textsuperscript{30} and the other of A50,000 in a context of hyperinflation; the first had many ways to "protect" the money from inflation (exchange transactions, financial investments) but the second had very few (basically, to expend it as fast as possible). Inflation being 135.7\% monthly (the actual rate in June 1989), the "inflation tax" burden was 25\% on the income of A50,000 and only 2.1\% on the income of A500,000. The sensitivity of this analysis is apparent in its second step: if inflation falls to 33\% monthly, the tax burden on the low-income earner falls from 25\% to 8.6\%. Having brought an end to this expropriation is a specifically social and political effect whose importance has been clearly perceived by the Argentine population, and which serious analysis cannot underestimate.

4. The Ends: Transfers to the Private Sector

Now, one step before the end of this Introduction, a very relevant question arises: How much money was transferred to the assisted sector of the Argentine economy through the mechanisms of assisted capitalism, until the reforms of the nineties changed it? There are several elaborations of the answer to this question; here one will be referred to, made

\textsuperscript{30} "A" was the sign for "Australes", the Argentine currency at that time.
within the government in the process of implementation on the Convertibility Law\textsuperscript{31}.

Table I.5 present the figures.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|}
\hline
Year & Overpayments & Industrial Promotion & Total Transfers & Inflation Tax \\
\hline
1980 & 13,392 & 344 & 13,736 & 7,999 \\
1981 & 9,579 & 616 & 10,195 & 10,941 \\
1982 & 4,905 & 436 & 5,341 & 9,199 \\
1983 & 4,607 & 508 & 5,115 & 5,771 \\
1984 & 4,393 & 622 & 5,015 & 6,904 \\
1985 & 3,403 & 753 & 4,156 & 2,779 \\
1986 & 4,120 & 1,124 & 5,244 & 2,835 \\
1987 & 4,575 & 2,189 & 6,784 & 4,683 \\
1988 & 4,623 & 2,354 & 6,977 & 5,120 \\
1989 & 2,533 & 1,768 & 4,401 & 5,173 \\
\hline
TOTAL & 58,030 & 10,714 & 68,744 & 61,404 \\
\hline
\end{tabular}
\caption{Inflation Tax and Overpayments (millions of 1991 US dollars)}
\end{table}

The table measures three variables: i) "Overpayments", or excess payments made by the state to private contractors, due to legal mechanisms described in Section 2.b; ii) "Industrial Promotion", the tax subsidies described in Section III.4; and iv) "Inflation Tax", or income collected by the state by means of the functioning of inflation as a tax, as is described in Section III.5.

These data show that through the decade, the state made $58.0 billion in overpayments to private contractors; and that

\textsuperscript{31} LLACH, Juan and CERRO, Fernando; Informal Memo to the author; Buenos Aires (1992).(Llach was Vice Minister of Economy in President Menem's administration and Minister of Education in President De la Rúa's Government. Cerro was a junior
it gave "industrial promotion" tax subsidies for $10.7 billion; amounting together to $68.7 billion. Furthermore, the state collected $61.4 billion as inflation tax. So, data show that from 1980 to 1999, the state transferred to the private sector $7.3 billion more than the amount it collected as inflation tax.

Table I.6 compares transfers and inflation tax as annual averages throughout the decade. From 1980 to 1989, the state extracted an average of 6.1 billion dollars a year through inflation, and transferred to the assisted sector an average of 6.7 billion a year. Considering the period before the democratic restoration (1980-1983), or the period after democratization (1984-1989), or the full decade (1980-1989), the money transferred to private firms always exceeded the money collected through the inflation tax.

Table I.6

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers</td>
<td>8,599</td>
<td>5,409</td>
<td>6,684</td>
</tr>
<tr>
<td>Inflation Tax</td>
<td>8,478</td>
<td>4,582</td>
<td>6,140</td>
</tr>
</tbody>
</table>

Though the annual average for the period 1984-1989 is lower than the annual average for the period 1980-1983, in 1986, 1987 and 1988 (in 1989 counts half a year) the amounts transferred to the private sector were higher than the amount transferred in 1983, the last year of the military dictatorship.

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* economist then and afterwards Director of National Accounts of the Ministry of Economy*)
Finally, Table I.7 includes Public Expenditure and GDP as variables in the comparison of Table 6. Before the democratic recovery (1980-1983), annual transfers to the private sector were 35% of the Public Expenditure and 9% of GDP. After democratization, (1984-1989), they were 19% of the Public Expenditure and 6% of GDP. For the full decade, the state transferred to the private "assisted" sector 25% of the total Public Expenditure and 7% of GDP.

Tables I.6 and I.7 show that both before and after 1983 (the year of democratic recovery) inflation tax, overpayments due to "contractual relationships", industrial promotion tax subsidies and income transfers to the private sector, remained institutional characteristics of the Argentine economic organization.

These data sustains the thesis that the basic institutions of the political economy built by the military ("Assisted Capitalism") remained untouched and "survived" the

### Table I.7

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<tbody>
<tr>
<td>Overprices</td>
<td>8,121</td>
<td>3,941</td>
<td>2,389</td>
<td>5,603</td>
<td></td>
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<tr>
<td>Industrial Promotion</td>
<td>476</td>
<td>1,468</td>
<td>1,071</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>8,597</td>
<td>5,409</td>
<td>2,389</td>
<td>6,684</td>
<td></td>
</tr>
<tr>
<td>Public Expenditure</td>
<td>24,575</td>
<td>28,307</td>
<td>16,657</td>
<td>26,814</td>
<td></td>
</tr>
<tr>
<td>G.D.P.</td>
<td>92,052</td>
<td>92,033</td>
<td>91,653</td>
<td>92,041</td>
<td></td>
</tr>
<tr>
<td>%Transfers/Expenditure</td>
<td>35</td>
<td>19</td>
<td>14</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>% Transfers/G.D.P.</td>
<td>9</td>
<td>6</td>
<td>2.6</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

...
restoration of democracy, until the 1989 collapse. What was
changed by the reforms of the nineties in Argentina were
these "surviving" economic institutions of the Bureaucratic
Authoritarian model of state.

5. The Starting Point: the Collapse of Assisted Capitalism

In 1989, the state in Argentina was not the "populist"
state built by the Peronists. Despite the improvements made
by the first democratic government, the state still had eco-
nomic institutions of the authoritarian model built by the
military. In 1989, the political economy of Argentina was not
the typical ISI oriented model; it was the model described
above, which in the eighties was called "assisted capital-
ism". The logic of that model produced substantial transfers
of income from the whole society to a certain sector of the
private economy (the "assisted sector"). These transfers were
financed through inflation. In Argentina, inflation was a
tax: the most antidemocratic, regressive and hard to evade of
all taxes.

At the end of the eighties, assisted capitalism col-
lapsed: the Argentine democratic transition sank into a deep
crisis, hyperinflation led the economy to the brink of disso-
lution, uncontrolled conflicts put the society at risk of ex-
plosion, and lack of governability strained the polity to the
limit.

A wide and deep process of reforms was implemented
throughout the nineties to solve the problems associated with
that collapse. Appraisals on its outcomes vary; nevertheless,
there are certain generally accepted facts: from 1989 to 1999


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Argentina preserved its democracy, stabilized its economy, grew more than 50% in eight years, and recovered a place in world politics. That process of reforms is the subject of this book.
Chapter I: REFORMING THE ECONOMY

I. Economic Reform  
II. Monetary Reform  
III. Fiscal Reform
- I -

ECONOMIC REFORM

Reforms in Argentina have been not a blueprint-driven process; instead, they have been specific solutions for specific problems associated with assisted capitalism. Economic reform consisted of measures adopted to solve those problems: to stop transfers of public funds to private firms, to eliminate subsidies and promotional regimes, to declare the Central Bank independent, to stop monetary emission, to liberalize trade, foreign investment and capital markets, to reformulate "adjustment mechanisms" of public contracts and privatization of state-owned firms. The reforms resulted in very positive effects in growth, inflation, investment, economic rationality and international integration; in unemployment, trade, government expenditures and external debt, the effects have been more problematic. There is a significant correlation between policies and results.

The situation in Argentina in 1989 has been extensively analyzed in the Introduction to this book. The "starting point" of the process of reforms of the nineties was a political economy of "assisted capitalism", whose main characteristics were transfers of income from the whole society to private "assisted" firms, financed by inflation. This "variety" of capitalism had a very poor performance over time (more than 15 years with no growth) and, at the end of the eighties, it collapsed.

1. The Collapse of 1989

In August 1988, a program for economic recovery\(^1\) was implemented by the government of President Alfonsin. This famous plan, "Plan Primavera" was not a plan of economic reform (thus different from the one implemented in the nineties). Though the explicit objectives of the Plan Primavera were

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sustainable growth, economic openness and integration to the world economy, it did not propose any change in the institutional and regulatory structure of Argentine economy for the achievement of its stated objectives.

This plan had no effect on the economy, and by 1989, the economic situation was extremely adverse: in June, Argentina experienced its worst ever hyperinflation since World War II\(^2\), with no foreign reserves, a large fiscal deficit and a large inefficient state machinery. As was explained above, state-owned firms were instrumental in providing income transfers to the "assisted sector" that generated the deficit, financed through inflation. And state organisms, whose mission was to explicitly intervene in economic activities, had created such distortions in the domestic market that they were no longer sustainable: the currency was no longer of any value, state employees were not being paid, and there was civil unrest.

The effective institutional framework was inefficient and unresponsive to economic signals and trends. The public perception of the economic situation was one of uncertainty. Private economic agents were not able to function rationally, individuals were reaching a point of social tension, and among academia, there was a consensus that the economy had to be opened to outside markets through deregulation and privatization of existing state-owned firms. The interventionist government model had come to an end in the public's eyes. "Assisted capitalism" was over.
2. "Plan BB"

The economic reform began with a law whose proposal was based on the framework laid out in a plan presented to the newly elected president, Dr. Carlos Menem, by a group of economists of the firm Bunge & Born—the largest Argentine holding in those days—on July 5, 1989 (four days before Menem’s inauguration). This plan, the "Program of Government, 1989 and Beyond"—named by the press as “Plan BB”—was intended to control the situation described above, and to stabilize the market and prices in order to restore credibility domestically and internationally, so as to start the process of economic growth and development.

This new plan—different from the previous government's Plan Primavera—was actually a program of economic reform: it included proposals for changes in the institutional and regulatory structures of the Argentine economy. That is why Orlando Ferreres, the drafter of "Plan BB", considered the true challenge of this economic plan to be the changing of at least thirty laws and the creation of several new ones (as necessary to implement the reform). Therefore, the first new law proposed was named "Economic Emergency Law", afterwards passed by Congress as Law 23,697. It must be said that this was more than a simple law: since it called for the creation, elimination and transformation of laws, regulations and institutions, it was actually a "framework" law.

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4 Interview with Orlando Ferreres by Jorge Kukulas; Buenos Aires, July 2000.
The set of laws and regulations embedded in this plan was first presented to the Peronist congressmen that same July of 1989 by Ferreres, who was Vice-Minister of Economy of the new government. He described the presentation of the proposal as "a physical and professional challenge". Discussions went until late evening. The reaction from the Peronist party was one of surprise because of the radical changes that were being proposed; some proposals were well taken and others were not; some congressmen agreed while others were totally infuriated. Overall, however, there was a sense that the economic situation had to change and that the cause was the current collapsed system.

The executive branch of the new government made it clear that the whole list of reforms was imperative under the current situation. Therefore, the objective of compiling a "package" of reforms in the "Economic Emergency Law" was to create leverage in order to make those changes immediately, using the momentum of the new government. The extremely complicated economic situation created enough room for the reformers to implement the changes described in the next section.

3. Contents of the New Law

The proposed new institutional framework was composed of twenty eight structural changes leading to thirty chapters in Law 23,697, and afterward to several decrees, and eventually to Law 24,144. At the core of Law 23,697 were several mechanisms to stop the transfers of public funds to private firms,

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5 Interview with Orlando Ferreres.
6 The decrees that are being mentioned are: Decree # 435/90, 36/90, 1757/90, 2284/91, 1930/90. Law 24144 was sanctioned in September 1992.
which was the cornerstone of assisted capitalism. Some of the chapters of the law will be summarized below.

a) Chapter I: State's Emergency Policy Power

This chapter declares that Law 23,697 is the exercise of the "State's Emergency Policy Power". "Policy Power" was an ancient Argentine legal institution which consisted of the legal capacity of the state to impose, through law, reasonable limitations on individual rights, in order to secure collective goods such as general prosperity and well-being, and community economic interests.  

b) Chapter II: Suspension of Subsidies

Discretionary subsidies were standard instruments of the bureaucratic-authoritarian state and of assisted capitalism, and over time they became so anarchic that in 1989 it was unknown how many subsidies the government granted. Therefore, since some of the subsidies were based on laws, their suspension also had to be in the form of a law. The new government recognized that some of those subsidies would be necessary, but a suspension was required in order to identify and quantify them in the national budget as they were re-awarded. This chapter brought about some initial negative reactions, but once it was made clear that in order to have an efficient and transparent allocation of the government's resources the subsidies had to be known and explicitly spelled out in the budget, public opinion reacted in favor of the measure.

c) Chapter III: Reform of the Charter of the Central Bank of the Argentine Republic

7 Procuración del Tesoro de la Nación: Dictámenes 208:138; 224:113
The role of the Central Bank in assisted capitalism was to finance the deficit by emission of the "monetary base". This chapter called for the independence of the Central Bank from political power so as to create monetary stability. Eventually—and from the very beginning—the idea was to create a currency board by which the new currency would be pegged to the US dollar. The intention of giving autonomy to the Central Bank was to preserve the value of money so as to stop inflation and create a prosperous environment for foreign investment. This proposal had wide support because in July 1989, immediately after stopping the printing press at the Central Bank, the impact of lower inflation was felt. This clearly demonstrated the causes of Argentine inflation at the end of the eighties.

d) Chapter IV: Suspension of the Industrial Promotion Regime

Promotional regimes (tax subsidies to private firms) were a hallmark of assisted capitalism. The rationale of this regime was the creation of jobs, but the allocation of resources for industrial promotion was very inefficient. By 1988 the "promoted" firms were supposed to have created 55,000 jobs, and the cost of industrial promotion for the state the same year was $2.3 billion: enough money to pay more than 780,000 salaries. The system was anarchic as well, because it consisted of hundreds (perhaps thousands) of contracts between the state and individual firms.

The proposal intended to eliminate that regime and to replace it with a new system that would be general, transpar-

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8 See Introduction, Section IV.2
9 See Chapter I, Section II.2
10 See Introduction, Section V.1
11 The average industrial wage in 1988 was $250 monthly
12 See Introduction, Section III.4
ent and explicitly detailed in the government's budget. This chapter created some controversy in Congress, not only among the opposition, but among members of the Justicialista Party, as well. This was not because of political "traditions" (as populism has been attributed to the Peronists), but because of the interests of provincial and local constituencies that benefited from the "promoted" areas. The firm stance of the executive, the professional discipline of the Peronist legislators and the positive reaction of public opinion overcame those controversies.

e) Chapter V: Suspension of the Mining Promotion Regime

This chapter was similar to the chapter on industrial promotion, but it was more limited. The rationale of the mining promotional regime was "regional development". Considering that the regime had not achieved any positive results in the development of this industry, controversies in Congress were smaller.

f) Chapter VI: Foreign Investment Regime

This chapter reflected the need to cancel the old regime's requirement of official authorization for acceptance of foreign investment. This reform mandated that foreign investors be treated the same as a domestic investors. Although the "Foreign Investment Registrar" was maintained, it would take the role of a purely statistical institution. The intention was for Argentina to become compatible with the international markets so as to create credibility for the forthcoming privatization process, allow for technology transfers and encourage foreign direct investment. It was clear to all the participants (government, opposition, business, labor, etc.)
and to the public, that foreign investment was an important source of economic growth.

Other chapters dealt with capital markets, compensation of credits and debts between the state and the private sector, and between the state-owned firms and the state, and a more expeditious prosecution regime for tax evasion.

4. The Approval

In no more than ten days the draft was written by the new economic team, and the bill for the Economic Emergency Law arrived at Congress via the Senate on July 22, 1989. The press mentioned\textsuperscript{13} that this bill entered through the Senate because the executive considered it the "defender" of their initiatives. But the real reason was that due to President's Alfonsin resignation, President Menem had taken office six months in advance, but the new Deputies were to take office on December 10, and so the Chamber of Deputies still had the "old" composition\textsuperscript{14}.

The Senate initiated the approval process and the bill was discussed on the Floor in a single session on August 8, 1989. There were eleven interventions in the debate: four by the Government's PJ Senators, five by Opposition UCR Senators and two by Senators of other Parties. The general presentation sustaining the bill was made by Senator Juan Carlos Romero (PJ-Salta), and the case against it for the UCR was made by Senator Juan Trilla (UCR-Capital Federal). PJ Senators and


\textsuperscript{14} See Chapter IV, Section I.2
some provincial allies voted for the bill, while UCR Senators voted against the Economic Reform Law.\textsuperscript{15}

The bill was then sent to the Chamber of Deputies, and it was considered on August 23-25, 1989. There were twenty-one interventions in the debate: two from PJ Deputies, five by UCR Deputies and fifteen by Deputies of Provincial and other Parties. The general presentation was made by Deputy Jorge Matzkin (PJ-La Pampa) and the opposition case was made by Deputy Raul Baglini (UCR-Mendoza).

Matzkin presented the law within the context of "emergency", vividly characterizing the situation in a very well informed speech, and carefully describing all the measures and institutions proposed by the bill. Baglini accepted the idea of emergency, but presented it as the result of a long historic process rather than a responsibility of President Alfonsin's Government, and criticized the proposed measures and institutional changes in great detail. Baglini called some of the conflicting articles "Trojan horses", arguing that they would bring about a loss of parliamentary power in relation to the executive branch. Jose Luis Manzano (PJ-Mendoza) responded, calling Congress's attention to the fact that these tools would only be used to cope with the state of emergency and that without them the crisis would not be solved nor would transparency be achieved.

As part of the agreement negotiated between the UCR and the PJ to make viable Menem's taking office six months early, there was a compromise by the UCR to make approval of this legislation possible. But in the Chamber of Deputies, this law was approved with 105 affirmative votes of the PJ Depu-  

\textsuperscript{15} H. Senado de la Nación: \textit{Diario de Sesiones}, 8 y 9 de Agosto de 1989
ties and some allies of Provincial Parties, over 79 negative votes from the opposition and 12 abstentions. The UCR Deputies voted against the Economic Reform Law.\textsuperscript{16}

The House modified a certain number of articles and sent the proposal back to the Senate for final approval. The Senate, in turn, did not approve some of the changes made, and after meetings between Deputies and Senators, the text was again sent back to the Chamber of Deputies, with some articles including an "insistence" from the Senate not to modify them. The final text was then approved on September 1.

5. Solutions to Problems

Law 23,697 was not a technocratic blueprint or an academic system. It was a rational assembly of specific solutions for specific problems\textsuperscript{17}, problems which were characteristic of "assisted capitalism": i) Institutionalized subsidies to private firms through taxes, prices, credits and payment regimes (Chapters II, IV, V, VII, VIII, X); ii) Monetary emission (Chapter III); iii) Fiscal deficit: (Chapters IX, XXV, XXVII, XXVIII); iv) Adjustment mechanisms for contractual relations: (Chapters XIV, XV, XVI); v) State-owned firms, autarchic organisms and their managers: (Chapters XVIII, XIX, XX, XXIV); vi) Distorted Market Mechanisms; (Chapters VI, XVII).

This method—addressing specific problems with specific solutions—was followed from the beginning of the process of the reforms, and it proved to be extremely successful.

\textsuperscript{16} H. Cámara de Diputados de la Nación: Diario de Sesiones, 24 y 25 de Agosto de 1989

\textsuperscript{17} See: Introduction, Section I.1
6. **Complementary Measures**

After Law 23,697 was approved, several decrees were immediately issued. The most important were the following:

i) **Decree 36/90**: Declaring that banks and other financial firms will return their deposits in Australes on fixed terms, and honoring their deliver of "External Bonds 1989" (BONEX 89), as well as other measures related to the internal public debt.

ii) **Decree 1930/90**: Suspending remaining subsidies, as well as reimbursements and tax exemptions; implementing several measures related to the economic emergency, and extending the term of those established by Law 23,697.

iii) **Decree 435/90**: Ceasing Central Bank monetary emission, suspending new public procurements, freezing vacancies in the public administration and reducing its upper levels; derogating tax exemptions and deciding on other public financing issues.

iv) **Decree 1757/90**: Limiting public expenditures, downsizing public administration, standardizing public salaries, and simplifying taxes.

v) **Decree 2284/91**: Deregulating a wide portion of the domestic market and international trade (there were exceptions), eliminating a series of bureaucratic organisms, and among other things, unifying the administration of social security.

vi) **Law 24,144**, which approved the new charter of the Central Bank, giving it the necessary autonomy for preserving the value of the currency and prohibiting the financing of government activities, should be mentioned as well.
7. Enforcement of Economic Reform

Political support was key to the approval as well to the enforcement of the economic reform. As mentioned above\textsuperscript{18}, the Economic Emergency Law passed through Congress expeditiously, overcoming obstacles and controversies, due to the support of a broad coalition of political, economic and social actors, built and led by the President. This wide base of support gave the process of reforms a strong political legitimacy. Both supporters and critics of the reforms agreed on the relevancy of the presidential leadership; for instance, in 1991, after the process of reforms had begun but before the results began to show, Menem coined the phrase "We are bad, but we are going well"\textsuperscript{19}, to express his confidence in the reforms success. The phrase was popularly accepted and, sooner rather than later, confirmed by evidence.

Another key element that enhanced the enforcement of the economic reforms was the empowerment of the ministers in charge of it: Erman Gonzalez and Roberto Dromi in 1989 and 1990, Domingo Cavallo and Eduardo Bauzá from 1991 onwards. They had the responsibility of planning the implementation of the economic reform designed by Law 23,697; and their role and technical capabilities were key to the success of the new economic institutions and their influence on other areas.

The unification of the Ministries of Economy and Public Works and Services (entrusted to Cavallo), and the enlargement and upgrading of the Presidency's General Secretariat (Bauzá's office), were also resources allocated to ensure the reform’s enforcement. Although it was argued that there were no check and balances on the ministers' decisions, many of

\textsuperscript{18} See this Section, #4
those decisions were submitted to extensive scrutiny and negotiation in Congress\textsuperscript{20} or challenged by lawsuits in the courts\textsuperscript{21}.

Public opinion was focused on the crisis the country was undergoing, while the political, economic and social actors all agreed that something had to be done to put the country back on track. This is why the economic reforms were widely accepted, and when discussed (in Congress as well in public opinion) only their general policy-making characteristics were highlighted—there were no specific controversies over technical details. It was not until the deregulation decrees of 1991 that there was a more visible reaction from social and economic actors as well as the public. But even then, business associations and unions supported the measures taken by the administration, arguing about certain specific policies while accepting broadly the general scope of the reforms. The media was also supportive in those days: for instance, if a newspaper ran an argument against deregulation of markets, it would also run an article about the positive reaction of capital markets to the exact same policy.

Finally, the institutional advantages of the Justicialista Party played a relevant role in the reform's enforcement, securing two key elements: first, professional discipline of the Peronist legislators who were at the time the majority in both Houses; and second, a challenging but constructive attitude from unions that were—and still are—substantial actors in the Argentine political system.

\textsuperscript{19} "Estamos mal pero vamos bien"
\textsuperscript{20} Privatization of Obras Sanitarias and YPF.
\textsuperscript{21} Privatization of Aerolineas Argentinas (Case Dromi); "Plan Bonex" (Case Peralta)
Modifications to the original law and regulations have been noticeably absent; initial reforms remained in their original form and underwent no modification. Nevertheless, further changes and modifications had to be imposed to react to phenomena like the Mexican “tequila” crisis of 1995 and the Asian crisis of 1998.

8. Information flows

The information flows created by the economic reform are represented in the following diagram. The Economic Emergency Law created, changed, and eliminated institutions; it also provided for new regulations and changes in existing laws.

The new institutions and regulations set the economic order of the domestic economy and—at the same time—had “reform spillovers” on other institutions and laws that were not directly addressed by Law 23,697. The new institutions and regulations directly affected the view of international economic agents (i.e. sending signals of credibility). The domestic economy sent signals to international markets in the form of economic performance measures. The international markets responded to those signals through investment, credit ratings, etc. The domestic economy fed back information to other governmental institutions that would lead to several outcomes (i.e. change of the institution, change of the law, etc., as it was regarding labor market regulations).

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22 Developed by my research assistant Diego Arias Carballo, KSG, Harvard University.
9. Effects

The main economic problems that the country faced in 1989 were solved or significantly ameliorated between 1989 and 1999. After 15 years with no growth, Argentina grew 7 out of 10 years in the nineties: economic growth increased more than 40% over the decade; inflation was terminated: from 5,000% a year to 0%; investment grew every year but two; GDP per capita grew from less than $8,000, to $12,000; poverty decreased from 47.3% to 26.7%; subsidies were reduced from 4.7% of GDP to less than 0.5%. Most of the economic indicators show evident improvements from 1989 to 1999. And not only was the reform sustainable over time, but it also had an immediate positive impact in the first years.

Reforms in Argentina have been a series of specific solutions to the specific problems which were associated with
the political economy effective in 1989: assisted capitalism, inflation tax, institutional mechanisms to transfer income from the public to the private sector (subsidies, contracts, "adjustments", privileges) and "the assisted sector" in itself. From this perspective, too, the reforms have been very successful.

The following graphics\textsuperscript{23} show the performance of some of the above mentioned indicators:

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Graph_I.I.1}
\caption{Economic Growth (1989/1999)}
\end{figure}

\textsuperscript{23} Data: World Bank: World Development Indicators 2000.
Graph I.I.2
Inflation
(1989/1999)

Graph I.I.3
GDP per Capita
(1989/1999)

Inflation, consumer prices (annual %)

GDP per capita, PPP (current international $)
Other indicators had a much less impressive performance: employment, exports, public expenditure and external debt.
Unemployment improved in 1991 and 1992\textsuperscript{24}, but afterwards rose to record levels\textsuperscript{25}; the same evolution is observable regarding balance of trade; government expenditures grew more than the GDP since 1992; exports as percentage of GDP, flattened; total external debt grew, though less than GDP. Although repayment flows grew only slightly, the ratios (relative to exports) grew more significantly; and the Argentine Trade/GDP ratio is lower than the rest of the world.

The graphics\textsuperscript{26} below, show their evolution.

\begin{center}
Graph I.I.6
Unemployment
(1989/1999)
\end{center}

24 The initial years of stabilization, when I was Minister of Labor.
25 This phenomenon is analyzed at length in Chapter II, Section II.
Graph I.I.7
Exports as % of GDP
(1989/1999)

Graph I.I.8
External Debt and Repayment Ratio
(1989/1999)
10. Measuring the Reforms

One cannot evaluate the reforms simply by measuring "the effects" of the reforms because those effects are—or could be—the result of circumstances and phenomena other than the reforms (for instance, the overall Argentine economic performance was deeply affected by the Mexican, South East Asian and Russian international financial crises, as well as by the Brazilian devaluation). In order to overcome that difficulty, several instruments to measure the reforms isolated from other factors have been created.27

The 'Structural Policies Efficiency Index' has been devised—by an expert with the Inter American Development Bank 28—to measure "policies" instead of "results". It is defined as "a simple average of the policy indexes of the following five areas: (i) trade policy, (ii) financial policy, (iii) tributary policy, (iv) privatizations and (v) labor legislation. In each of these areas, one or more basic indexes can intervene, and an average of them is calculated. Each of those basic indexes can move from 0 to 1, where 0 corresponds to the worst observation and 1 to the best.”29

The following graphs30 present the evolution of each index during the 1990s, calculated for Argentina and the average for nineteen countries of Latin America and the Caribbean.31

28 Eduardo LORA, from the IADB Research Department
29 LORA, Eduardo: Op. Cit., pg. 23
31 Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.
Graph I.I.9
Structural Policies Efficiency Overall Index
Argentina and Average:
(1989/1999)

Graph I.I.10
Trade Policy Efficiency Index
Argentina and Average:
(1989/1999)
The Reforms of the Nineties in Argentina
By Rodolfo Diaz
WCFIA Fellow - Harvard University

Graph I.I.11
Financial Policy Efficiency Index
Argentina and Average:
(1989/1999)

Graph I.I.12
Tributary Policy Efficiency Index
Argentina and Average:
(1989-1999)
Graph I.I.13
Privatization Policy Efficiency Index
Argentina and Average:
(1989/1999)

Graph I.I.14
Labor Policy Efficiency Index
Argentina and Average:
(1989/1999)
The graphs show visible improvements in structural policies in the region, since “the average index for all the countries and for all the structural policy areas was 0.34 in 1985. At the end of the nineties, it was 0.58.” But the graphs also show a more impressive improvement in Argentina: the index varied from 0.375 in 1989 to 0.623 in 1999, and the country surpassed the regional average in the Overall Index, as well as in the Trade, Financial and Privatization Indexes. However, in the Tributary and Labor indexes Argentina lagged below the regional average.

These measurements are absolutely consistent with the analysis developed in the chapters that follow, especially with those of Fiscal Reform and Labor Reform which point out shortcomings in the reforming endeavor. On the other hand, these measurements of "policies" are consistent with the measurements of "results": the more problematic results of the process of reforms of the nineties have been the increase of unemployment and the resiliency of fiscal deficit; both phenomena related to the two areas with the worst Structural Policies Efficiency Indexes: Tributary and Labor. It seems a plausible inference that the more the reforms, the better the results.

11. Two "paces"

In terms of targeted objectives, the economic reform of the nineties has been successful and sustainable over the decade. But in terms of more general long-term objectives, there are two different "paces" observable in its perform-

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32 LORA, Eduardo: Op. Cit., pg. 1
ance: until 1994, the Argentine economy grew more than 8% a year; in the second half of the decade, the average rate was clearly lower.

To explain the slowdown in the performance of Argentine economy, several approaches have been proposed:

a) The first argues that the lack of further reforms prevented the country from fully capturing the benefits of the "market-oriented economy". Failures in the attempts to reform the labor market are often mentioned as proof of this position.

b) The second focus is on the convertibility law (with the 1 to 1 peg to the dollar) as a source of rigidity that impedes the Argentine economy from reacting to shifts in the international trade environment. The negative effects of the Brazilian devaluation in 1998 on Argentine Mercosur trade are repeatedly cited to support this point of view.

c) The third approach refers to the international financial markets as a "transmission wheel" of economic crisis from abroad to Argentina, even though Argentina has had almost no direct relations with those countries directly affected by the crisis. The Mexican breakdown in 1995, the South East Asian crisis in 1997 and the Russian default in 1998, are the cases used to sustain this argument.

d) The fourth approach considers that "politics" overcame "economics" in the policymaking process, so that political decisions jeopardized the attainment of long-term economic objectives. The increases in public spending after 1992 is frequently cited to support this point of view.

All the elements mentioned in these arguments are relevant; all have a great deal to do with the performance of the Argentine economy in the second half of the nineties. However, none of them provides a causal explanation of the above-mentioned slowdown.

Although these arguments will be taken up again later on, a few additional comments should be made.

a) More than "lack of reforms", there have been "failed attempts" that have been the cost of the "trial and error" method of the process and of the democratic procedures followed, which required a threshold of consensus not always possible to attain.

b) Recovering the aptitude for "internal cooperation" in Argentine society required a trustable currency. Yet confidence in the currency came at the cost of "external rigidity", a necessary effect of the convertibility law.

c) International financial markets actually increased Argentina’s vulnerability to economic crisis. Yet Argentina decided to defend the reform process and to maintain the currency value, fully aware of the consequent short-term costs in growth.

d) Finally, in the case of Argentine economic reforms, "politics" has been not an obstacle, but rather the driving force that made reforms possible, carried them out, supported and defended them and paid the unavoidable political cost.

For armchair policymakers, reforms are technical decisions without costs. In the real world, there is no such a thing as a free lunch.
Inflation was a characteristic of assisted capitalism, and hyperinflation the consequence of its collapse. Convertibility was the cornerstone of the solution: its economic effect was to terminate inflation; its political function was to provide trustworthy currency and certainty that made social collaboration possible once again. It produced social learning that determined strong political support for convertibility and for the "1 to 1" peg with the US dollar, as well as legitimation of devaluation as an instrument of monetary policy.

In March 1991, the Argentine Congress approved Law 23,928, the "Convertibility Law", which is so named because it allows for convertibility of the domestic currency into dollars; it also established that 100% of the monetary base must be backed by reserves in the Central Bank, which were declared "unattachable". It eliminated all indexation and adjustment mechanisms for all transactions and legal obligations, public or private. And it authorized the creation of a new domestic currency, maintaining the convertibility at a determined rate. Thus the "peso" was created, convertible "1 to 1" to the dollar.

1. Crisis and Hyperinflation

The eighties could be characterized as a time of crisis or transformation, or both; they have been described as "years of economic crisis...understood as a phenomenon of upheaval and destruction similar to an earthquake, after which the Argentine economy will not be the same as in the past".

For the Spanish word "Inembargable". KAPLAN, Steven: English-Spanish, Spanish-English Legal Dictionary; pg. 492

Canitrot, Adolfo: La Macroeconomia de la Inestabilidad; Boletin Informativo Techint No 272. October-December 1992; pg.37.
As in most Latin American countries, in Argentina great devaluations caused a slight increase in exports, and produced recession due to the high cost of imports. At the beginning of the decade, imports were therefore closed off.

In 1982 the Argentine military government made public the private debt that had been unpaid due to devaluations. This decision was consistent with the political economy of the "assisted capitalism" described elsewhere: private firms benefited, and both the already-large fiscal deficit and the external debt in local currency terms were significantly increased.

Savings were flowing out of the country, further depreciating the local currency, and creating rents for domestic firms that lacked competition. The current account surplus, due to the lack of imports, was not captured by the government, because rents from the domestic market were redeposited in dollars and not accumulated as international reserves. In 1984, inflation reached 20% monthly, and the only way out for the government, with its fiscal burden of external debt, was to turn to the IMF.

In 1985, a new economic policy was launched, implemented with the approval of Washington: the "Plan Austral". Its objective was to stop inflation, but its instrument was a very rudimentary one: a freezing of prices and salaries. This freezing of prices was different for wholesale prices than for consumer prices (they were both changing at different rates). This created a squeeze in the profit margins of "not assisted" producers, because salaries and taxes were in-

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3 See Introduction, Section III.4
4 By Washington I mean the USA acting through the IMF and the World Bank.
5 See Introduction, Section III.4
creased according to consumer prices, but wholesale output prices remained constant.

Consequently, the real exchange rate appreciated, due to the Plan Austral's fixed nominal exchange rate with respect to increases in domestic prices; this led to government intervention to adjust the nominal exchange rate according to inflation. This nominal depreciation led in turn to more inflation, under a fiscal program which did not lead to good results due in part to the Olivera-Tanzi effect\textsuperscript{6}. Increased fiscal deficit and inflation led to more money leaving the country, and motivated an increase in demand for money, which increased interest rates. The Central Bank increased its financing of the fiscal deficit, and raised interest rates to attract money. This increase in interest worsened the public debt problem, since it was the government which held these deposits and therefore more money was printed to finance the public debt, which fueled the already high inflation.

In 1988 this process was slowed down by the "Plan Primaver", which was analyzed in the previous section\textsuperscript{7}; the plan attempted to attract more deposits, reduce fiscal deficit and control the flight of capital. However its effect did not last more than a couple of months, because deposits were very short term and at high interest rates. Due to the economic plan's lack of sustainability, the World Bank decided to suspend the disbursement of the loans to Argentina; again, the flight of capital depreciated the currency. The domestic currency's (the "Austral") depreciation started in February and

\textsuperscript{6} Effect by which less income taxes are collected due to the inflationary process. Income taxes are based on last year's income and if there has been substantial inflation, the value of last year's income is less than the present value, so therefore, the government taxes lose value once they are collected.

\textsuperscript{7} See this Chapter, Section I.1
led to an explosive increase in prices in May: the Argentinehyperinflation.

The economic collapse and the political crisis that followed has been described elsewhere.8

2. The Proposal

The idea of convertibility had a long tradition in Argentina, though it was only effective for short periods of time. In 1899 it was established by Law 3871 under the initiative of President Pellegrini, and in 1922 it was re-established by President Alvear. Moreover, as a technical principle it was maintained by Law 12,155 in 1935 and by Decree 14,957 and Law 13,571 during the first administration of President Perón.9

Regarding the Reforms of the nineties, convertibility was proposed in July 1989 by the "Plan Bunge y Born"10. Its item "1.1.11. Monetary-Exchange System", stated: "The Central Bank will act...in an automatic form in the creation of money, as if it were a Currency Board system which functioned successfully in the country until 1930...Therefore, it is decided that the monetary system will be based on conversion, but the convenient moment to begin...will be that in which significant structural changes are on track...and in which international reserves are not less than $3 billion".11

That moment arrived at the beginning of 1991. Notwithstanding two episodes of very high inflation at the beginning of 1990 and 1991, the Economic Emergency Law had addressed

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8 See Chapter IV, Section I.2
9 See Senator Juan Carlos Romero speech; Diario de Sesiones del Senado, 1991, pg. 5806/7
10 See this Chapter, Section I.2
11 Programa de Gobierno 1989 en Adelante - Pro Menem" 1.1.11
most of the major problems of the Argentine economy: the privatization process had begun, the internal debt had been controlled by the "Plan Bonex", and the international reserves in the Central Bank had risen from almost zero to more than $5 billion US dollars.

3. Contents of the "Convertibility Law"

The Convertibility Law 23,928 was promulgated on 27 March 1991. It is so named because, among other things, it allows for convertibility of the domestic currency into dollars at a specified relationship12.

There is no unanimously accepted conceptual definition of convertibility. A descriptive one is the following: "A currency is judged to be convertible if people are able to exchange domestic currency for foreign currency at the official rate without many restrictions. If there are a lot of restrictions, the currency is considered inconvertible"13.

The law has 14 articles, organized in two Titles.

Title I, "Convertibility of the Austral", establishes that: i) The domestic currency will be convertible to the dollar; ii) The Central Bank shall be bound to sell foreign currency for the above-mentioned convertibility and to extract from circulation the received domestic currency; iii) The amount of reserves in the Central Bank (in terms of gold and foreign currency) must be at least 100% of the monetary base; iv) The Central Bank reserves are declared to be "unattachable" (cannot be seized by any judicial order).

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12 It is important to note that there is usually a definition problem of what convertibility means, and Annex IV gives a detail definition and some empirical evidence of the convertibility of the Argentine currency.

Title II, "Circulation of Convertible Australs" eliminates all adjustment mechanisms for all transactions and legal obligations, public or private: i) Indexation and all other "adjustment mechanisms" were eliminated from contracts; for judicial decisions, those mechanisms were limited to the past; laws and regulations that authorized indexation or other adjustment mechanisms were derogated from that moment to the future; ii) The Civil Code was modified in order to make payments in foreign currency legally valid; iii) Finally, this title authorized the executive to change the denomination (name and/or number) of the domestic currency, always maintaining the convertibility.

4. The Approval

To change monetary institutions or, furthermore, to change the national currency, is a very sensitive issue. All information about those changes has direct effects on the markets, especially on the foreign currency market. This is why public policy decisions related to these issues have to be made through a clear and fast decision-making process in order to avoid speculative attacks and predictable damage.

In 1985 a new currency had been created in Argentina: the Austral. This was done by a Presidential Decree of President Alfonsin, without congressional intervention and through a process characterized by "secrecy"\(^{14}\) without informing the public.

Conversely, the Monetary Reform of 1991 instrumented by the Convertibility Law—following the pattern of all the Argentine Reforms of the nineties—was made public throughout
the process of Congressional approval. Nevertheless, in order to make the process as short as possible, it was discussed in a single special session in each Chamber of the Congress, and both were long and very active sessions.

On March 22, 1991, the bill entered the Senate, considered the more pro-reform of the Chambers. In the debate there were more than thirty interventions: four from the Government's PJ Senators, eleven from the opposition UCR Senators and five of Senators of the Provincial Parties.

The general presentation sustaining the bill was made by Senator Juan Carlos Romero (PJ-Salta); Senator Alberto Rodriguez Saa (PJ-San Luis) pointed out certain juridical aspects. The opposition argued minor parliamentary procedural technicalities, and expressed concerns and rejection of the project. The case against the law from the economic point of view was made by Senator Juan Trilla (UCR-Capital); Senator Ricardo Laferriere (UCR-Entre Rios) made juridical observations and Senator Luis Brasesco (UCR-Entre Rios) made political comments. The bill was voted affirmatively by the PJ Senators and some provincial allies. The UCR Senators voted against the Convertibility Law.

The project was then considered in the Chamber of Deputies on March 26, 1991. There were twenty-nine interventions: four by government PJ Deputies, seven by opposition UCR Deputies and eighteen by Deputies of Provincial and other Parties.

The general presentation sustaining the law was made by Deputy Oscar Lamberto (PJ-Santa Fe); he put the bill in the

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14 CANITROT, Adolfo: La Macroeconomia de la Estabilidad; Boletin Informativo Techint, No.272, pg. 41
context of the "exhaustion of an accumulation model"\textsuperscript{15}, and described the elements of the proposed law.

The case of the opposition was made by Deputy Raul Baglini (UCR-Mendoza) and complemented by Deputies Jesus Rodriguez (UCR-Capital) and Osvaldo Alvarez Guerrero (UCR-Rio Negro). Some of the arguments made by Baglini were the following\textsuperscript{16}: i) The government presented the initiative as a transcendent measure, "able by itself to revolutionize the country's economic functioning"; ii) The economic system was being driven in a direction the UCR did not accept; iii) The law was a risk that the UCR could not take, because if it went wrong, there were only two possible ends: dollarization or hyperinflation; iv) The chapter that eliminated indexation had "problems of constitutionality"; v) The law placed on the Congress the burden of future devaluation.

Political economy aspects supporting the law were developed by Deputy Jose Luis Manzano (PJ-Mendoza). Some of the arguments made by Manzano were\textsuperscript{17}: i) Devaluations came out of the pockets of people with salaries in the domestic currency; ii) The economic system of Alfonsin's government was financed by an inflationary tax; iii) The inflationary tax was paid by the poor; iv) Menem's government was not going to resort to an inflationary tax.

The law was approved on March 27, 1991, with the same political support as in the Senate: 115 affirmative votes from PJ Deputies and some Deputies of Provincial Parties,

\textsuperscript{15} H. Camara de Diputados de la Nacion: \textit{Diario de Sesiones}, 26 y 27 de Marzo de 1991; pg. 5288
\textsuperscript{16} H. Camara de Diputados de la Nacion: \textit{Diario de Sesiones}, 26 y 27 de Marzo de 1991; pg. 5310/5322
\textsuperscript{17} H. Camara de Diputados de la Nacion: \textit{Diario de Sesiones}, 26 y 27 de Marzo de 1991; pg. 5346/5350
over 65 negative votes by the opposition. The UCR Deputies voted against the Convertibility Law\textsuperscript{18}.

5. Implementation

Following Law 23,928, there was an immediate decree on March 27 (N°529/91) regulating technical methods to implement the derogation of indexation established by Title II. In October 1991 there was another complementary decree (N°2128/91)—a very important one—through which two competencies attributed by Law 23,928 to the Executive were exercised: i) It changed the domestic currency denomination from "Austral" to "Peso"; ii) It established the parity of "1 to 1" between the Peso and the US Dollar. A third decree (N°1088/92) in June 1992 established as mandatory the express statement of the unattachability of the Central Bank’s reserves in all legal instruments related to public credit. Therefore, all loans made to the government—whether made by national or international lenders—were not to be backed by the reserves of the Central Bank.

The implementation of the monetary reform also involved a change in the way the Central Bank structured its accounts, since it now had to balance the monetary base with its foreign currency and gold reserves. This regime worked very similar to a currency board, in that it moved the exchange rate according to the movements of the balance of payments, and it also closed the connection between the Central Bank—as a "printing press"—and the Government, to finance the fiscal deficit.

\textsuperscript{18} H. Camara de Diputados de la Nacion: Diario de Sesiones, 26 y 27 de Marzo de 991; pg. 5377.
This separation of monetary policy from fiscal policy was especially important, because one of the ways in which hyperinflation came about in Argentina was through fiscal deficits and devaluations. Here, the exchange rate was fixed, and the Central Bank could not do anything to finance the fiscal deficit. This institutional arrangement was promising in that it created immediate stability. On the other hand, it took away from the Government the power of monetary expansion as instrument of macroeconomic policy.

6. The "Impossible Trinity"

The institutional arrangement chosen by Argentina can be analyzed from the point of view of the impossible trinity among i) currency stability, ii) financial independence and iii) monetary independence. This impossibility means that a country cannot have in place the three mentioned options at the same time, having to choose two of them, giving up the other. It is usually graphically represented as follows:

19 For a recent discussion on impossible trinity, see FRANKEI Jeffrey A.: Recent Exchange-Rate Experience and Proposals for Reform; in "Exchange-Rate Regimes and Macroeconomic Stability"; "The American Economic Review", Vol. 86, No. 2, Papers and Proceedings of the Hundredth and Eighth Annual Meeting of the American Eco-
Argentina had to choose, and it gave up monetary independence to obtain the currency stability and financial independence the country needed to stop hyperinflation and to attract capital into the country.

Another way to present the impossible trinity is among i) currency board, ii) capital control and iii) floating exchange rate; the graphic representation in this case is the following:

In order to attain exchange stability and freedom of capital movements, Argentina chose the currency board giving up not only its monetary policy autonomy, but also any possibility of capital control or floating exchange rate.

But "some" monetary independence remained. Under the new institutional framework, the Central Bank has the obligation to have at least 100% of the equivalent monetary base in foreign reserves; but it has also the flexibility to invest some...
of those reserves in interest-baring instruments that are sufficiently liquid (US Treasury bills, National Treasury bills to be paid in gold, etc.). According to the Central Bank Charter, the total amount of these government bonds cannot exceed 35% of deposits in the financial sector. So, the Central Bank could "play" with 35% of its reserves, performing open market operations of treasury bills to expand or contract money supply through interest rates.

Nevertheless, reserves are still subject to international market forces; and in the case of a crisis in which money leaves the country, due to the fixed exchange rate and the limited monetary base, the government would not have any policy instruments to absorb the shock other than to turn to external financing. This institutional set-up calls for fiscal deficits to be financed not by monetary emission but through internal debt instruments and international capital markets.

One downside of this monetary policy was its vulnerability to competitive appreciation or depreciation. This meant that if any of Argentina’s trade competitors were to have an exchange rate depreciation, this would create a short-term recession due to the relative expensiveness of exports. The intended tradeoff of the new monetary system was clear: short-term trade vulnerability vs. long-term credibility and risk reduction. Notwithstanding, at the moment when this was written (Spring 2001) it seems that persistent fiscal deficit has undermined long term credibility and raised country's "credit risk".

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22 As was the case of Brazil in 1998
7. The Enforcement of Convertibility

From the beginning, this monetary policy was—and still is today—extremely controversial\(^{23}\). As it was said before, when the Convertibility Law passed the Congress it was supported only by the Justicialista Party and some minor allies, overcoming the opposition of the Radical Party and some others. But after the law was passed and inflation stopped, convertibility and the "1 to 1" peg gained overwhelming popular support.

Table I.II.1 presents the available data about the approval of the economic policy that comprised convertibility, from a systematic national poll\(^{24}\).

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Table I.II.2 presents more specific data about convertibility, from the same systematic National poll; it shows that support is still very strong.

\(^{23}\) See Chapter IV, Section 3.

\(^{24}\) Gallup Argentina.
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The government took advantage of this ample approval, and with a determined presidential leadership, the technical prestige of the minister of Economy and a Cabinet of committed reformers, the entire program of reforms was enforced at a very active pace.

The evidence of monetary stability led opposition parties to accept (rather than to support) the Currency Board as an instrument to beat inflation.

The Mexican crisis in December 1994 and the beginning of 1995 produced big capital outflows from Latin American countries, included Argentina; but the government stood firm with convertibility and the 1 to 1 peg. In May 1995, the incumbent Justicialista Party won the general elections at the presidential, congressional and provincial levels. President Menem was reelected by a landslide margin, with more than 50% of the votes.

The "Tequila Effect" impacted the reserves in the Central Bank, and produced a monetary contraction which led to

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25 The minister was Domingo Cavallo, who has a Ph.D. Degree from Harvard University.
26 Eduardo Bauzá (General Secretary); Jose L. Manzano (Interior); Guido Di Tella (Foreign Relations); Erman Gonzalez (Defense); Leon C. Arslanian (Justice); Rodolfo Diaz (Labor); Antonio Salonia (Education); Julio C. Araoz (Health); Domingo Cavallo (Economy).
27 Ricardo Campero, economist of the Radical Party; El Cronista Comercial, June 26, 1992, pg. 12
recession; therefore, in 1996 the Convertibility Law came back into the discussion arena. The public was divided between those in favor of the currency board and those against it; people who were against it argued not about the law itself, but rather about the context of international crisis in which the convertibility —they said— was no longer sustainable.

Economists agreed that Argentina had to suffer the recession from the outflow of reserves if it wanted to preserve the credibility of the currency board that had given them the economic growth of the previous four years. And critics of the currency board and advocates of devaluation, argued that with high unemployment and economic stagnation, a boost was needed to reactivate growth. Since with the Convertibility Law the fiscal deficit could not be financed by monetary expansion, for those advocates the only available tool was devaluation.

Moreover, some books were published with respect to the monetary reform. Although the authors presented them as intended to clarify the dynamics of the Argentine case of monetary policy, they showed academia’s lack of support for the currency board. For instance, it was argued that the "Argentine model" did not fit discretionary policy models nor rational expectations arguments; and that the reason for the Convertibility Law to be proper for the country was the "hyper-rationality" of Argentineans with respect to monetary is-

28 Calvo, Guillermo: Hay que bancarse la Recesión; in "Cash", March 17, 1996. Pg.3; Grazing, Walter: De a poco, la economía se independiza de la política, "La Nación, March 31, 1996, Pg.7; El plan de convertibilidad se mira y no se toca; "Clarín", Enero 21, 1996, Pg. 2; Della Paolera, Gerardo: Importa más la política fiscal que no devaluar; "Página 12", December, 1995.
sues. But the Government maintained its strong stance, based in a very positive attitude of public opinion: the hardship of the economic situation impacted the popular support for the monetary policy only on the margins.

In June 1996 Domingo Cavallo resigned from the position of Minister of Economy. This sparked some questions of whether the convertibility would hold without him.

The then President of the Central Bank, Dr. Roque Fernandez, was appointed new Minister. The convertibility regime and the "1 to 1" parity were maintained; they functioned well and overcame two major international financial turmoils (the one produced by the South East Asia crisis and the other caused by the Russian default) and one severe regional problem (the Brazilian devaluation).

Furthermore, there were presidential elections in 1999. By that time, it was crystal clear that the population supported this monetary policy; therefore, all parties and candidates committed themselves to maintaining convertibility and the 1 to 1 peg.

During the 1990s, there were no modifications of the Convertibility Law. Despite certain scrutiny, especially in 1996 after the Mexican crisis and more recently after the Asian and Russian crises and the Brazilian devaluation, the institutional set-up of the Argentine monetary regime has remained absolutely stable. Only in 2001 was the regime somewhat modified, when the Euro was added as another reference

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29 RODRIGUEZ, Jesus: Falta crecer con equidad, "Ambito Financiero", Abril 1, 1996, Pg. 23; Curia, Eduardo: Es necesario salir de este esquema; "La Nación", Marzo 31, 1996; Pg. 7.
30 DELLA PAOLERA, Gerardo; Pagina 12, December, 1995.
31 See Table II.1
32 Dr. Fernandez has a Ph.D. Degree from Chicago University.
for the convertibility. However, the change was not well received by the markets or by the public.

8. The Fixed Exchange Rate

The cardinal objective of policy makers in Argentina at the beginning of the nineties was to beat inflation. The episodes of extremely high inflation of 1990 and 1991, mentioned earlier in this chapter, had demonstrated that—in the particular case of Argentina—a floating exchange rate could create feedback loops to inflation and currency depreciation. Many Argentineans felt that the floating exchange rate imposed a constraint on the monetary contraction policy, and they believed that a fixed exchange rate could overcome that constraint.

There are several models that have been used to explain those phenomena; the following is an oversimplified version of one of them.

a) The monetary policy implemented at the beginning of 1990 was a monetary contraction that increased the domestic interest rate; this increase widened the gap with the international interest rate, which became an incentive for foreign investors to take financial positions in Argentina. As a result, there was an increase of the capital inflows into the country.

These capital inflows produced a temporary surplus in the balance of payments, which in turn created a downward pressure on the exchange rate and resulted in an appreciation of the domestic currency. This appreciation produced both a reduction in the domestic interest rate and a reduction in

33 See this Section, #2
the domestic output as well; but the fiscal deficit was not adjusted to the new, lower level of output.

The fact that the fiscal deficit was kept constant while domestic output decreased resulted in expectations of further inflation that reinforced the tendency toward capital inflows reversion. This created a new process of currency depreciation and inflation.

b) The next attempt to control inflation, in March 1991, consisted of a monetary contraction as well, but this time with a fixed exchange rate.

When this monetary contraction was put in place, it produced the same initial effects of that in 1990: the domestic interest rate went up, increasing the gap with the international interest rate, creating an incentive for foreign financial investments in Argentina, which increased the capital inflows into the country.

These capital inflows produced the same type of temporary surplus in the balance of payments that could create the same downward pressure on the exchange rate; but this time around, the downward pressure did not result in an appreciation of the domestic currency due to the convertibility regime that functioned as a fixed exchange rate regime.

Thus, by avoiding the appreciation, output was not reduced and interest rates adjusted downwards with domestic prices. Since output was not reduced, there was no government spending inconsistency, and no depreciation expectations were created. Therefore, neither the tendency toward capital inflows was reverted, nor was a new process of currency depreciation and inflation created.
10. Effects

The convertibility law has achieved its main purpose. It was designed to cope with hyperinflation, inflation and macroeconomic stability. It has also gone further in that it has established monetary credibility and eliminated the currency risk premium. The targeted problem was the elimination of the Central Bank’s role of financing government fiscal deficit, prohibiting—by law—the Central Bank from any kind of lending or printing of money other than to sell domestic currency for foreign currency.

This has been a salient effect of the Convertibility Law, isolating the problem that had led to previous crisis: that of the fiscal deficit. Under this monetary system, the fiscal deficit was left to its own financing. Graph I.II.1 shows that external financing is almost perfectly negatively correlated with the fiscal deficit.

Graph I.II.1
External Financing and Budget Deficit
(1989-1997, as % GDP)

34 Data: World Bank: World Development Indicators 2000
Besides solving Argentina's inflationary problems, the convertibility law also restored credibility to the public institutions that attracted foreign capital. Over the decade, the amount of foreign direct investment grew from 1 billion in 1989 to 5 billion in 1997.

The indirect effects of the law on the rest of the economy have been two fold: On one hand, it has attracted capital and foreign direct investment into the country; on the other, it has made the economy more vulnerable to external shocks.

The debate has centered on whether this effect of attracting capital (or allowing capital to flow in and out freely) and at the same time dictating the level of monetary base, is a positive or negative one. From the theoretical point of view the answer is ambiguous. It all reduces to the economic argument of whether or not in Argentina a devaluation causes inflation in the first place, regardless of the fiscal balance; or if it is only the fiscal deficit which induces the capital flight which in turn leads to inflation. It is a subtle point but an important one in order to understand the way the monetary system of Argentina works and if in fact Law 23,928 is sustainable or not.

11. Inflationary Effects of Devaluation

A complete answer to the question of whether or not devaluations in Argentina produced inflation, is beyond the limits of this study; nevertheless, some comments are appropriate.

Economists measure the impact of devaluation on inflation by the "pass through coefficient". "Pass-through" is

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35 Developed with the assistance of Diego Arias Carballo.
the relation between the exchange rate and domestic prices. When there is no pass-through (coefficient 0), the price of the importing country does not respond at all to the change in the exchange rate. The higher the coefficient, the faster the impact of devaluation on inflation. Pass-through is dependent on country variables such as the amount of tradable goods in the economy (trade to GDP ratio), monopolies and state owned enterprises, number of foreign firms and their degree of competition, product substitutability, and the expectation of future changes in exchange rates.

The impact of devaluations on Argentine inflation shows a significant variation in the eighties. In order to assess the impact of devaluations on the prices' level, variations of the pass-through coefficient for Argentina will be calculated from three different approaches: i) The first will take yearly data over a long period of time: from 1960 to 1990. But this temporal series assumes that the political context in Argentina was a "continuum" of incremental changes; that assumption is not consistent with the historical information: in that period Argentina changed very much, in a discontinuous and more than incremental way. ii) To be more consistent with that process, the second will take yearly data as well, but over a more specific period of time: the decade before the Convertibility Law, from 1981 to 1991. iii) Comparing the

36 Note by Diego Arias Carballo: In order to calculate the pass-through for Argentina, it was formulated the following equation: \( \frac{E \cdot P^*}{P} = \alpha + \beta (\frac{E \cdot P^*}{P})_{t-1} + \epsilon \). Then, for a given discrete jump in the nominal exchange rate (E) at time t-1, the effect of the pass-through (\( \gamma \)) will be (\( \gamma = 1 - \beta \)). So if \( \beta = 1 \) (the pass-through coefficient \( \gamma = 0 \)), then there is no effect of the change in the exchange rate on prices because the real exchange rate at time t (\( \frac{E \cdot P^*}{P} \)) will carry the change in E at time t-1. On the other hand, if there is perfect pass-through (\( \beta = 0 \)), then the real exchange rate at time t will remain the same (\( \alpha \)) regardless of the nominal increase in the exchange rate at time (t-1). This means that prices P have adjusted and that the real exchange rate remains unchanged.
first and the second coefficients, it seems reasonable to conjecture an acceleration of the speed of the impact. In order to assess that acceleration, the third approach considers the same decade from 1981 to 1991, but taking the data on a six month basis.

a) The regression of yearly data from 1960 to 1990 produced a resulting pass-through coefficient of 0.4733. This means that for a given increase in the nominal exchange rate (devaluation), the prices’ increment will be 47% of that given change at the end of the year. This level of pass-through coefficient is similar to that of the rest of Latin America.

b) The regression of yearly data from 1981 to 1991, resulted in an annual pass through coefficient 0.8498. This means that a given increase in the nominal exchange rate, will be translated in a 85% increase in prices in the next year. This is a extremely high pass-through coefficient by any standard.

c) The high pass through coefficient obtained in the previous regression gives enough reasons to believe that, in Argentina in the eighties, the effect of devaluations may be felt sooner than after a year. Therefore, the pass-through coefficient was analyzed on a six month basis, and the semi-annual resulting pass-through coefficient was 0.7603. This means that a given increase in the nominal exchange rate will determine a 76% increase in prices in the next semester. Although a lower pass-through coefficient is to be expected if the period is reduced from one year to six months, this coefficient is still as extreme as the annual one.
Table I.II.3 presents world data of pass-through coefficients by continent, in comparison to that of Argentina in the eighties.

<table>
<thead>
<tr>
<th>Continent</th>
<th>6 months</th>
<th>12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>0.211</td>
<td>0.360</td>
</tr>
<tr>
<td>Africa</td>
<td>0.343</td>
<td>0.643</td>
</tr>
<tr>
<td>America</td>
<td>0.539</td>
<td>0.692</td>
</tr>
<tr>
<td>Oceania</td>
<td>0.092</td>
<td>0.158</td>
</tr>
<tr>
<td>Asia</td>
<td>0.367</td>
<td>0.712</td>
</tr>
<tr>
<td>Total</td>
<td>0.426</td>
<td>0.701</td>
</tr>
<tr>
<td>ARGENTINA 81/91</td>
<td>0.7603</td>
<td>0.8498</td>
</tr>
</tbody>
</table>

12. Elimination of Devaluation as Monetary Policy Instrument

The "pass-through coefficient" measures the inflationary impact of devaluations; that means how, how much, and how fast an increment in the price of the foreign currency is translated to the domestic prices of goods and services. The analytical usefulness of this coefficient is the following:

Devaluations are instrumental to "cheapening" the domestic prices in relation to international prices. While the "cheapening" effect lasts, the internal prices become more competitive in international terms, and exports increase. When the impact of the devaluation reaches domestic prices, the "cheapening" effect comes to an end, the domestic prices are no longer competitive, the exports become more expensive in international terms and, therefore, exports decrease. The

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37 Data: GOLDFAJN, Ilan and WERLANG, Sergio: The Pass-Through From Depreciation to Inflation: A Panel Study. Texto para Discussião No. 423, Departamento de Econo-
pass-through coefficient allows the measurement of the speed at which the "cheapening" effect ends.

In a situation like the one described, a sound solution is to lower the internal costs of improving productivity; a bad solution is to devalue again. Since in a country like Argentina the most important domestic prices are the salaries, the effect of devaluations is...to lower salaries.

In the eighties, the Argentineans were quite aware of the impact of devaluations on their salaries, and consequently the speed of reaction to devaluations was accelerating. By the end of the decade the reaction to devaluations was immediate or—in certain cases—anticipated. The "legal technology" of contracts adjustment that was analyzed elsewhere was highly instrumental in this effect.

The Argentine society, in some moment between 1981 and 1989, changed its collective behavior with relation to the value of the currency: accelerating its reaction to devaluations, the public eliminated its "cheapening" effect. This phenomenon underlies the strong political support of Argentine society for the Convertibility regime and for the 1 to 1 parity to the dollar.

Public reaction eliminated the usefulness of devaluations as an instrument of economic policy in Argentina. And—in order to overcome a long period of recession—led the debate from the controversial theme of convertibility, to a more controversial one: dollarization.

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38 See Introduction, Section III.4
I. Inflation: The Tax of Assisted Capitalism

Inflation was the dominant characteristic of the Argentine economy over the period ending in 1989; therefore, it played a crucial role in the fiscal situation: inflation was the tax of assisted capitalism.1 There is a fairly wide consensus amongst economists that inflation can be considered as a tax; in that way it was defined at the beginning of the process of reforms: “High inflation is considered as a tax on persons’ currency holdings. Its collection base is the named M1 monetary aggregate, that is the conjunct of monetary assets held by private individuals which do not yield interest or indexation, and hence are exposed to inflationary erosion”.2

Considered as a tax, inflation has several characteristics worth pointing out:

a) Inflation was not only the tax of assisted capitalism, it was the single most important source of government

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1 See Introduction 3.e
2 MEOSP: Argentina en Crecimiento; Buenos Aires (1995); pgs. 16/17
financing in that period. From 1980 to 1989, government revenues yielded by the “inflation tax” have been estimated to be 61.4 billion (1991 US$), an annual average of 7% of the GDP\(^3\). Until 1989, between one-third and one-half of the total government revenues came from this “inflation tax”.

Graph I.III.1\(^4\) represents the figures.

**Graph I.III.1**
Participation of “Inflation Tax” in Total Tax Collection
(1983/1993, as % of GDP)

b) Argentina has a revenue sharing system where some revenues are shared among the provinces and the federal government; certain taxes are collected by the federal government and afterwards re-distributed to the provinces according to legally pre-established proportions. But the “inflation tax” was a sort of “de facto” one, so its revenues were not included in the a revenue sharing system. Therefore, the al-

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\(^3\) Data: LLACH, Juan and CERRO, Fernando: Op.Cit
\(^4\) Data: MEOSP: Argentina en Crecimiento; Buenos Aires (1995); pg. 17
already mentioned high participation of the “inflation tax” in the generation of government revenues determined that 60% of those revenues were “not shared revenues”, being concentrated in the federal government and not shared with the provinces.

c) Because of the very nature of the Argentine experience along the eighties, the “inflation tax” was almost “universal”: it taxed every sector of economic activity (rural, industrial or services), every firm (whatever its size or type), and every economically active individual (professionals and workers). A very important feature of this universality was that, being the “inflation tax” unevadable by definition, it taxed the “black” economy as well as the regular economy; actually, it was the only way—again by definition—to tax the irregular economy.

d) Finally it should be remembered that, as has been argued before\(^5\), not withstanding its universality, the “inflation tax” was very “regressive” and produced very asymmetric distributional effects. “The average burden borne by the poorest quintile (8.6%) as a percentage of their income was almost three times bigger than that borne by the wealthiest quintile (3.0%); for the poorest group, it reached its maximum value in the third quarter of 1989 (hyperinflation) with 13.6% against 4.8% for the group with the greatest income”.\(^6\)

When inflation was terminated by the process of reforms, it consequently eliminated the “inflation tax”. This elimination produced several effects:

\(^5\) See: Introduction, 3.f
\(^6\) MEOSP: Argentina en Crecimiento; Buenos Aires (1995); pg. 18
a) It reduced government revenues from an average of 21.7% of the GDP in 1985-1990, to 17.2% in 1991-1998\(^7\); this reduction clearly determined the necessity of a deep fiscal reform. The lack of such reform, as will be shown below, contributed to the impairment of the government’s ability to balance the public deficit.

b) It relieved society from a heavy tax burden (leaving in their hands the 4.5% of the GDP yearly that did not go to the government). In the short term, this probably helped boost the Argentine economy, which had a very good performance the years following stabilization. In the long run, the absence of a new fiscal structure—given the high public expenditure—led to levels of public deficit that undermined the economy.

c) It ameliorated more than proportionally the situation of low-wages earners. As it was explained elsewhere\(^8\), in June 1989 inflation was 135.7% monthly and the "inflation tax" burden was 25% on the lower salaries; when inflation fell to 33% monthly that burden was reduced to less than 9%.

d) It increased the amount of shared revenues, from only 40% of the total revenues in times of inflation, to 65.8% over the period 1991-1998.

2. Fiscal Situation in 1989

In 1987, while OECD countries were collecting an average of 33% of GDP as tax revenues, Argentina was collecting 19%. Nevertheless, the amount of resources taken from the private sector was much more because of the “inflation tax”, though

\(^7\) IAEF: Convertibilidad Fiscal; in “Boletín No. 20”, Buenos Aires (1999), pg. 25
\(^8\) See Introduction, 3.F
its “collection” did not show up in official registrations.9 Comparing the periods before and after 1989, the inflationary effect on tax revenues and government revenues is apparent, taking into account that the fiscal deficit was covered with expansionary monetary policy (“inflation tax”).

Graph I.III.210 shows the relationship among public deficit, government revenues and government expenditures.

Graph I.III.2
Deficit, Revenues and Expenditures
(1980-1997, as % of GDP)

Over the period 1980-1989, the average overall budget deficit was 4.2% of GDP; from 1990 to 1997, this level was reduced to 0.5% of GDP11. Moreover, government’s revenue base was substantially more volatile in the eighties than in the nineties: for the period 1980-1988, government’s revenue volatility was a standard deviation of 2.7% of GDP, while in the period 1989-1997 this was reduced to 1.9% of GDP.

10 Data: World Bank: World Development Indicators 2000
11 Data: World Bank: World Development Indicators 2000
Fiscal policy over the pre-reforms period was procyclical, with a correlation between fiscal deficit and GDP growth of 0.4 (For each 1% point increase in GDP growth, the budget deficit will increase by 0.4% points in GDP terms). This procyclicality was reduced to 0.22 in the reforms period.

Graph I.III.3\textsuperscript{12} illustrates this procyclicality, presenting the relationship between budget deficit and GDP growth.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Budget_Deficit_and_GDP_Growth.pdf}
\caption{Budget Deficit and GDP Growth (1980-1997)}
\end{figure}

Fiscal policy throughout the eighties looks anti-cyclical, (with the exception of 1983 and 1988), but always running large budget deficits. Throughout the nineties, on the other hand, the signs of procyclicality are stronger, but with a clear tendency towards smaller fiscal deficits.

\footnotesize
\textsuperscript{12} Data: World Bank: World Development Indicators 2000.
Income tax collection fell from 1.5% of GDP in 1970-76, to 1.1% of GDP in 1983-89. Participation of the "Value Added Tax" (VAT) as a percentage of total revenues, increased, but changes in the VAT implemented in 1984 produced confusion among consumers and retailers, and made government revenues more volatile.¹

Over the 1985-1989 period, revenues received by the provinces through revenue sharing were as larger or equal to the revenues from provincial taxes raised locally by themselves. This created a big incentive to lobby at the national level for increasing the share of the revenue sharing "pool" to be received by the province, instead of incentives to collect more taxes at the provincial level. Only after the reforms, from 1992 to 1996, revenues from locally collected taxes surpassed those received through revenue sharing.

Graph I.III.4² shows the curves.

² Data: World Bank: World Development Indicators 2000
In terms of sustainability of the fiscal deficit in the eighties, the public debt as a share of GDP increased exponentially, from slightly more than 10% in 1980 to almost 70% in 1990; this pointed to the unsustainability of the large fiscal deficit of that decade. The reforms visibly lowered that ratio.

Graph I.III.5\(^3\) show the evolution of the Argentine public debt in GDP terms.

\(^3\) Data: World Bank: World Development Indicators 2000
Another feature that characterized the Argentine tax system before the reforms of the nineties, was that it was "regressive", that “clearly prevailed taxation on consumption and labor over that on capital, profits or wealth". That regresiveness was evident during the period of assisted capitalism (1966 onwards) and it was worsened by hyperinflation (measured as in the first quarter of 1991, before monetary reform).

Table I.III.1\(^5\) show the figures.

Table I.III.1  
Tax Structure  
(\% of Total tax revenues)

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>1966/1992</th>
<th>1st. Q. 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>8.52</td>
<td>3.70</td>
</tr>
<tr>
<td>Gross Assets</td>
<td>11.14</td>
<td>9.20</td>
</tr>
<tr>
<td>Labor</td>
<td>25.29</td>
<td>34.40</td>
</tr>
<tr>
<td>Consumption</td>
<td>40.27</td>
<td>40.60</td>
</tr>
<tr>
<td>Trade</td>
<td>10.82</td>
<td>6.00</td>
</tr>
<tr>
<td>Others</td>
<td>3.69</td>
<td>6.10</td>
</tr>
</tbody>
</table>

Volatility, procyclicality, unsustainability and regressiveness summarizes the Argentine fiscal policy characteristics throughout the eighties; moreover, the poor quality of the budgetary institutions provided wrong incentives regarding overspending.

3. The Proposal

The Fiscal Reform that was finally approved by Law 24073 was far less profound and innovative than it was supposed to be. The original bill sent to the Congress by the Government at the end of 1991 had substantial policy-making objectives: i) To change the “inflation-dependant” tax system of the assisted capitalism—which was still in place at the end of the eighties—installing a new system which excluded the “inflation-tax”. ii) To replace a new tax regime compatible with a stable market-oriented political economy, for the old system belonging to assisted capitalism. And moreover, iii) to redesign the fiscal institutions in order to establish correct incentives regarding budgetary discipline, employment and economic growth.
This project of new tax policy was clearly described by the Government in a 1992 Memorandum⁶ to the IMF as regards an “Extended Facilities Loan” negotiated that year: “13. In 1992, the government is planning to carry out a far-reaching fiscal reform, in order to simplify the tax system, to enhance investment and to reduce the tax burden that is laid upon labor in relation to the other factors of production. This reform, whose approval by Congress is expected for middle year, would gradually replace the current “profits tax” (impuesto a las ganancias)...with two new taxes: the “distributed profits tax” (impuesto a las ganancias distribuidas-IGD) and the “firms primary surplus tax” (impuesto al excedente primario de las empresas-IEPE)”. The memo to the IMF lists other proposed modifications, as elimination of employers payroll taxes (replaced by the IEPE), reduction of the rates of some taxes, elimination of others, and an increase of the VAT rate; and it concludes: “As a consequence of these reforms, tax collection will be concentrated on general taxes as VAT, IEPE and Social Security dues, and on certain specific taxes on consumption”.

The reform project was based on three pillars⁷: i) Fight against tax evasion: reinforcing the social perception that tax evasion was a crime actually punished, and implementing methods to improve collection efficiency. ii) Expansion of the tax base: interlinked with the other pillars, since increasing the number of taxpayers, through avoiding evasion and increasing the tax payments through a more efficient system, increases the tax base. iii) Simplification of the tax

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⁶ MEOSP: Acuerdo de Facilidades Ampliadas República Argentina-FMI; Memorando de Políticas Económicas. Buenos Aires (1992), pg. 6
⁷ MEOSP: Argentina en Crecimiento; Buenos Aires (1995); pg. 13
system: very important as regards efficiency and transparency of the tax system; the original idea was to eliminate over 20 different taxes, replacing them with only three: VAT; IEPE, which replaced labor taxes paid by firms; and IGD, aimed at pure rents.

The expected results of this proposed reform—according to the same Memorandum cited above—were fiscal revenues raising to 24.3% GDP in 1993 and afterwards staying around 24%; and a primary surplus equivalent to an annual average of 2% GDP for the next three years.

Table I.III.2 presents those projections.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Revenues</td>
<td>21.8</td>
<td>24.3</td>
<td>23.8</td>
<td>23.9</td>
</tr>
<tr>
<td>Current Expenditures</td>
<td>20.1</td>
<td>20.9</td>
<td>20.4</td>
<td>20.3</td>
</tr>
<tr>
<td>Primary Current Surplus</td>
<td>2.1</td>
<td>3.5</td>
<td>3.9</td>
<td>4.3</td>
</tr>
</tbody>
</table>

The proposal of Fiscal Reform above described was ambitious, creative and fairly original, since there were no identical antecedents in the international experience; and it was especially consistent with the whole process of profound reforms being carried out in the country at that time. As will be presented below, this initiative was defeated and the Fiscal Reform was never implemented as it was originally designed. Regrettably indeed; in time, the Argentine fiscal situation became highly vulnerable.

4. Approval: Defeat and Debate

The subtitle seems mistaken, but it is not: the Fiscal Reform was defeated before its parliamentary debate.

The bill was discussed in the public opinion at the beginning of 1992, when inflation had been already curbed, and the “emergency”—the special situation that had made possible the fast approvals of the economic and monetary reforms—had hence also ended; therefore, in order to make the Fiscal Reform project pass Congress, a more extended and complex process of support building was required. But it was difficult.

The president, the cabinet and the Justicialista Party supported the initiative devised by the team of then Minister Domingo Cavallo. The IMF, on its part, did not make observations to the proposed changes.

But there were an array of different groups and different vested interests that—for different reasons—converged to resist the fiscal reform: i) First, a good part of business was against the reform. Insurance companies, banks and transport companies, which did not pay VAT, should pay IEPE; the rural sector, being not labor intensive, paid little social security contributions, but should pay IEPE; exporters had a “VAT-return” regime, but IEPE was not supposed to be returned; small business and independent professionals, whom almost did not pay social security contributions, should pay IEPE; even the oil consortiums joined the resistance too. The arguments made by business to resist the reform were many, for instance: flaws in lawmaking technique; anti-exports, anti-provincial, anti-foreign investment and anti-cooperative biases; unconstitutional components; heavy burden
upon independent workers.\textsuperscript{10} ii) Second, the professional practitioners devoted to Social Security (lawyers, accountants, experts), also resisted the fiscal reform, anticipating their further opposition to the Social Security Reform.\textsuperscript{11} iii) Third, opposition political parties were against the bill too: the conservative UCD followed the arguments of the business lobby;\textsuperscript{12} the UCR followed the arguments of the social security practitioners lobby.\textsuperscript{13}

The Justicialista block in the Chamber of Deputies was united backing the bill. The president of the Committee of Budget and Finances of the House, Deputy Oscar Lamberto (PJ-Santa Fe) described the bill as “the best tax reform so far designed to make fiscal justice in Argentina, so labor will be not the base of tax collection, and so capital and profits will pay what it corresponds to them”.\textsuperscript{14} Precisely that Committee, painstakingly overcame the attempts of parliamentary blockade of the opposition and give the bill the Committee approval, required by the lawmaking procedures prior the treatment on the floor. But pressures redoubled; deputies of the provincial parties did not join the government that time, and “there were doubts if the reform could fail or could be totally disarticulated if it was treated in the House”.\textsuperscript{15}
Facing those risks—and taking into account immediate fiscal needs that other parts of the bill could provide—the government accepted “to postpone” the controversial chapters that were the “core” of the fiscal reform: the IEPE and the IGD. Minister Cavallo—present at the Chamber that day—explained that decision: “As the Executive branch has realized that opposition parties have great doubts regarding the IEPE and the IGD, the government—albeit maintain that an important and integral reform is needed—is ready to discuss those aspects in Congress with more time. In order to expedite the treatment of other more necessary and less conflictive issues …we have proposed to postpone the two chapters on which most discrepancies arose…to considered them in integral form afterwards, with the Social Security Reform”.16

Having the more important—and conflictive—chapters postponed, the bill was discussed in the Chamber of Deputies on 18 and 19 March 1992. There were twenty-eight interventions in the debate: one by Cavallo, who took part as Minister of Economy, six by government PJ Deputies, six by opposition UCR Deputies and sixteen from other parties. The general presentation sustaining the bill was made by Deputy Oscar Lamberto (PJ-Santa Fe), and the case for the opposition was made by Deputy Raúl Baglini (UCR-Mendoza). The Chamber of Deputies passed the bill by 125 affirmative votes and 84 negative ones. The UCR Deputies voted against the fiscal reform.17

In the Senate, the bill was considered on 1 April 1992. There were nine interventions in the debate: two by govern-

The general presentation sustaining the bill was made by Senator Juan Carlos Romero (PJ-Salta), and the case for the opposition was made by Senator Juan Trilla (UCR-Capital). The Upper Chamber approved the Law 24073 with the affirmative votes of the PJ Senators and some allies; the UCR Senators voted against the fiscal reform.\textsuperscript{18}

5. The Contents of Law 24073

The law finally approved by Congress contained the following seven main elements: i) Profits tax for firms companies was raised from 20\% to 30\%. ii) Tax on firms gross assets was renewed until year 2000. iii) The principle of “world-taxation-base” was established; taxpayers will pay taxes on assets in the country as well as abroad. iv) The maximum amount allowed to be re-entered into the country was raised from $100,000 to $500,000. v) VAT was applied to freight transport, but not to passenger transport. vi) The power of the Argentine Internal Revenue Service (DGI) to close facilities due to tax debts, was extended. vii) Returns and Debts of the DGI to taxpayers were transformed to a sixteen year-20\% interest government bond.

Law 24073 was far short of a significant fiscal reform; instead of establishing a new tax system—one that were able to change the old “inflation dependant” one, be compatible with the market economy and implement incentives for fiscal

\textsuperscript{17} H. Cámara de Diputados de la Nación: Diario de Sesiones, 18 y 19 de Marzo de 1992, pg. 6067.

\textsuperscript{18} H. Senado de la Nación: Diario de Sesiones, 1 y 2 de Abril de 1992; pg. 6000
discipline, employment and economic growth—it only made incremental variations on the old system.

The second attempt to change the tax regime came the following year, and was comprised within the Social Security Reform initiative; although the pensions system was actually reformed, the idea of a substantial tax reform was defeated again. Hence, there was never a real tax reform in Argentina.

6. Enforcement and Tax Collection

Lacking a real fiscal reform, Argentina had only one alternative: to improve enforcement and tax collection. This was precisely what the government did and perceptible changes in that field were made. Although most of those changes were incremental, a few of them were more ambitious. The overall performance of tax collection over the decade attained some remarkable achievements, though evolution in the long run showed the limits of the system as a whole.

Over the nineties, current tax revenues steadily increased in absolute terms measured in US dollars; notwithstanding, measured in terms of GDP, revenues show a less steady pattern, consistent with the volatility mentioned above\(^\text{19}\): it declined from 1992 until 1996 and rose again from then onwards.

Graph I.III.6\(^\text{20}\) presents that evolution, both in US Dollars and in terms of GDP. (Social Security not included).

\(^{19}\) See this Section, \# 2
Two indicators have been used to measure the progress made by the country in its tax collection performance: increases of “fiscal pressure” and declines in “tax evasion”: i) Fiscal pressure increased significantly. In the past twenty years, the overall fiscal pressure average in Argentina rose from 11.7% of GDP to 20.7% of GDP; the average fiscal pressure of the profits tax and the personal assets tax, went from 1.33% of GDP in the eighties to 3.45% of GDP in 1998; and the average fiscal pressure of the VAT, increased from 2.36% of GDP in 1989 to 8.14% of GDP in 1998. ii) Tax evasion declined visibly. Evasion of VAT fell from 65% in 1990, to 40.5% in 1993 and 26.7% in 1997.21

As it was said before, lacking a fiscal reform, the only fiscal policy possible in Argentina was to improve enforce-
ment and tax collection; and improvements in that field were actually attained.


This period was named after Carlos Tacchi, then Secretary of Public Revenues, the top tax official of the time. From 1991 to 1993 there was a spectacular increase, both in the number of registered taxpayers and in the amount of collected revenues.

Table I.III.2 presents the figures.

<table>
<thead>
<tr>
<th>Tax</th>
<th>Registered Taxpayers</th>
<th>Collected Revenues*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1989</td>
<td>1993</td>
</tr>
<tr>
<td>Profits Tax</td>
<td>1079396</td>
<td>2196610</td>
</tr>
<tr>
<td>VAT</td>
<td>218036</td>
<td>951884</td>
</tr>
</tbody>
</table>

* Billions 1993 Pesos

Four elements have been credited as explanations of these improvements: i) Organizational changes in the system: few taxes, neutral and simple to collect; more was collected with less taxes. ii) Changes in the tax collection agencies (DGI, Anses and Customs). iii) Expansion of the taxable base. iv) Increase in the rates of some taxes. It has been pointed out that "half of the 'Tacchi effect' is credited to an increase in the tax base, 25% is due to the raise of the rates

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21 SILVANI, Carlos: La Administración Tributaria en el Centro de la Escena Política; Working Paper; AFIP, Buenos Aires (1999); pg. 1
22 MEOSP: Argentina en Crecimiento. Buenos Aires (1993), pgs. 15/16
23 El Economista: El 'Efecto Tacchi' en la mira. Buenos Aires, 7/8/94; pg. 10
and the remaining 25% is shared by the fall of the ‘Tanzi effect’...and more administrative efficiency”.24

b) 1996-1999: The Stage Silvani

IMF Argentine expert Carlos Silvani took office in 1996, and under his initiative a new independent public revenue agency was created (AFIP), unifying the Internal Revenue Service (Dirección General Impositiva) and Customs (Administración Nacional de Aduanas). The results were no less impressive than those of the first part of the decade: in 1996, 1997 and 1998 collections were over 25 billion dollars (overall) more than in 1995. In 1998, collections were 12.2 billion dollars more than in 1997, reaching the all-time record of 61.6 billion dollars. The overall tax pressure in 1998 reached a peak of 20.7% of GDP.25

Explanations of these improvements basically involve enforcement concentration: inspections, closings, administrative inquires, fines, and lawsuits multiplied by the thousand. For instance, over this period, 4,631 criminal actions for tax evasion were filed, out of which 479 tax-evaders were imprisoned.26

It has been considered that the most important determinant of success in this stage was “to increase the taxpayers ‘perceived risk’. Assume that the decision to evade (E) is equal to the sanction (S) multiplied by the probability to be detected (P); if the probability is zero (P=0) even if the sanction is infinite (S=∞) the result is zero (P=0)x(S=∞)=0,

so, the decision is to evade; but if the probability is more than one \( P => 1 \) the decision will be different. If the probability increases, the ‘perceived risk’ increases as well, and taxpayers’ behavior changes.”

Other factors of this stage worth mentioning are the following: i) Gradual elimination of exemptions of the VAT, that encouraged the progressive generalization of this tax. ii) Reduction of taxes on international trade, relevant to the "economic openness" policy. iii) Reduction of 50% of the VAT rate for consumption goods comprised in the "family basket" (meat, vegetables, fruits). iv) Creation of the "Simplified Tax for Small Taxpayers" (Monotributo), which consists of a single periodical payment for all the taxes and dues; it made possible the inclusion of 800,000 new taxpayers into the system.

7. Public Expenditure and Fiscal Deficit

The reform implemented by Law 24,073 was an incremental “tax reform” rather than a “fiscal reform”, and it came clearly short of the reform needed on the “spending side" of the fiscal equation; thus, government spending kept increasing more than revenues. “Current Public Expenditure” (which encompasses consumption, debt interests and transfers to provinces, to the social security system and to National universities) almost doubled in absolute terms measured in US dollars: from 29.5 billion in 1991, to 59.5 billion in 1999. Notwithstanding, measured in terms of GDP the trend was less linear: it declined from 19.54% to 18.32% in 1993, remained

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28 Ibidem
fairly stable—varying only in decimals—until 1998, and rose visibly in 1999 to 21.02%.

Graph I.III.7\(^{29}\) presents that evolution, both in billions of US dollars and in terms of GDP.

Graph I.III.7
Current Public Expenditure
(1991-1999, in billions of US dollars and as \% GDP)

Taking the decade as a whole, the overall fiscal result was a deficit: 9.84\% of GDP; considering fiscal revenues without privatization, there was a surplus only in one year (1993); with privatization, in two (1992 and 1993).

Graph I.III.8\(^{30}\) presents those results.

\(^{29}\) Data: Ministerio de Economia: Presupuesto Resumen 2000; Buenos Aires (2000); pgs. 111/112.

8. Budgetary Institutions

After Law 24,073, government revenues increased and efficiency improved, but the spending side of the fiscal reform was overlooked and dealt only with short-term solutions; until later in the decade, not very much was done on the “spending side” of the fiscal accounts. From 1991 onwards, government spending kept rising more than proportionally to government revenues, and every questioning of the fiscal deficit was responded to with measures on the revenue side of the equation. The revenue sharing system[^31] was slightly modified, but incentives to collect more taxes at provincial level were not established. The government carried out a full program of substantial reforms that actually limited

[^31]: See this Section, # 1.b
public spending\textsuperscript{32}, but the lack of proper budgetary institutions impaired its ability to control that spending in the long run.

a) Argentine budgetary institutions, in terms of quality, ranked in the middle of those of twenty Latin American countries, not in line with its income level.

Graph I.III.10\textsuperscript{33} presents the ranking.

\textsuperscript{32} Reforming the State, the Economy and the Social Security System.
b) Poor budget institutions were also reflected in the effect of electoral cycles. It has been observed in international comparative studies that, without institutional constraints, incumbent politicians have “an incentive to bias pre-election fiscal policy toward easily observed consumption expenditures”;\textsuperscript{34} therefore, fiscal deficits tend to worsen progressively until an election year, and then they tend to improve. It has been considered that this was the case for Argentina in the second half of the nineties, since there were four elections in six years: for Constitutional Conventionalists (1994), for President (1995), for Legislators (1997) and for President again (1999).

Graph I.III.1\textsuperscript{1135} represents the data.

Graph I.III.11
Electoral Budget Cycle

\textsuperscript{34} ROGOFF, Kenneth: Equilibrium Political Budget Cycles; in "The American Economic Review", March 1990, pg. 21

\textsuperscript{35} Data: World Bank: World Bank Indicators 2000.
c) Another factor that contributed to impair the government’s ability to curb the fiscal deficit was the “rigidity” of two components of the current public expenditure: i) the payments of debt interest to foreign lenders; ii) the transfers to the social security system for payments to pensioners. Both are quite rigid and both present important obstacles to be reduced in the short term. Regarding their relative weight, transfers to public social security became the major component of the overall public expenditure after 1994 (when the pensions regime was changed, re-directing workers’ dues to the private pensions system); they amounted to 40.5% in 1995, 41.7% in 1996, 36.8% in 1997, 37.5% in 1998 and 35.5% in 1999.

9. The Fiscal Solvency Law

As was pointed out before, the lack of a real fiscal reform left Argentina with only one possible policy in this field: to improve enforcement and tax collection; and so that is what Argentina did. Yet despite remarkable success in doing so, fiscal balance remained elusive and the “spending side” of the equation was addressed with short-term responses. Only at the end of the decade was the problem of limiting the public spending addressed with a serious institutional reform: the “Fiscal Solvency Law”, also named the “Fiscal Convertibility Law”. But, as will be seen, it was not properly enforced.

The fiscal policy literature points to three types of budgetary institutions: numerical, procedural and transpar-

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36 See this Section, # 8
To establish a numerical target, if properly enforced, "eliminates persistent deficits induced by political distortions or by politicians’ opportunism and ‘short-termism’". As cons, it has been pointed that numerical targets tend—first—to stimulate "creative accounting" and—second—to be inflexible. The typical numerical rules as budgetary institutions are three: i) The “Gramm-Rudman-Hollings” Act (of the US), which imposes a gradual reduction of deficits, until their elimination; ii) The Maastricht criteria (of the EU), which impose limits on deficit and debt; and iii) The balanced budget rules (of the US states), which prevent budgets with deficit.

The Argentine Fiscal Solvency Law was the result of two different initiatives: one bill introduced through the Senate by Senator José Manuel De la Sota (PJ-Córdoba) and the other introduced through the House by Deputy Jorge Remes Lenicov (PJ-Buenos Aires); both had elements of the above, listing three types of numerical budgetary institutions, and the two bills were combined into one project during the lawmaking process. The objectives of this bill were: i) reducing the deficit until its elimination in 2003, imposing steps to balance the budget, limiting spending increases to no more than GDP growth, and freezing the tributary pressure as percentage of GDP; ii) creating a Counter-cyclical Fiscal Fund, up to 3% of GDP; and iii) improving quality and transparency through...
pluri-annual budgets and publicity of all information regarding public spending.\textsuperscript{40}

The evolution from the original bills presented by De la Sota and Remes Lenicov to the text finally passed by Congress, are summarized in Chart I.III.1.\textsuperscript{41}

**Chart I.III.1**  
**Fiscal Solvency Law Projects**  
**Comparative Analysis**

<table>
<thead>
<tr>
<th>Items</th>
<th>De la Sota</th>
<th>Remes Lenicov</th>
<th>Law 25152</th>
</tr>
</thead>
</table>
| Limit to Public Deficit (% GDP) | Current Expenditure = Current Revenues (Taxes and Social Security) | 1999: 1%  
2002: 0% | Progressive reduction.  
2003: 0% |
| Limit to Public Expenditure | ∆ Overall Expenditure = ∆ GDP | Not explicit | ∆ Primary Expenditure = ∆ GDP |
| Limit to fiscal pressure      | Tax rates frozen for 10 years | 18% GDP | Not explicit |
| Limit to Public Debt          | ∆ GDP | Not explicit | A formula is provided |
| Countercyclical Fiscal Fund   | Not explicit | Yes. 3% GDP | Yes; up to 3% GDP |
| Pluriannual budget            | Not explicit | Yes | Yes |
| Officials’ budgetary accountability | Yes | Not explicit | Yes |
| Publicity of fiscal information | High | Moderate | Moderate |

The parliamentary debate of the Fiscal Solvency Law had two stages: i) In the first, the bill was supported by the incumbent Justicialista party (which was ending its second administration) and absolutely rejected by the UCR/Frepaso Alianza (which was expected to win the upcoming presidential election). PJ legislators made the case for fiscal discipline and Alianza representatives argued that it was an attempt to “tie the hands” of the forthcoming new Administration.\textsuperscript{42} ii)  

\textsuperscript{40} See: H. Cámara de Diputados de la Nación: Diario de Sesiones, 30 de Junio de 1999; No. 5; (Deputy Remes Lenicov).  
\textsuperscript{41} IAEF; Op.Cit, pg. 54  
\textsuperscript{42} See: H. Cámara de Diputados de la Nación: Diario de Sesiones, 30 de Junio de 1999; No. 5; (Deputy Dumón).
In the second, a consensus was attained—probably with the help of the international financial institutions—and the bill was supported from both sides of the aisle.43

In the Chamber of Deputies there were eleven interventions in the first session; the general presentation sustaining the bill was made by Deputy Jorge Remes Lenicov (PJ-Buenos Aires), and the case for the opposition was made by Deputy José Gabriel Dumón (UCR-Buenos Aires); in the second session, the bill was approved unanimously. In the Senate there were eleven interventions as well; the general presentation sustaining the bill was made by Senator José Luis Gioja (PJ-San Juan), and for the opposition by Senator José Genoud (PJ-Mendoza). On August 25, 1999, the Senate also unanimously approved Law 25,152.

Notwithstanding the ample political support showed by its unanimous approval in both Chambers, Law 25,152 was almost immediately modified; there were eleven legal instruments that amended the Fiscal Solvency Law: Administrative Decisions 123/00 and 65/01; Decrees 1017/99, 339/00, 430/00, 1248/00, 799/01 and 992/01; Resolution ME 782/00; and the Budget Laws of 2000 and 2001, that suppressed the spending limits. Hence, the budgetary institution of numerical rule was abrogated.

As has been presented above, Argentina’s fiscal deficit trend over the nineties was not good. In some years, it was plainly bad; later, it worsened and the Argentine public deficit skyrocketed.

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Chapter II: REFORMING THE SOCIETY

I. Educational Reform
II. Labor Reform
III. Social Security Reform
EDUCATIONAL REFORM

The educational context was determined by two conflicts: Nation/Provinces and Schoolteachers/Governments; decentralization and wage increases contributed to solutions, and a better environment for changes was created. Characteristics of the educational reform were an encompassing system, a new structure of levels, expansion of obligatoriness, equality, federalism and labor market orientation. Effects were positive in registration, the literacy rate, learning performance and creation of new universities. Lack of institutional changes kept the relationship between schoolteachers and governments conflictive. Despite significant increases, financing remained problematic.

1. Fairly Good Numbers, Sense of Failure

In 1989, Argentina had 8,075,178 students: 4,998,963 in primary school, 1,937,324 in secondary school, 668,315 in the universities, and some more in other schools. In the entire educational system there were 598,948 schoolteachers, 43,112 schools and colleges, 26 national universities and 23 private universities. Though accessibility to education was relatively high (96.4%), illiteracy was 4% (955,990)¹.

Table II.I.1² presents the illiteracy rates in sample countries.

¹ INDEC: Census 1991
² WORLD BANK: World Development Indicators; pg. 94
Table II.I.1
Adult Illiteracy Rate
(1990, in percentages)

<table>
<thead>
<tr>
<th>Country</th>
<th>Illiteracy Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
</tr>
<tr>
<td>Israel</td>
<td>3</td>
</tr>
<tr>
<td>Uruguay</td>
<td>4</td>
</tr>
<tr>
<td>Argentina</td>
<td>4</td>
</tr>
<tr>
<td>Cuba</td>
<td>5</td>
</tr>
<tr>
<td>Chile</td>
<td>6</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>6</td>
</tr>
<tr>
<td>Portugal</td>
<td>9</td>
</tr>
<tr>
<td>Mexico</td>
<td>10</td>
</tr>
<tr>
<td>Middle Income Countries</td>
<td>13</td>
</tr>
<tr>
<td>Latin American Countries</td>
<td>14</td>
</tr>
<tr>
<td>Brazil</td>
<td>18</td>
</tr>
</tbody>
</table>

Tables II.I.2 and II.I.3\(^3\) show other indicators of the Argentine educational situation before the reform began.

Table II.I.2
School Attendance Rate
According to age groups
(1991)

<table>
<thead>
<tr>
<th>Age</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/12</td>
<td>96.9</td>
</tr>
<tr>
<td>13/18</td>
<td>67.6</td>
</tr>
<tr>
<td>19/29</td>
<td>19.1</td>
</tr>
<tr>
<td>30/+</td>
<td>1.9</td>
</tr>
</tbody>
</table>

\(^3\) INDEC: Statistical Synopsis - Education; <www.mecon.gov.ar/INDEC>
The Argentine educational indicators at the beginning of the nineties were visibly better than the Latin American averages, and better than those of the Middle Income Countries in general. So, by the standards of a middle-income Latin American country, these figures were normal, or even good; but for the idea Argentineans have of themselves, they indicated failure.

At the end of the eighties, Argentina’s educational situation was being strongly affected by two conflicts: one was between the federal government and the provinces; the other was between the governments (national and provincial) and the schoolteachers. The first produced institutional inefficiencies that prevented the educational system from responding to the increasing demands of society; the second led to the “functional paralysis” of public schools, which caused a massive exodus of students to private schools.

In order to make reform of the education system possible, these two conflicts had to be addressed.
2. Nation and Provinces

The conflict between the provinces and the federal government had constitutional roots, because both the National and Provincial Constitutions had provisions relating to education. Upon that base, the legal framework of this realm evolved independently at each level. This led to a situation of overlapping responsibilities and structures that resulted in a very low level of institutional performance in the educational field. So, dis-functionalities in the relationship between the Provinces and the Federal Government were the first problem that needed to be resolved to improve the Argentine education system.

The National Constitution has two references to education relevant to the point here analyzed: i) Article 5, which establishes that provinces have to "ensure elementary education"; ii) Article 75:18, which gives Congress the responsibility "to provide...for the progress of education".

On the other hand, the Provincial Constitutions had provisions on education as well, most of which were similar in many ways. Almost all of them provided for the right to learn and to teach, and they gave the provincial legislatures the power of dictating the regulatory laws of education. Furthermore, all mandated that primary education would be free and obligatory, while nine said that education must be "secular." Most provinces had established a decentralized body or council that assumed the responsibility of governing provincial education. Finally, most Provincial Constitutions addressed

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4 LLACH, Juan J; MONTOYA, Silvia and ROLDAN, Flavia: Educación para todos; IERAL, Cordoba (1999); pg. 192
5 The constitutional reform in 1994 did not change these provisions.
the financing of education and many had determined that a fixed percentage of the provincial budget (generally between 20 and 30%) had to be dedicated to education⁶.

The first national policy instrument regarding education was Law 1420, which was passed in 1884; it was considered the cornerstone of public education in Argentina, although it was effective only in the Federal Capital and regarded only primary education, leaving all the provinces and all the non-elementary components of the educational system out of its scope. The second was Law 4874, the "Lainez Law"—named for its author—through which the national state was assigned to build facilities and to establish the curricula, to appoint the schoolteachers and to pay their salaries. Over time, responsibilities regarding elementary education that according to the Constitutional framework belonged to the provinces, were absorbed by the federal government⁷.

As a result, two parallel systems of elementary education had developed: one provincial, the other national; by 1965 the federal government maintained 6,700 primary schools and the provincial governments maintained 9,500⁸. These parallel systems were neither homogeneous nor consistent with one another—national schools were not always better than the provincial ones, and national teachers were not always better paid than their provincial colleagues—and their overall educational outcome was inefficiency, poor educational results, social and regional asymmetries, and institutional gridlock that impeded changes and improvements.

⁶ LLACH, Juan J. et Al.: Op.Cit.; pg. 194
⁷ RODRIGUEZ, Jorge A (Former Minister of Education): Interview by Claudia Curras; Buenos Aires, (2000)
⁸ LLACH, Juan J. et Al.: Op.Cit.; pg.193
In the late sixties, along with the evolution towards the Bureaucratic-Authoritarian State, a process was initiated that would transfer responsibility for nationally maintained schools back to the provinces, so that by 1978 almost all primary schools were under the direction of provincial governments. This process was carried out by the military governments transferring schools, teachers and obligations to the provinces, but not the financial resources to run them. This lack of corresponding financing prevented these transfers from any success, so that: i) educational outcomes were not improved; and ii) by the end of the eighties, a political conflict between the provinces and the federal government had arisen as a relevant feature of the Argentine educational situation.

It took two steps and fifteen years to solve this problem: i) First, in 1988 the Federal Taxes Distribution Law (Ley de Coparticipacion Federal de Impuestos) redistributed 8% of federal tax revenues to the provinces in order to compensate them for the school transfers; ii) Second, in December 1991, Law 24,049 of the "Transfer of National Educational Services to the Provinces" (Ley de Transferencia de los Servicios Educativos Nacionales a las Provincias) was passed. This law transferred secondary schools and universities to the provinces, further decentralizing the system; its implementation was completed in 1994. At the end of the process 2,200 public secondary schools were transferred, as well as

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9 See Introduction, Section II-2
10 DECIBE, Susana (Former Minister of Education): Politicas Nacionales del Sector Educativo; Paper presented to the Seminar "Prioridades para la Proxima Etapa"; Partido Justicialista; Buenos Aires (1995); pg. 1
11 RODRIGUEZ, Jorge A: Interview by Claudia Curra; Buenos Aires, (2000)
12 Ministerio de Cultura y Educacion: Politica Educativa-Balance de la Gestión de Gobierno; Internal Memo; Buenos Aires (1996); pg.1
regulatory competence over 2,000 private ones\textsuperscript{13}. From then on, the federal government would send funds for secondary schools through the Ministry of Economy, and for higher education and infrastructure through the Ministry of Education\textsuperscript{14}.

At this point, substantial improvements had been achieved in the conflict between the federal government and the provinces regarding education. The conditions were established for a comprehensive solution: it came with the approval of the Federal Education Law, which is discussed below. But the other conflict between the governments and the teachers had to be addressed beforehand.

3. Teachers and Governments

In 1989 there were 598,948 school teachers, out of which, 45,100 were of initial education, 280,000 of primary and 247,804 of secondary\textsuperscript{15}. The 1994 Educational National Census provides a more detailed picture: in that year, the total number of teachers of all the jurisdictions was 655,750; 71\% of them were employed by the governments and 21\% by private schools. Most of them were women (80\%), adults (25 to 50 years old), with no more than 10 years in service, and with no university degree (87\%)\textsuperscript{16}.

Teachers’ labor contracts were—and still are—very regulated by special laws under the "Teachers' Statutes" (Estatutos del Docente). The main characteristics of the labor relationship regulated by these statutes were the following:

\begin{itemize}
  \item[i)] procedures of access to the service based upon burea-
\end{itemize}

\textsuperscript{13} LLACH, Juan J. et Al.: Op.Cit.; pg.198
\textsuperscript{14} Ministerio de Cultura y Educacion: Politica Educativa-Balance de la Gestión de Gobierno; pg.1
\textsuperscript{15} Data: Ministerio de Educacion y Cultura: Anuario Estadistico 1996
\textsuperscript{16} Ministerio de Educacion y Cultura: Censo Nacional Educativo 1994
cratic (not academic) criteria; ii) promotions based on seniority and not on merit; iii) career path with no incentives for training and professional qualification; and iv) a very permissive regime of paid leaves, absence justifications and special permits. Although it is considered difficult to evaluate the exact impact of this permissiveness because "the needed data are jealously guarded" \(^{17}\), the most accepted estimation is that at the end of the nineties, for each single teacher in front of a class, the government was paying salaries to four. Another element relevant to understand the conflict analyzed in this point is that teachers were—and still are—highly unionized.

In 1988 and 1989, within the context of the collapse of the assisted capitalism,\(^{18}\) schoolteachers made “serial” strikes. The most difficult characteristic of these strikes were their "nationalization"\(^{19}\): if there was a problem with the teachers in the province of Santa Cruz, or in Santiago del Estero or in Misiones, then there was a teachers’ national strike.

Nationalization of the provincial conflicts reinforced the conflict between governments and teachers in three ways: i) it multiplied the frequency of the strikes, because they were the unified response to causes from twenty four different sources: the provinces; ii) once nationalized, these conflicts were impossible to solve at provincial level—they had to be resolved at the federal level; iii) it de-activated solutions at provincial level—teachers went on strike regard-

\(^{17}\) LLACH, Juan J. et Al.: Op.Cit.; pg. 216
\(^{18}\) See Introduction, Section II
\(^{19}\) RODRIGUEZ, Jorge A: Interview by Claudia Curras; Buenos Aires, (2000)
less the efforts of provincial governments, and improvements made in their own jurisdictions.

Because of these strikes, public schools were closed most of the time and schoolchildren received less than half of the scheduled classes. The impact of this on society was very important: parents became progressively concerned with the educational situation of their children and "a number of private schools—not all of them good enough—mushroomed, especially in the Federal Capital and Greater Buenos Aires, where parents registered their children to receive the education that state and teachers with their strikes were not delivering to them. This was a sort of 'de facto' privatization of the public educational system."20

Confusion stemming from the overlapping responsibilities between the federal government and the provinces explained above21 created incentives for nationalization of provincial conflicts. Law 24,049 improved the situation by decentralizing the system and financially supporting the provinces. But only in 1994, when the Federal Education Law clarified the respective responsibilities, were conditions for a more lasting solution achieved. Former Minister of Education Jorge Rodriguez said that after the reforms "...public schools began to improve...and as public education improved, many parents viewed that it was no longer necessary to send their children to a private school in order not to lose days of class, and could now send them back to the public school...".22

20 Ibid
21 See this Section, # 2
22 RODRIGUEZ, Jorge A: Interview by Claudia Curras; Buenos Aires, (2000)
Teachers' strikes had two different types of motivations: on one hand, a specific labor goal, salaries; on the other, a general political goal, roughly presented as “defense of public education”. Each followed different paths: the first evolved as economic claims within the process of stabilization; the second was transmuted into political activism encompassed in the opposition to the process of market-oriented reforms. Both evolutions are briefly presented here.

a) At the end of the eighties, most Argentine workers’ wages were affected by hyperinflation; teachers' too. But after 1991, stabilization led to wage recovery: between 1992 and 1996, Argentine workers’ wages in general increased by 20.99%; teachers’ salaries more than doubled that rate, increasing 42.3%. Graph II.I.1 illustrates this.

Graph II.I.1 illustrates this.
This visible increment in teachers' wages and the new institutional framework of the Federal Education Law No. 24,195 made teachers' national strikes almost disappear as a generalized phenomenon in the second half of the decade.

b) The political activism of the teachers' union (CTERA)\textsuperscript{24}, gained national visibility in July 1992 with a massive rally\textsuperscript{25} in front of the Congress, where by that time the project of Education Reform drafted by then Minister of Education, Prof. Antonio Salonia—a project which at the end of the process would became the Education Federal Law—was being discussed.

There were three controversial issues about this reform: i) to what extent education had to be free or not; ii) how many years of formal schooling had to be mandatory for every child; and iii) the amount and sources of public financing for education.

Although the union's leadership was of Peronist origins, by this time they had decided to join a new political party, the center-left oriented “Frente Grande.” This decision transformed their activism in two ways: i) opposition to the educational reform was increasingly “framed” within the context of a more general resistance to “market-oriented reforms”; and ii) at that time, they decided to articulate that resistance through electoral politics.

This evolution from union activism to electoral politics was explained by Mary Sanchez, the then General Secretary of the teachers' union, when she was member of the 1994 National

\textsuperscript{23} Data: Ministerio de Educación y Cultura: La situación actual del gasto educati-
\textsuperscript{24} “Education Workers Confederation of the Argentine Republic”
\textsuperscript{25} Supported by other activists' groups and left political parties. The media re-
ported 70,000 people.
Constitutional Convention—elected by the Frente Grande Party—as follows: "The only way to resolve people's problems is listening or interpreting their voting. Here is a Conventionalist who, when he was Minister of Labor told me: 'If you disagree with this, there are the ballots; organize a political party'. I truly appreciate this suggestion that he made to me. We schoolteachers—who teach the history both of the fatherland and of the Constitution—began to think anew on these themes and to see the problems of education, of health, of democracy...of regional economies...People's struggles should not scare us, since they are part of the social conflicts. Who if not those who govern should manage social conflicts?"26

The person to whom she was referring was me; and the story is basically correct.

The quotation is a clear explanation of why and how school teachers moved from labor vindication to political activism. Notwithstanding, their resistance to reforms appeared again, under new forms, after the Federal Education Law was approved by Congress.27

4. The Proposal

As with almost all the reforms after the end of the "emergency"28, educational reform was extensively discussed and negotiated both in Congress and with interest groups. The law that finally passed is a syncretic text, with elements from different sources.

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26 SANCHEZ, Maria: Convención Nacional Constituyente; 5° Reunión - 1° Sesión Ordinaria (continuación); 2 de junio de 1994.
27 See this Section, #
28 See Chapter III, Section I.3
a) The reform took some elements from several bills proposed to the Congress. There had been 14 initiatives of Educational Reform law, the first in 1988: four by UCR legislators, four by PJ legislators, and five of other political parties.

b) The most frequently cited antecedent of the educational reform of the nineties is the "Pedagogic National Congress," which was realized in the eighties. It was a wide and extended process of debate about education, in which all the sectors, institutions and relevant groups related to education in the country took part.

It was conveyed in 1984 by Law 23,114 with the objective of emphasizing the importance of and pursuing projects related to education, collecting and valuing the opinions of people and sectors; and studying and solving the diverse problems, difficulties, limitations and defects of the education system.

The full process of the Pedagogic National Congress took four years, and its "Final Report" was presented to then Minister of Education Jorge Sábato on March 6, 1988. It addressed the following themes: i) Objectives of education regarding society; ii) Objectives of education regarding individual; iii) Forms of Education: regular and special; iv) Distribution of educational services: Nation and Provinces; v) Pedagogical aspects: curriculum, methods and innovations; vi) Administrative aspects: Training, labor contracts and

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29 By Senator Jose Romero Feris (PAL-Corrientes)  
30 Congreso Pedagogico Nacional: Informe Final de la Asamblea Nacional; Cordoba (1988)
evaluation; vii) Financial aspects: resources and expenditures\textsuperscript{31}.

These conclusions were the predecessors of many elements of some of the projects mentioned above, as well of the law finally passed in 1993.

5. The Approval

In 1991, the government sent the project to Congress; it entered through the Senate. Minister of Education Antonio Salonia highlighted the following features of the proposal: i) it instituted an educational "system" comprising all education levels; ii) it was a flexible "framework" law; iii) it was "federal," since it transferred all the educational powers and responsibilities to the provinces; iv) it empowered the "educative community," integrating parents into the endeavor; v) it changed the secondary school to a "modalized" labor skill-oriented one; and vi) financing contemplated "compensatory mechanisms" to level regional and social asymmetries. Minister Salonia also mentioned the Pedagogic Congress as a source of elements for the project.\textsuperscript{32}

It took two years for the Congress to pass the law.

In the Senate, the Education Commission included elements of different projects and reshaped the bill in a new one, based on a bipartisan consensus led by Senator Oligela del Valle Rivas (PJ-Tucumán) and Senator Margarita Malharro de Torres (UCR-Mendoza). The Senate discussed this joint project in several sessions, the last one on May 6, 1992, in which there were seven interventions: three by government PJ

\textsuperscript{31} ibid
\textsuperscript{32} SALONIA, Antonio: Ley Federal de Educación (Sintesis de contenido); Memo to the Cabinet (February 26, 1991)
Senators, two by opposition UCR Senators and two by Senators of Provincial Parties. It is interesting to note that this first version of the law was voted by all the political parties in the Senate; instead, the final version—the one approved by the Lower Chamber—was not.

The bill entered the Chamber of Deputies in May 1992. Its Education Commission opened an ample round of consultation: they met more than seventy institutions related to education and received more than 3000 letters.33

Table II.I.434 summarizes the differences at that point of the lawmaking process.

Table II.I.4

<table>
<thead>
<tr>
<th>Theme</th>
<th>Unions</th>
<th>Congress</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gratuitousness</td>
<td>For all levels and modalities of education</td>
<td>Senate: 7 Years of primary and 2 of secondary. Deputies: PJ-All levels UCR-All levels delivered by State.</td>
<td>Nation and provinces should assure access to education for all. Do not refers to gratuitousness.</td>
</tr>
<tr>
<td>Obligatoriness</td>
<td>10 years</td>
<td>Senate: 10 Years Deputies: PJ-Extend obligation to basic cycle of secondary. UCR-Primary</td>
<td>Primary; progressive extension to secondary.</td>
</tr>
<tr>
<td>Financing</td>
<td>Assign between 6 to 8% of the GDP.</td>
<td>Senate: Resources determined in the budget. Need of a specific law of educational financing.</td>
<td>Resources determined in the provincial budgets.</td>
</tr>
</tbody>
</table>

The Education Commission made many amendments to the bill sent by the Senate, and the new text was discussed on the Floor from August 27 to September 3, 1992.

There were thirty-two interventions: six by government PJ Deputies, eight by opposition UCR Deputies and eighteen from other parties. The general presentation sustaining the

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33 RODRIGUEZ, Jorge A: Interview by Claudia Curras; Buenos Aires, (2000)
34 El Cronista; Buenos Aires, 7/17/92
bill was made by Deputy Jorge Rodriguez (PJ-La Pampa), who was later Minister of Education. The case for the opposition was made by Deputy Angela G. Sureda (UCR-Santa Cruz), with complementary comments by Deputy Alfredo Bravo (FG-Capital Federal).

On September 3, the bill was passed, with the affirmative vote of the PJ legislators and some allies; the UCR legislators voted negatively. On April 14, 1994 the Senate, with a similar party-line divided vote, approved the Federal Education Law No. 24,195.

6. Contents of the Federal Education Law

The basic aspects of the law are the following:

a) An all-inclusive national education system:

The law created for the first time an educational system that included all levels of education (primary education through university-level), all the provinces in Argentina, and public education as well as private education. It also included all possible types of education—formal and informal, common and special education, for children and adults—as well as artistic and technological education.  

b) General goals:

The Education Federal Law pursues: i) to improve the quality of education in Argentina; ii) to guarantee that all children in the country acquire the substantive ethical and citizen formation that makes possible the educated performance of society; and iii) to give them skills in and knowledge of contemporary scientific and information technology.

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35 LLACH, Juan J. et Al.: Op.Cit.; pg. 198
Equal opportunities and possibilities for all students shall be provided by this education.

c) Specific Goals:

These goals included adapting the education system to the times, and making the education provided more adaptable, flexible, open and oriented toward satisfying the diverse national and regional needs.

d) New Structure:

The law outlined a new structure of the grades and levels within the system: i) Initial Education (ages 3-5); ii) General Basic Education (ages 6-15); iii) Polimodal Education (3 years after General Basic Education; and iv) Superior Education (according to criteria determined by each university or educational institution).

e) Expanded Obligatoriness:

The law extended the number of years of obligatory schooling for children from 7 to 10 years. These 10 years are made up of the final year of “Initial Education” and the nine years of “General Basic Education.”

f) Equality:

The law required common curricular bases for each grade level, to standardize Argentine education and to guarantee the quality, equality and unity of the education system. These “Common Basic Contents” were to be outlined jointly by the Ministry of Education and the Federal Council of Education.

g) Federalism:

The law considers education a "concurrent" responsibility of the Nation and the Provinces. It creates the Federal

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36 Ministerio de Cultura y Educacion: Anuario Estadistico 1996; pg. 29
Council of Education. In addition to agreeing on the Common Basic Contents, the Ministry and the Federal Council are required by the Federal Law to agree on the objectives and content of educational policy.

h) Evaluation:

The Federal Law introduced for the first time the evaluation of the quality of education, including students’ learning level. It assigns to the Ministry of Education and the provincial governments the responsibility for investigating and guaranteeing the quality of education, by bringing in specialists to observe the education system and to guarantee the application of the Education Federal Law’s new guidelines. Also, the Ministry of Education is required by this law to submit an annual analysis of the education system and the process of implementation of the law, to the Education Commission of the National Congress.

i) Teacher training:

The law created a network to provide teachers training and a circuit of professional re-qualification for teachers.

j) Financing:

The law established guidelines for generally increasing public investment in education, with the goal of either doubling investment (starting with the 1992 base of $6.12 billion) over 5 years, or increasing the percentage of GDP reserved for education to 6%. Additional resources would be provided by direct taxes on sectors of greater contributive capacity.

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37 Also discussed in LLACH, Juan J. et Al.: Op.Cit.; pg. 201
k) **Compensatory mechanisms:**

These outlined norms regarding the obligation of the National Government to give financial aid in addressing inequality in education across different provinces, to solve emergencies, and to attack problems of marginalization. It also gave a greater focus to the Ministry of Education regarding schools and school populations with greater needs, and assigned differentiated treatment to schools with greater socioeconomic difficulties.³⁸

l) **Labor Market Orientation:**

The Federal law seeks to connect education to the world of work and production, providing mechanisms to tailoring upper level polyvalent instruction to the foreseeable needs of the labor market.³⁹

m) **Educative Federal Pact:**

A pact among Nation and Provinces was signed and approved by Congress regarding provincial financing, national contributions to provinces, monitoring and implementation of the Federal Education Law.

7. **Implementation**

The law distributes responsibilities among the National Government (represented by the Ministry of Education), the Federal Council of Culture and Education (which represents the provincial governments and the city of Buenos Aires), and the authorities of each jurisdiction (the Provinces and the city of Buenos Aires). The law also named the National State,

³⁹ RODRIGUEZ, Jorge A: Interview by Claudia Curras; Buenos Aires, (2000)
the Provinces and the Municipality of Buenos Aires as the “guarantors” of the national education system.

The implementation mechanisms provided by the law are distinctly federalist: while the National Government can establish educational policies in a broad sense, they have to be approved by the Federal Council. The Ministry of Education has normative, evaluative and supervisory functions, as well as the responsibility for providing financial and technical assistance to compensate for inequalities between different regions or sectors. The Federal Council of Education is the sphere of coordination and concertation of the National Education System and of the new law.\footnote{Law 24195, Article 54} Provincial governments and the city of Buenos Aires have the responsibilities of planning, organizing, administrating and supervising the actual educational services.\footnote{Law 24195, Article 54}

A law related to the Education Federal Law was the Superior Education Law No. 24,521, which passed in August 1995. Its overarching goal was to improve the professional formation of Argentine youth. To reach this goal, the law raised a discussion in society and the university community regarding criteria of academic quality, transparency in the use of public resources, equity in access, and evaluation of results. The law also initiated several programs, including a renovation of the government structures of the universities, a progressive self-evaluation and evaluation of schools, a new regimen of accreditation for plans of study, and a renovation of curriculum/academic offerings.

As it follows from the discussion in this section, the Educational Reform of the nineties in Argentina has been
highly controversial, most times between contenders aligned in terms of political partisanship. That is why the initiative to elaborate a full new project of “Educational Contents” for all the levels of the educational system could be considered a remarkable success in the implementation of this reform: to conduct this ambitious policy design project the Ministry of Education provided a politically independent team of 900 experts led by Cecilia Braslavsky, the most recognized Argentine curricular specialist.42

8. The Enforcement of the Federal Education Law

The Federal Council of Education was very active enforcing the reform; its initial decisions were the following: i) procedures to the agreements among its members; ii) characterization of levels, cycles and general criteria for the implementation of the new curricular structure;43 iii) the “Common Basic Contents” for all levels (excluding universities).44

In 1994 the Educative Federal Pact required by Law 24,195 was signed among the National Government and the Provinces (as well as the city of Buenos Aires); progressively, all the provinces (but not the city of Buenos Aires) began the process of implementation of the reforms provided by the Education Federal Law. Congress approved the Pact in 1997, through Law 24,856.

Extension of obligatoriness and improvement of quality required from the provinces substantial investments in infrastructure, equipment, training, and development of new pro-

41 Ministerio de Educacion y Cultura: Anuario Estadistico 1996; pg.29
42 RODRIGUEZ, Jorge A: Interview by Claudia Curras; Buenos Aires, (2000)
43 LLACH, Juan J. et Al.: Op.Cit.; pg. 389
44 Ministerio de Cultura y Educacion: Politica Educativa-Balance de la Gestión de Gobierno; pg.4
grams. The National Government supported the jurisdictions with funding, technical assistance and programs with international financial organizations.\textsuperscript{45} From 1993 until 1999, more than 3,000,000 square meters of school buildings were built.\textsuperscript{46}

In November 1994, an Educative National Census was conducted—the last educational census had been in 1943. Counting teachers, schools and enrollment figures, it provided basic information regarding the national education system that was used as a base for the enforcement of the Federal Law.\textsuperscript{47}

In order to enforce the "Compensatory Policies" provided by the Federal Education Law, the "Educative Social Plan" was launched in 1993, with the general objective of combating educational inequalities. This plan had three programs: i) The Schools Infrastructure Improvement Program, to reconstruct "hut schools", to repair deteriorated ones and to build some new facilities; ii) The National Scholarships Program, to facilitate the enrollment of economically disadvantaged youths in secondary school; and iii) The "Better Education for All" Program, intended to improve labor and pedagogic conditions in schools. The federal government distributed the resources directly to schools, which were selected by the provincial governments.

By 1998, almost half of the schools and more than one-third of all schoolchildren and students were covered by the Educative Social Plan.

\textsuperscript{45} DECIBE, Susana: Op.Cit.; pg. 5
\textsuperscript{46} RODRIGUEZ, Jorge A: Interview by Claudia Curra; Buenos Aires, (2000)
\textsuperscript{47} Ministerio de Cultura y Educacion: Politica Educativa-Balance de la Gestión de Gobierno; pg.5
Table I.II.5\(^{48}\) presents the figures for the "Better Education for All" Program.

**Table II.I.5**

Educativa Social Plan
"Better Education for All" Program (1998)

<table>
<thead>
<tr>
<th>Level</th>
<th>Schools</th>
<th>Students</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Covered</td>
</tr>
<tr>
<td>Initial</td>
<td>15,219</td>
<td>6,249</td>
</tr>
<tr>
<td>Primary</td>
<td>22,437</td>
<td>12,858</td>
</tr>
<tr>
<td>Secondary</td>
<td>6,419</td>
<td>1,705</td>
</tr>
<tr>
<td>Special</td>
<td>1,194</td>
<td>730</td>
</tr>
<tr>
<td>Total</td>
<td>45,269</td>
<td>21,542</td>
</tr>
</tbody>
</table>

Over the period 1993-1998, more than $738 million were transferred directly to the schools by the Educativa Social Plan.

**Table II.I.6\(^{49}\)** shows the figures.

**Table II.I.6**

Educativa Social Plan Total Investment
Direct Transfers to Schools (1993-1998)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Education For All</td>
<td>12,188,000</td>
<td>59,284,800</td>
<td>51,668,443</td>
<td>58,850,466</td>
<td>80,444,324</td>
<td>63,059,916</td>
</tr>
<tr>
<td>Schools Infrastructure Improvement</td>
<td>49,641,696</td>
<td>66,415,271</td>
<td>47,482,271</td>
<td>70,916,937</td>
<td>82,740,256</td>
<td>35,304,373</td>
</tr>
<tr>
<td>Scholarships</td>
<td></td>
<td>10,482,900</td>
<td>50,371,375</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The impact of the Educativa Social Plan on the educational performance has been measurable: in the provinces where the Plan was applied, the fall of "non promotion" to

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\(^{48}\) Ministerio de Cultura y Educacion: *Plan Social Educativo-programas compensatorios*; Brochure; Buenos Aires (1999)

\(^{49}\) Ibid
the next grade level, the upturn in test scores and the fall of "leaving school", surpassed the national averages.50

9. Effects

The rapidity in which the effects of institutional changes become perceptible varies, depending on the nature of each reform in itself. For instance, the effects of a monetary reform could become apparent almost immediately, while those of an electoral reform will not be perceptible before the next election. It is for its own very nature that the overall effects of the Education Reform will take some time to be fully perceptible.

Nevertheless, there are specific effects that can already be pointed to, and measured. In order to assess those effects, Educational Reform will be considered in a broad sense, encompassing laws 24,195 (Federal Education Law), 24,521 (Superior Education Law), 24,049 (of Transference of Education Services) and other complementary norms and regulations.

a) Over the decade and after the reform, Argentina significantly reduced its already low level of adult illiteracy: from 4% to 3%, in both genders.

Table II.I.751 presents the variations between 1990 and 1999 in sample countries.

50 Ibid
51 WORLD BANK: World Development Indicators; pg. 94
Table II.I.7
Adult Illiteracy Rate Variations, 1990-1999

<table>
<thead>
<tr>
<th>Country</th>
<th>1990 Male</th>
<th>1990 Female</th>
<th>1999 Male</th>
<th>1999 Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>3</td>
<td>9</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Uruguay</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td><strong>Argentina</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
<td><strong>3</strong></td>
<td><strong>3</strong></td>
</tr>
<tr>
<td>Cuba</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Chile</td>
<td>6</td>
<td>6</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Portugal</td>
<td>9</td>
<td>16</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Mexico</td>
<td>10</td>
<td>15</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Middle Income Countries</td>
<td>13</td>
<td>26</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>Latin-American Countries</td>
<td>14</td>
<td>17</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Brazil</td>
<td>18</td>
<td>20</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

b) School registration shows a perceptible impact: Student enrollment increased from 8,075,178 in 1988 to 10,056,200 in 1997; the number of teachers increased from roughly 598,948 in 1988 to 684,7000 in 1996. Using 1991 as a base year, increases in matriculation have been 15.5% for initial education, 5.1% for primary education, and 23.6% for secondary education. Overall, the percentage of schooled people vs. unschooled people increased during the period 1989 to 1998. Furthermore, registration in national universities

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52 Ministerio de Cultura y Educación: Informe sobre actividades en el año 1996; Press release; (1997)
rose from 581,813 students in 1986 to 869,440 students in 1997.\textsuperscript{53}

c) National Operatives of Learning Evaluation have been conducted since 1993 onwards. The first one showed "deficient results. Schoolchildren in the 7\textsuperscript{th} grade of primary schools do not surpass 50\% of correct answers in language and 53\% in Mathematics. In secondary, correct answers varies between 62\% in Language and 44\% in Mathematics..\textsuperscript{54} Further Operatives show increasing test scores, but still unsatisfactory according the expected results.

Graph II.I.2 shows the trend in primary schools, while II.I.3 shows the same in secondary schools\textsuperscript{55}.

\begin{figure}
\begin{center}
\includegraphics[width=\textwidth]{graph2.png}
\end{center}
\caption{Learning Evaluation}
\end{figure}

\begin{center}
\textbf{Graph II.I.2}
\end{center}
\begin{center}
\textbf{Learning Evaluation}
\end{center}
\begin{center}
\textbf{Seventh Grade Primary School}
\end{center}
\begin{center}
\textbf{(% of Correct Answers)}
\end{center}

\textsuperscript{54} DÉCIBE, Susana: Op.Cit., pg. 2
\textsuperscript{55} Ministerio de Cultura y Educación: Ensenar el Futuro 1989-1999; Buenos Aires (1999); pg. 336/337
d) Another result of the Education Reform was the creation of 33 new universities, 10 national and 23 private. National universities grew from 26 in 1989 to 36 in 1995. Between 1974 and 1990, the creation of new private universities was prohibited. Once the prohibition was lifted, 23 new private universities were established and its number grew to 46 by 1995, with approximately 120,000 students. Financing of higher education also improved as a result of Law 23,521: in 1991, the budget for higher education was $750 million, in 1993 it was $1.25 billion and by 1995 it was $1.5 billion, or 0.6% of GDP.
10. Financing

A central element of the Federal Education Law (as well as the Educational Reform broadly considered) is Article 61, which establishes: “The total consolidated public investment in education (base 1992: $6,120,196,000) should be gradually doubled by no less than 20% a year, starting from the 1993 budget; or it will be considered an increase of 50% in the percentage (base 1992: 4%) of the GDP (base 1992: 153,004,900,000) allocated to education in 1992.”

There is a debate on whether or not the financial goal provided by the law has been attained, and conclusions depend on which figures are considered, because: i) the figures of Article 61 are not the same as those the Ministry of Economy registers; and ii) the techniques for GDP calculation changed in 1992 and in 1999. Considering the figures stated by Article 61, the goal has been surpassed; considering the other numbers, it has not.57

Whatever the calculation base, investment in education was substantially increased over the period, both as educational budget (measured in constant-value pesos) and as public expenditure in the sector (measured in GDP percentage).

Table II.I.858 presents the budget evolution in pesos, while Table II.I.959 the evolution of expenditures in GDP percentage.

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56 Ministerio de Cultura y Educacion: Politica Educativa-Balance de la Gestión de Gobierno; pg.11
57 Ministerio de Cultura y Educacion: Cumplimiento de la Ley federal de Educacion; Press release; Buenos Aires (1999)
58 Ministerio de Cultura y Educación: Ensenar el Futuro 1989-1999; pg.327
11. Resistances and Failures

As has been presented up to this point, educational reform was implemented with an acceptable level of efficiency, and despite the short period of time for a reform of this type, there have been observable results. Nevertheless, it is
fair to say that it was carried out by overcoming school-teachers' resistance at almost every step along the way.

As was explained earlier\textsuperscript{60}, at the beginning of the nineties schoolteachers resisted the process of reforms in general and the educational one in particular with an attitude that evolved from labor vindicationism to political activism. At the end of the nineties that evolution reached a new level which integrated both in a single operation: "The White Tent" (La Carpa Blanca).

This consisted of a big tent (20x8 meters) installed on the Two Congresses Square (Plaza de los Dos Congresos) exactly across the street from the National Congress Palace; there, groups of schoolteachers fasted and received expressions of support from different sectors (e.g., artists, intellectuals, politicians, journalists). The tent was the object of national and international media coverage of infrequent intensity. It was installed on April 3, 1997 and was only dismantled on December 30, 1999.

It was a major political phenomenon in Argentina of the late nineties and its complete analysis largely exceeds the limits of this study of the educational reform. However, its main characteristics could be summarized as follows: i) Its political rationale was "anti market-oriented reforms" (provided by the Primer Congreso Educativo Antimodelo, held in February 1997). ii) It began with a type of protest that has a long tradition in comparative experiences but was new in Argentina: fasting; a group of schoolteachers fasted for a period, and was then replaced by another group, in a sequence that lasted months. iii) Teachers' unions presented two moti-

\textsuperscript{60} See this Section # 3
vations for the tent: resistance to the Federal Education Law and to teachers' wages; almost the same motivations as the strikes in the eighties. iii) Besides the tent, the unions made "serial" strikes again, recovering their ability for nationalizing provincial conflicts. iv) The tent became the paramount reference of opposition to government; moreover, it challenged the entire political system. v) In October 1997, the government Justicialista Party lost the first election in a decade to the new Alliance (between UCR and Frepaso); there are analysts that consider the tent a major factor in that outcome.

Government reaction to the tent was to reinforce educational reform enforcement at the provincial level, according to the respective constitutional attributions; and it was successful in doing so. But after the lost elections, it seemed impossible to avoid a response "at the national level"; the government made two attempts in that direction, and neither was successful.

a) The first was the "Teachers' Professionalization Fund", a bill sent to Congress in November 1997. It consisted of the creation (with a World Bank loan) of a fund to improve teachers' wages in exchange for changes in teachers' labor contract regulations. It was proposed within the government by Minister of Education Susana Decibe, but was never fully accepted by the Minister of Economy Roque Fernandez. It was rejected by CTERA and the Alliance, by the Education Commission of the House (integrated -because of the new Congress' conformation by two former General Secretaries of CTERA: A-
frendo Bravo and Mary Sanchez), and finally, rejected by Congress.

b) The second was the "Teachers' Incentive National Fund" (Fondo Nacional de Incentivo Docente)\textsuperscript{65}, which consisted of the creation of a fund by means of a special tax on all types of vehicles (from motorcycles to planes) to improve teachers' wages with no specific compromise of changes in the labor contract regulations. The new tax was strongly resisted by transport business organizations and criticized by economists; nevertheless, Law 25,053 was passed by Congress. However, taxpayers resisted the tax, collection was very difficult, Congress postponed the due payment deadline and finally decided its elimination in 2000.

A new government and a new Congress were elected in October 1999 and took office on December 10; on December 20 they eliminated the tax and included the Fund into the National Budget, with no reference to changes in labor regulations; on December 30 the tent was taken down.

\textsuperscript{64} This refers to the government alliance between the UCR and FREPASO.
\textsuperscript{65} See Chapter I, Section III.
The "European" model of labor relations established in the forties was an "harmonic" of the ISI political economy; it lost efficiency when the ISI model changed for the assisted capitalism. Market-oriented reforms made changes in labor institutions needed; labor reform addressed regularization of "black" labor, new flexible contracting modalities, unemployment insurance and active employment policies. Short term positive effects did not produced enough political support for long term enforceability; at the end of the period a substantial part of this reform attempt was abandoned. Wages negotiation under inflationary conditions was resolved by indexation, which was prohibited by the Convertibility Law; negotiation by productivity was the method successfully implemented under stabilization conditions; it excluded inflation from the equation and was highly congenial with convertibility.

The debate over labor reform in Argentina revolved around the level of institutionalization that employer-employee relationships should take. For economists, one question painted the issue: How could the highly institutionalized, "European-like" Argentine model of labor relations be transformed into a flexible model akin to that prevailing in the United States. For policymakers, the controversial issue demanded wide-ranging compromises and, just as importantly, the realization that Argentina, given its institutional history in this field (as well as the unions' strength and population's "labor culture"), needed to create its own solution.

In the early nineties, employment begun to surface as a relevant issue in the Argentine social consciousness, as unemployment figures became visible and could no longer be ignored. It was in this atmosphere—and in the more general context of an Argentina that had experienced hyperinflation, was privatizing public facilities, de-regulating the economy, and
opening the country for trade—that the Employment National Law 24013 was generated and debated, carving an important position for labor reform in the entire reform process of the nineties.

1. Unemployment Became Visible

It has been pointed out that from the beginning of Import Substitution Industrialization, the Argentine labor market was characterized by high capacity for job creation and by medium to low employment levels; for instance, that the average rate of urban employment from 1968 to 1978 approximated 5.6%, a number comparable to that of the United States at the time. Historically, the Argentine labor market was characterized by relatively high salaries, maintaining a steady supply of labor through immigration waves. In effect, the aforementioned traditional absorptive capacity of the labor market made unemployment a low priority and a virtually absent aspect of the Argentine social agenda.

Indeed, the historic tendencies of the Argentine labor market created positive effects until the 1970’s, ameliorating employment levels, salaries, and income distribution. Nevertheless, those tendencies could not be maintained indefinitely. It has been also suggested that the positive employment experience of the 1970’s, dependent on Import Substitution Industrialization (ISI) and a closed economy, thrived temporarily at the expense of the future. The fragility, informality, and productivity drop of the Argentine labor market were soon to be observed: the strong drop in pro-

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1 LLACH, Juan José et Al.: Empleo Para Todos, CEA, Buenos Aires (1997), pg.19.
ductivity within the urban sector amounted to over 25% in the ten years between 1980 and 1990.

A plausible conjecture is that the positive effects on the Argentine labor market gave up when the post-war ISI model was transmuted into “assisted capitalism”. There are findings that seems to confirm that view.

Over the period from World War II until the end of the eighties, along with the ISI political economy and the above-mentioned "positive employment experience", there were a series of observable phenomena which anticipated the occupational crisis of the nineties. Briefly presented, the phenomena are the following: i) Stable demographic growth rate (1.7%) in a context of diminishing rates (3 to 2 in Latin America, and 1 to 0 in Europe). ii) Extraordinary expansion of self-employment: from 7% in 1947 to 20% in 1980. iii) Expansion of employment in services of very low productivity: between 1980/1990, employment in this sector grew 12%, but productivity less than 1%. iv) From 1980 to 1990, the number of underemployed grew from 235,000 to 900,000. v) Over the same period, the number of full employed remained stable: from 1980 to 1990, no new full-time jobs had been created; all the new jobs were part-time; the "underutilization coefficient" rose from 32% to 43%.

Investigating unemployment in Argentina is circumscribed by statistical restrictions and a lack of methodological options: there is the census every ten years, and there is the Households’ Permanent Survey (EPH) that occurs biannually in

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3 See Introduction, 3
May and October and which surveys Greater Buenos Aires and 25 other major cities.

An important constraint for policymaking in this field in Argentina, is that the available data—the "numbers" presented twice a year by the government's statistics agency (INDEC)—refers to open unemployment, but Argentine unemployment has many faces. A typology of "seven pathologies" has been indicated in the Argentine occupational situation\(^5\): i) open unemployment, ii) hidden unemployment, iii) underemployment, iv) informal urban sector, v) housekeeping service, vi) overemployment within the public sector, and vii) poor rural workers.

Graph II.II.1\(^6\) presents the diagnosis of the Argentine occupational structure, using that typology.

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**Graph II.II.1**  
**Argentine Occupational Structure**  
(1990)

- **Total Population:** 32.880.000
- **Economically Not Active:** 20.510.000
- **Economically Active:** 12.370.000
- **Full Employed:** 7.422.000
- **Open Unemployed:** 903.000
- **Underemployed:**
  - Total: 4.405.000
  - Visible: 883.000
  - Housekeepers: 765.000
  - Poor Rural Workers: 517.000
  - Informal Urban Sector: 1.465.000
  - Public Overemployment: 415.000
- **Hidden Unemployed:** 604.000

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\(^6\) Proyecto PNUD/OIT-ARG/90/007
Unregistered employment, commonly known as "black labor" is a different type of "pathology", and it will be discussed at length, below in this section.

As employment deteriorated over time from the seventies on, unemployment started to be a visible concern of public opinion⁷. There were two dominant elements in the public opinion economic agenda: inflation and unemployment. In times of very high inflation, attention to unemployment tended to be low; when stability was achieved, unemployment gained saliency.

Graph II.II.2⁸ shows the figures for the 1983/1994 period.

Graph II.II.2
Public Opinion Economic Agenda
(1983-1994)

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⁷ DIAZ, Rodolfo: El Empleo, Cuestión de Estado. MTSS, Buenos Aires (1995); pg. 70-74
⁸ Ibídem
Given that the issue had only become ingrained in the Argentine social conscience relatively recently, the nation experienced a tremendous shift in public opinion regarding the issue of employment in the early nineties: a majority of Argentineans perceived it as their most pressing problem, noting that the reality of unemployment, coupled with the ample perception of the problem, generated widespread concern. In 1995, one-third Argentineans considered unemployment the nation's most pressing problem, and four in ten, felt that a family member could lose their job in the near future.\(^9\)

2. The Proposal

By the time the process of reforms began, employment was neither a technical nor a political issue in Argentina. For instance, for the 1989 presidential elections no political party had proposed a specific policy to create jobs. The Radical Party promised the creation of a tri-sectorial institute dedicated to the investigation and analysis of the problems of unemployment; the Justicialista Party spoke of creating a system of prevention, coverture and education; the Center Democratic Union wanted to stabilize the currency and to open up economic activity to attract foreign capital to stimulate job creation; the Popular Socialist Party emphasized workers' rights and coverage for temporary unemployment\(^10\).

The CGT (the Central Labor Union Organization) was one of the few institutions during the eighties that made a reference to unemployment. On the other hand, the main entrepreneurial entities did not even broach the issue until 1989.

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\(^9\) DIAZ, Rodolfo: Op.Cit., pg. 91
\(^10\) DIAZ, Rodolfo: Op.Cit., pg. 67
Before the initiative of the Employment National Law (which is the main subject of this section) were launched, there was a previous attempt of labor reform at the beginning of Menem's administration\textsuperscript{11}. It was a short, sharp and target-oriented project which tended to "flexibilize the labor market, allowing firms to contract temporary workers who...can be dismissed without severance pay"\textsuperscript{12}. Its rationale was the need to improve the Argentine firms' competitiveness, and its fundamentals were standard arguments of mainstream economics. It was supported by the Minister of Economy (then Nestor Rapanelli, a businessman) and by the business sector; the Minister of Labor (Jorge Triaca, a union leader) and the CGT rejected the project, while Justicialista Party Legislators and Vice-president Duhalde expressed concerns about it. When President Menem declared that this project was a personal initiative of its author and not one of the Ministry\textsuperscript{13}, the political viability of this first project vanished.

This failed attempt had a long-lasting effect on the forthcoming debate: it seems to have defined the "camps". Since then, almost every new initiative has been considered "not enough" by the business sector, and—generally speaking—"too much" by the labor sector.

In August 1989, barely a month after the new government's inauguration, a team of technicians of the Ministry was set under my supervision as Secretary of Labor\textsuperscript{14}. Its mis-

\textsuperscript{11} Its author was Eduardo Curia, then one of the Secretaries of the Ministry of Economy
\textsuperscript{12} ARTANA, Daniel: Flexibilización Laboral implica mayor ocupación; en "El Cronista Comercial" (1989)
\textsuperscript{13} Clarin, July 1989
\textsuperscript{14} The first group was compounded by: Enrique Rodriguez, Pedro Gallon, Nome Cohen, Alfredo Monza, Hector Szretter, Federico de Anzó, Ana Welti, Silvia Giavedonni, Claudia Berra, Carlos Jordan, Jose Acosta, Leonardo Mallo, Luis Castillo Marin, Carlos Perez Grecia and Marta V. Pascual. Along time, many others were included.
The consensus within the team was that unemployment problem in Argentina had to be addressed through the lens of the efficient utilization of productive capacity and the obvious necessity for economic growth to improve the labor situation. Nevertheless, it was also acknowledged that increased economic activity would not single-handedly solve the problem, thus emphasizing the need for active social policies.¹⁵

Enrique Rodríguez, (a member of the team who afterwards was Minister of Labor) considered that although mainstream economists maintained that economic development was the necessary element for generating employment, basing their assumption on the premise that absolute and total liberalization of the economy would efficiently dictate employment levels, the need for public policies could not be denied¹⁶. Armando Caro Figueroa (who was Rodriguez' successor as Minister of Labor) had presented a long and detailed paper¹⁷ to the 1988 ADEBA Convention proposing reforms of the labor market along the line of active policies.

Thus, this recognition that economic growth needed to be coupled with social policy was the precise element that the drafting team and the Ministry of Labor and Social Security

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¹⁵ MONZA, Alfredo: Op.Cit., pg. 11
¹⁶ Interview by Diego Gutiérrez, Buenos Aires, August 2000.
espoused in the law that they would bring to the negotiating table. And the same policymaking approach was maintained in all the projects and proposals made by the Argentine Ministry of Labor until 1998 (and beyond, for the law proposed by the new government in 2000, relays upon the same basis).

The most important technical and theoretical influence on the project of Labor Reform implemented by the National Employment Law was the Spanish experience of the eighties during the Socialist administration of Felipe Gonzalez\textsuperscript{18}. This was so for a very good reason, as theirs had been the most successful story on employment up to that time: from 1984 to 1989, more than 5.5 million workers benefited from the employment-promotion measures implemented by the Spanish government.

Table II.II.1\textsuperscript{19} presents the figures.

\textsuperscript{17} CARO FIGUEROA, Armando: La Flexibilidad del Mercado de Trabajo y el Crecimiento Económico; ADEBA, Buenos Aires (1988).
\textsuperscript{18} Angel Rubio, Labor Attaché to the Spanish Embassy in Buenos Aires provided a significant amount of information and contacts. Alvaro Espina, then Secretary of Employment of Spain, provided not only advice, but political solidarity: he spent ten days in Argentina sharing with me lectures and seminars in several Provinces.
\textsuperscript{19} ESPINA MONTERO, Alvaro: La Política Activa de Recursos Humanos; Ed. MTSS; Madrid (1991); pg. 51
Table II.II.1
Spain: Employment Promotion Measures
Number of Beneficiaries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporary</td>
<td>235368</td>
<td>432135</td>
<td>536594</td>
<td>666577</td>
<td>862394</td>
<td>1170000</td>
</tr>
<tr>
<td>Part Time</td>
<td>47665</td>
<td>121905</td>
<td>177449</td>
<td>220846</td>
<td>289325</td>
<td>330000</td>
</tr>
<tr>
<td>Substitution</td>
<td>369</td>
<td>2922</td>
<td>2269</td>
<td>1722</td>
<td>2366</td>
<td>2000</td>
</tr>
<tr>
<td>Permanent for special groups</td>
<td>6885</td>
<td>64364</td>
<td>117688</td>
<td>132526</td>
<td>107055</td>
<td>17100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>290287</strong></td>
<td><strong>621366</strong></td>
<td><strong>834000</strong></td>
<td><strong>1021671</strong></td>
<td><strong>1261140</strong></td>
<td><strong>1519700</strong></td>
</tr>
</tbody>
</table>

In October 1989 the Draft was presented to the Cabinet, and, following the President's express instructions, to the business and labor organizations, as well as to public opinion. This provoked a widespread debate that was very well reflected by the media, but always along the already mentioned "Not enough/Too much" lines.

The debate lasted years; it was so "spirited" that it many times came very close to personal offense. But from its first stage it was possible to learn, to clarify and to understand many aspects addressed by the project, most of them absolutely new in Argentine intellectual discussions. Consequently, many changes were made on the draft and, on 30 January 1990, the first bill of the Labor Reform was sent to the Congress. It took 21 months, another Minister, and a new revised bill, for it to be approved.

3. The Contents of the Employment Law

Law 24013, sanctioned on 13 November 1991, known as the "Employment National Law" (Ley Nacional de Empleo) was the cornerstone of Argentine labor reform. As the first reform
law to emerge not from emergency but from political debate and compromise, it paved the way for the ensuing discussion, and debate. It also set the legal precedent to allow more room for flexibility within an institutionalized framework. Moreover, the discussion facilitated the formation of a new way to organize certain labor institutions in order to update the problematic old framework and to allow entrepreneurs to have more room for creativity and innovation.

There were two elements which narrowed Government options as regards labor reform: first, the virtual impossibility of agreement between labor and business; second, the "veto point" of the unions in Congress as regards labor issues. The chairs of the Labor Commissions in both Chambers were union leaders: Oraldo Britos in the Senate and Osvaldo Borda in Deputies. Taking this into account, as well as the experience of the first failed attempt, Government's option was to address the major occupational problems of Argentina with some innovations, while knowing that it had to accept controls and regulations which inclusion would be required by the Parliamentary Commissions. The outcome was a rather long, complex and multidimensional text; notwithstanding, the International Labor Organization (ILO) considered it, from the technical point of view, "a well crafted piece of legislation".

The bill had 160 Articles, divided into twelve Titles, each of them organized in different Chapters. The contents of the law were presented in five "modules": i) Programmatic; ii) Regularization of "black labor"; iii) New contracting

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20 BATES, Robert: Op.Cit., pg. 236
"modalities"; iv) Unemployment insurance; v) and Employment Active policies.

a) Programmatic:

This module presents the objectives of the law as public policy instrument, in Title I, Articles 1 and 2. Article 1 express the law's political purpose in a threefold mode: i) that employment policy should be the "axis" of government's social policies; ii) that employment policy "tends" to make operative (tends to facilitate the exercise) the constitutional right "to work"; and iii) that employment policy "integrates" the economic and social policies.

It is a political statement, indeed; and the law was strongly criticized for that. But it was expression of the technical assumption that underlie the project: that in Argentina in the nineties, pure mainstream market economic policy was not enough to resolve the employment problem. This programmatic clause was not enforced; regrettably, according to the results that will be presented below.

The objectives of the law, primarily enumerated in Article 2, included: i) the creation of new jobs; ii) the transfer of workers from low-productivity jobs to high-productivity jobs; iii) the regulation of the processes of productive re-conversion; iv) the creation of employment opportunities for groups facing major difficulties in labor market insertion; v) the guarantee that professional training become a basic component of the reform; vi) the development of policies to increase production and productivity; vii) the supervision of the geographic and sector mobility of workers to adequately match supply and demand for jobs; viii) the organization of an efficient system of protection for unem-
ployed workers; ix) the guarantee of a specific minimum wage and minimum wage policies; x) the regularization of labor relations in order to minimize black labor; and xi) the guarantee of tripartite and federal participation and coordination.

b) Regularization of "non-registered" employment:

As it is explained below\textsuperscript{22} "non-registered employment," or "black labor", was one of the major problems in Argentina's labor situation. Briefly described, this phenomenon consists of labor relations that are not registered or declared for tax or social security purposes. Its proportion in 1990 was more than 30\% of the total employment\textsuperscript{23}.

In order to pursue its objective of regularizing this situation as much as possible, the law established a procedure comprised of incentives and sanctions\textsuperscript{24}: i) The sanctions were indemnifications from the employers to the workers for different cases of no registration. The enforcers of these sanctions were the workers themselves or their unions, whom could summon the employers to both regularize the situation and pay the indemnification. Protective mechanisms for workers who exercised this attribution were also provided. ii) The incentive was that, if the employer regularized the situation "spontaneously"—i.e., without have been summoned and before certain deadline (90 days from the approval of the law, afterward extended)—he was relieved not only of the abovementioned indemnifications but also of all the debts for taxes or social security dues related to the not-registered labor relation that was regularized.

\textsuperscript{22} See this Section, 9
\textsuperscript{24} Carlos Etala —afterwards Secretary of Labor— was the author of the idea and its technical development.
c) New Contracting Modalities:

This was the most controversial part of the labor reform: the so-called labor flexibility. As was said before, this was a new issue that came hand in hand with the economic reform. But, at the end of the eighties, it was also an international trend; the Spanish experience has already been mentioned, and other European countries had followed a similar path on temporary contracts: Italy (allowing them in 1977, and expanding them in 1984 and 1987); France (extending them in 1979, restricting and extending them several times until 1989); Germany (allowing them in 1985).

In the then-existing legal frame, there was basically one alternative: the "typical contract" for an indefinite term. Although the employer effectively had the right to dismiss the worker with the payment of a certain compensation, there clearly needed to be more alternatives. The logic of the law rested on the belief that incentives needed to be created for employers so that they would indeed hire workers under legal auspices and consequently prevent both unemployment and black labor.

To provide these alternatives, the law designed four "new contracting modalities" to be added to the existing "typical contract for indefinite term", each of which aimed at different types of workers and situations: i) Labor Practice Contract (Art. 51), for youths with training but without experience; ii) Labor Training Contract (Art. 58), for youths without training; iii) Employment Promotion Contract (Art.

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25 See this Section, 2  
26 See this Section, 3  
27 See SIEBERT, Horst: Labor Market Rigidities: At The Root of Unemployment in Europe; "Journal of Economic Perspectives" Vol. 11, N. 3; pg. 40/42
43), for adults registered as unemployed; and iv) New Business Activity Contract (Art. 47), for any type of worker.

These modalities had five common characteristics that functioned as a combination of incentives and constraints to stimulate registered employment: i) Temporality (they were for a "definite term", mostly from 6 to 18 months); ii) Typicality (each specific type of modality was allowed for specific situations); iii) Formality (the contracts by these modalities had to be written and registered); iv) Promotion (labor contracts by these modalities had substantial reductions of taxes and social security dues); v) Habilitation (to became an effective alternative, these modalities had to be accepted by collective bargaining or administrative decision). Temporality and promotion were the incentives to hire; typicality, formality and habilitation were constraints to avoid abuses and black labor.

d) Unemployment Insurance:

Title III established the "Unemployment Benefits Integral System", a typical one-risk (dismissal) insurance scheme. This system was developed with the technical assistance of the International Labor Organization (ILO), upon the European model. Its main features were the following: i) Financed by an special payroll tax (Art. 145) directed to the new "Employment National Fund" (FNE); ii) Linked to previous work: beneficiaries were unemployed registered workers who had contributed to the FNE; iii) Partial: the amount of the benefits was a percentage of the wages collected by the beneficiary when employed; iv) Temporary: limited from four to twelve months, depending on the period of the beneficiary's contributions.
The creation of this system of unemployment benefits was a striking innovation in the country. Prior to this, Argentina had not had any institutionalized protection for the unemployed. From time to time, governments had established certain allowances for certain types of unemployed or for the poor, but totally upon ad-hoc basis.

e) Employment Active Policies:

Besides making economic stability and growth possible, a process of reforms as deep and fast as the one implemented in Argentina in the nineties imposed changes and modifications within firms, which impacted the workforce and employment. In order to contribute to deploying a "safety net" for the affected people, Chapters 3 to 7 of Title III provided resources and instruments for the government to implement programs to give both to firms and to workers opportunities, incentives and assistance to save existing jobs or to create new ones.

The law contemplated a series of programs, each of which combined a set of instruments aimed at different targets. The instruments were intended to enhance market efficiency, to "lower barriers" to contracting, to promote employment directly or indirectly, and to manage crises. The targets were groups of workers, individual firms, economic sectors and geographical regions.

The programs were the following: i) Employment programs for special groups of workers (youth, unemployed with placement difficulties, aborigines, veterans, ex-convicted, handicapped); ii) Re-conversion programs for the informal sector (Marketization); iii) Productive re-organization for sectors
and firms; iv) Procedures for firm crises prevention; v) Programs for occupational emergencies, for sectors and firms.

4. The Approval

The approval of the labor reform by Congress was a difficult and slow process. The government sent the first bill in January 1990\(^{28}\). As was already mentioned, controversy, debate and rejection motivated a complex process of parliamentary negotiation, changes in the bill and political compromises. As result, at the end of 1990 the government retired the first bill from Congress and sent a new one\(^ {29}\).

The process was public and open. Society was fully and constantly informed by the media about the different positions, and public opinion surveys reflected a general support for the labor reform, tinged with the same attitudes as those observed in the lawmaking process: concern, uncertainty and doubt. A poll conducted in October 1990 by Gallup Argentina measured the situation.

Table II.II.2\(^ {30}\) presents the figures.

\(^{28}\) Poder Ejecutivo Nacional; Mensaje 2381 (1/31/90)
\(^{29}\) Poder Ejecutivo Nacional; Mensaje 2685 (12/19/90)
\(^{30}\) Gallup Argentina
Table II.II.2
Opinion on the National Employment Law

<table>
<thead>
<tr>
<th>Question</th>
<th>Alternative</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is unemployment a problem...?</td>
<td>Very grave + Grave</td>
<td>97.9</td>
</tr>
<tr>
<td>Will the &quot;new modalities&quot; favor job creation?</td>
<td>Yes</td>
<td>52.2</td>
</tr>
<tr>
<td>Which alternative is better?</td>
<td>Indefinite contracts + more unemployment</td>
<td>22.1</td>
</tr>
<tr>
<td></td>
<td>Temporary Contracts + less unemployment</td>
<td>52.9</td>
</tr>
<tr>
<td>Preferred &quot;safety net&quot;</td>
<td>Employment programs</td>
<td>94.4</td>
</tr>
<tr>
<td></td>
<td>Welfare</td>
<td>2.5</td>
</tr>
<tr>
<td>&quot;Black Labor&quot; Regularization</td>
<td>Very important + Important</td>
<td>86.4</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>Very supportive + Supportive</td>
<td>77.4</td>
</tr>
</tbody>
</table>

On 18 April 1991 the Senate considered the bill. I attended the session in my capacity as Minister of Labor and took part in the debate. There were twelve interventions: three by the Government's PJ Senators, four by the Opposition UCR Senators, four by Senators of Provincial Parties, and mine.

The general presentation sustaining the bill was made by myself, after some brief remarks by Senator Oraldo Britos (PJ-San Luis). The case against the bill was made by Senator Luis Brasesco (UCR-Entre Ríos) and by Senator Hipolito Solari Irigoyen (UCR-Santa Cruz), both of whom, presented general arguments opposed to the market oriented political economy. "We do believe that the alternative consists of planning de-
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WCFIA Fellow - Harvard University

mocratically the economy", stated Senator Brasesco\textsuperscript{32}. And Senator Solari Irigoyen provided the fundamentals of such statement: "Who can deny that the capitalist world is living a crisis... a structural crisis of the capital accumulation regime. But the developing countries...have seen the decline of our economies because, precisely, the exhaustion of that model of development that affects the industrialized capitalist countries"\textsuperscript{33}. These arguments denoted a very mistaken perception of reality: seventeen months before the day of that session of the Argentine Senate, the Berlin's wall had fallen; and at the very moment of the session, the Soviet empire was splitting apart.

The PJ Senators and the Provincial parties Senators voted affirmatively for the bill; the UCR Senators voted against the Employment National Law\textsuperscript{34}.

Five months after that, the Chamber of Deputies considered the project of Employment National Law in two consecutive sessions: 26/27 September and 2/3 October 1991; as Minister, I took part of both as well. It was a long and, at moments, spirited debate, with some remarkable and well-informed speeches arguing in favor or against the law. There were twenty-three interventions: two by Government PJ Deputies; seven by opposition UCR Deputies; three by the conservative UCD (opposed to the project); two by Provincial parties Deputies; seven by different center-to-left parties Deputies (opposed too), and mine.

Deputy Osvaldo Borda (PJ-Buenos Aires), a union leader who chaired the Chamber's Labor Commission, made the general

\textsuperscript{31} National Constitution, Article 106
\textsuperscript{32} H. Senado de la Nación: Diario de Sesiones; April 17 and 18, 1991; pg. 6443
\textsuperscript{33} H. Senado de la Nación: Diario de Sesiones; April 17 and 18, 1991; pg. 6471
presentation supporting the bill. In a very well crafted speech, he expressed the attitude of the Peronist labor movement: "There is an Argentina that is not there any more. It is not at all easy for me to accept some of the changes proposed here, but I cannot ignore that this Argentina at the end of the century is far different from the one that we will remain remembering for its goddesses’ values. It is impossible to ignore that we cannot go back any more, or be dominated by a paralyzing nostalgia. It is our duty, as people's representatives, to provide solutions; and this is one of them".35

All the opposition parties, from right to left, made the case against the law. The most important intervention was that of Deputy Francisco Mugnolo (UCR-Buenos Aires): been a labor lawyer, he made a good critical analysis of the project; but lacking relevant different proposals, it was not an alternative. Many others, from Alvaro Alsogaray (UCD-Capital) to Luis Zamora (Partido Obrero-Buenos Aires), also intervened. The Lower Chamber approved the bill on 3 October 1991, with 101 affirmative votes of the Government PJ Deputies and some Deputies of Provincial Parties, and over 95 negative votes from the opposition. The UCR Deputies voted against the Employment National Law.

Because of certain modifications made in the text originally passed by the Senate, the bill went back there again. Finally, the Employment National Law 24013, was approved by the Upper Chamber on 5 December 1991.
5. Modifications

Over time, several modifications were made to Law 24013.

a) Law 24467, enacted on 5 March 1995, which was specifically oriented to small and medium-sized enterprises, known as PYMES. Its objective was to promote growth and development of small and medium-sized enterprises through, for instance, creating incentives for them to utilize the capital markets, improving quality to be in line with international standards and, therefore, improving specialization, competitiveness and access to external markets primarily via Mercosur.

This law included several measures that allowed some flexibility in the labor legal framework, but only for the abovementioned "Pymes": i) Simplifying the registration procedures; ii) Allowing employers and unions to decide, through collective negotiation, substantial changes in payments, dismissals and labor mobility; iii) Simplifying the promoted contracting modalities created by the Employment National Law, eliminating the requirement of its "habilitation" through collective agreement, as well the requirements for registration and severance payments.

b) Law 24557, better known as the LRT or "Workplace Risks Law" (Ley Sobre Riesgos de Trabajo) enacted on 13 September 1995, referred to work-related risks through prevention and reparation of damages suffered by workers from such risks, as well as re-insertion of such workers into the work force. The ARTs, "Workplace Risks Insurance Companies" (Aseguradoras de Riesgos del Trabajo) were created; these entities guaranteed payments established by the law, ensured that an employee who had suffered from work-related injuries
received medical and pharmaceutical assistance, orthopedic care, rehabilitation, professional re-qualification, and even funeral service. The 'ARTs' would fall under the supervision and control of the Superintendence on Work-Related Risks (SRT).

c) Law 24576, enacted on 18 October 1995, dealt with contracting and hiring practices.

d) Law 24635, enacted on 10 April 1996, created an institution for obligatory labor conciliation under the aegis of the Ministry of Labor and Social Security.

e) Finally, Law 25013, enacted on 2 September 1998, recreated old contracting types such as apprenticeship, internship and probation. But it derogated the core of the Employment National Law, the promoted modalities.

6. Effects

The social performance of the Employment National Law 24013 has been diverse, and some of its provisions have been more effective than others. But, as is analyzed below\(^\text{36}\), its overall effectiveness cannot be considered a success. In order to better assess its effectiveness, quantitative data on Regularization of Non-Registered Employment, on New Contracting Modalities and on Unemployment Insurance Benefits will follow, along with a graphic representation of the unemployment rate.

a) Regularization of Non Registered Employment:

At the beginning, regularization was successful because the law provided a carrot and stick mechanism which gave the workers and unions the power to summon employers; and employ-

\(^{36}\) See this Section, 1
ers took advantage of debt relieves. But the success was only temporary; once the incentive lost its momentum and all actors had become accommodated to the new situation, they all regressed to their old practices. In fact, "black labor" actually increased over the decade\textsuperscript{37}.

The term provided by the law for the regularization process ended on 30 June 1992. By that date, 44,757 submissions of employers regularizing the situation of 344,166 workers had been received in the Ministry of Labor and Social Security\textsuperscript{38}. It has been estimated that the corrected total employers submissions were 46,000 which included 351,000 workers\textsuperscript{39}. As the total number of salaried workers at that time was 7,458,000\textsuperscript{40}, this means that almost 5% were included, and that 12% of the "black labor" was regularized\textsuperscript{41}.

\textit{b) New Contracting Modalities:}

The original version of the new modalities established by Law 24013 limited its applicability by its specific features of typicality, formality and habilitation\textsuperscript{42}; these requirements were softened by Law 24467. Nevertheless, its utilization was gaining standing over time, reaching its peak in 1998 with more that 200,000 workers employed through these contracts. Then, the modalities were repealed. The numbers reflect this evolution\textsuperscript{43}.

Table II.II.3 present the figures.

\begin{thebibliography}{99}
\item \textsuperscript{37} See this Section, 8
\item \textsuperscript{38} FELDMAN, Silvio: Presentaciones espontáneas de regularización de empleo no registrado o insuficientemente registrado; sus alcances. Proyecto PNUD/ARG/88/005 (1992)
\item \textsuperscript{39} ibidem
\item \textsuperscript{40} DIAZ, Rodolfo: El Empleo: Cuestión de Estado. MTSS, Buenos Aires (1995); pg. 99
\item \textsuperscript{41} FELDMAN, S.: Op.Cit., pg. 10
\item \textsuperscript{42} See this Section, 4.c
\end{thebibliography}
Table II.II.3
Number of Workers Employed by Promoted Contracting Modalities
(Monthly Average by Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>14,456</td>
</tr>
<tr>
<td>1993</td>
<td>29,102</td>
</tr>
<tr>
<td>1994</td>
<td>49,390</td>
</tr>
<tr>
<td>1995</td>
<td>58,039</td>
</tr>
<tr>
<td>1996</td>
<td>127,172</td>
</tr>
<tr>
<td>1997</td>
<td>198,962</td>
</tr>
<tr>
<td>1998</td>
<td>228,767</td>
</tr>
<tr>
<td>1999</td>
<td>49,164</td>
</tr>
</tbody>
</table>

c) Unemployment Insurance Benefits

Some critics have pointed out that the Unemployment Insurance System created by Law 24013 covers only part of the unemployed; it is true. Those unemployed that had been working "in black" are not covered, as the entitlement is linked to a previous registered job of the beneficiary.

Nevertheless, the coverage of unemployed registered workers has been very significant: Over the eight-year period from 1992-1998, the Unemployment Insurance System paid more than 8.5 million dollars in monthly benefits, for a total amount of almost 2.4 billion dollars. Furthermore, the average monthly benefit has been higher than the minimum wage established in most Latin American countries; in some cases, significantly higher.

Table II.II.4 presents the data\textsuperscript{44}.

\textsuperscript{44} Revista del Trabajo, N. 13, Buenos Aires (1999), pg.175.
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WCFIA Fellow - Harvard University

Table II.II.4
Unemployment Insurance System
Benefits and Payments

<table>
<thead>
<tr>
<th>Year</th>
<th>Benefits by Month ($)</th>
<th>Benefits by Year ($)</th>
<th>($) Monthly Average</th>
<th>Annual Total ($) x 1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>12,806</td>
<td>128,068</td>
<td>202</td>
<td>25,834</td>
</tr>
<tr>
<td>1993</td>
<td>73,373</td>
<td>880,479</td>
<td>369</td>
<td>325,193</td>
</tr>
<tr>
<td>1994</td>
<td>98,513</td>
<td>1,182,154</td>
<td>320</td>
<td>378,839</td>
</tr>
<tr>
<td>1995</td>
<td>122,347</td>
<td>1,468,160</td>
<td>255</td>
<td>374,992</td>
</tr>
<tr>
<td>1996</td>
<td>127,885</td>
<td>1,534,621</td>
<td>258</td>
<td>397,366</td>
</tr>
<tr>
<td>1997</td>
<td>95,379</td>
<td>1,444,549</td>
<td>274</td>
<td>313,777</td>
</tr>
<tr>
<td>1998</td>
<td>90,711</td>
<td>1,088,533</td>
<td>269</td>
<td>292,299</td>
</tr>
<tr>
<td>1999</td>
<td>105,248</td>
<td>1,052,480</td>
<td>269</td>
<td>285,603</td>
</tr>
<tr>
<td>Total</td>
<td>8,651,105</td>
<td>2,393,903</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(d) Evolution of the Unemployment Rate:

Although largely ignored at the end of the eighties and the beginning of the nineties, there were deep historical and structural conditions that anticipated a worsening in Argentina's occupational situation, and the actual performance of the unemployment rate has not contradicted those forecasts.

Graph II.II.3 shows that evolution.

45 September/December, estimated.
46 See this Section, 2
47 Data: Fundación Capital: Informe de Coyuntura N. 45; Diciembre 1999; pg. 45
Amongst the canonical explanations of employment evolution in a given economy, three are the most frequently mentioned factors as independent variables: growth, investment, and salaries. Briefly expressed, those explanations consider that the more the growth, or the more the investment, or the lower the salaries, the higher the level of employment; but the increase of the unemployment rate in Argentina in the nineties defies all three: 48 i) from 1990 to 1997 the Argentine Economy grew—despite the "tequila effect"—40%, an annual average of more than 6.5%; ii) from 1990 to 1996, the Gross Fixed Investment in Argentina grew 122%; and iii) the most spectacular increase in unemployment was between 1994 and 1996, when rose from 10.7% to 17.1 (reaching 18.4 in 1995); throughout that period, real wages remained stable, with variations within decimals of a point.

Graph II.II.4\textsuperscript{49} shows those variations over the period.

Unemployment rose despite economic growth, investment increases and wages stability. Whatever the causal relationship, it is impossible to deny the strong evidence of the unemployment rate increase; as regards "open unemployment", the Employment National Law has been less effective than expected.

There are more aspects in the Argentine occupational structure than the "open unemployment"\textsuperscript{50}. The Not Registered Employment, the so-called "black labor", can be a contributing factor in explaining the overall evolution of the occupational situation.

\textsuperscript{49} Data: ibidem
\textsuperscript{50} See this Section, 2
7. Black Labor

In the Argentine context, "black labor" has been defined as that which "not being illicit in itself, is not declared to one or more of the authorities which should be notified of it, and therefore, avoids regulations or taxes or leads to a reduction in the social security dues". It does not have to do with the type of work (illegal or not) but with the "hiding from the authorities because of the will of the employer to elude payment of social security dues or to evade taxes".

Being a "hidden" phenomenon, there are difficulties in its measurement. In Argentina, its quantification comes out from one "question" included in the EPH (Households’ Permanent Survey), which asks the interviewed if social security dues are deducted from his salary. It is considered a reliable method that leads to conservative estimations.

The incidence of black labor as a percentage of the total salaried employment grew steadily in the nineties. Two reductions were observed in its evolution: "In 1992 a slight inflexion is produced [not apparent in the graph because it corresponds to one semester alone between May and October, 1992] coincidental with the regularization procedure established by the Employment National Law". The other was in 1994, which "coincided with the put in effect of the new pension system" that induced workers to claim their registration to have access to the new fully funded system. (The data

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51 GALIN, Pedro: Empleo en Negro y Politicas Laborales; paper presented to the II Nation Congress on Political Science. Mendoza (1995), pg.1
52 PNUD-MTSS, Proyecto ARG/92/009: El Empleo Clandestino. Evolución y Características. Informe N.4 (1992); pg.1
53 ibidem
54 GALIN, Pedro: Op.Cit., pg.5
55 ibidem
from Great Buenos Aires coincides with the national average\(^5^6\).

Graph II.II.5 presents this evolution

Graph II.II.5
Black Labor in GBA\(^5^7\)
(As % of Total Salaried Employment)

A study sponsored jointly by the United Nations and the Argentine Ministry of Labor, found that there are three usual stylized interpretations of black labor as a phenomenon.

a) One considers it as a consequence of the lack of enforcement and control by the authorities. But the study points out that black labor fell when significant reductions in labor inspection personnel were implemented and grew when

\(^5^6\) GALIN, Pedro: Op.Cit., pg.4
more resources were allocated to labor law enforcement, which contradicts this first interpretation\textsuperscript{58}.

b) Other considers black labor as an element of the urban informal sector of the economy. Activities at very low levels of productivity, profitability and technology make paying taxes and fulfilling regulations impossible. But the evidence contradicts this second interpretation too: black labor is not only related to small, unproductive, informal businesses; it is a pervasive phenomenon observable across all the economy, all sectors and all sizes of business.

Tables II.II.5 and II.II.6 present the data.

<table>
<thead>
<tr>
<th>Sector</th>
<th>1989</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>25.4</td>
<td>29.2</td>
</tr>
<tr>
<td>Construction</td>
<td>52.7</td>
<td>58.8</td>
</tr>
<tr>
<td>Commerce</td>
<td>38.0</td>
<td>38.0</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>17.7</td>
<td>41.5</td>
</tr>
<tr>
<td>Banking</td>
<td>20.5</td>
<td>23.9</td>
</tr>
<tr>
<td>Services</td>
<td>30.1</td>
<td>33.4</td>
</tr>
<tr>
<td>Total</td>
<td>29.9</td>
<td>34.1</td>
</tr>
</tbody>
</table>

\textsuperscript{58} PNUD-MTSS, Proyecto ARG/92/009: El Empleo Clandestino. Evolución y Características. Informe N.4 (1992); pg.6

\textsuperscript{59} PNUD-MTSS, Proyecto ARG/92/009: El Empleo no registrado en el periodo 1989-1994. Informe N.21 (1995); pg.6 and 10
Table II.II.6
Black Labor: Incidence by Size of the Business \(^{60}\)
(1989-1994)

<table>
<thead>
<tr>
<th>Number of Workers</th>
<th>1989</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 or less</td>
<td>65.8</td>
<td>70.6</td>
</tr>
<tr>
<td>6/25</td>
<td>25.6</td>
<td>41.4</td>
</tr>
<tr>
<td>26/100</td>
<td>14.8</td>
<td>14.6</td>
</tr>
<tr>
<td>101/500</td>
<td>6.2</td>
<td>6.4</td>
</tr>
<tr>
<td>501 or more</td>
<td>3.2</td>
<td>9.9</td>
</tr>
<tr>
<td>Total</td>
<td>28.8</td>
<td>34.1</td>
</tr>
</tbody>
</table>

c) The third interpretation considers black labor as result of economic rationality. "Confronted with the proliferation of social dues and payroll taxes...firms opt for this irregular way out, to stay in the market competitively" \(^{61}\). This explanation was "falsified" \(^{62}\)—argues the Inform study group—by the fact that black labor grew when employers' social dues were eliminated in 1980-1985 \(^{63}\).

Therefore, the Inform concludes that none of these interpretations alone is sufficient to explain the evolution of black labor in Argentina. To some extent it is possible to accept that conclusion: it seems clear that black labor is not just an effect of lack of enforcement or a product of informality. Nevertheless, the third interpretation—the one which links black labor to economic rationality—deserves more attention.

\(^{60}\) ibídem
\(^{61}\) PNUD-MTSS, Proyecto ARG/92/009: El Empleo Clandestino. Evolution y Chara
\(^{62}\) In Karl Popper's sense
\(^{63}\) PNUD-MTSS, Proyecto ARG/92/009: El Empleo Clandestino. Evolución y Características. Informe N.4 (1992); pg.6
8. The "exit" choice

From the very beginning of the process of elaboration of the Labor Reform project, the black labor phenomenon was approached more as a "choice" than as a simple "transgression". As it was pointed out in my own intervention in the debate of Law 24013 in the Chamber of Deputies: "This situation of the black labor is not the result of employers' perversity or workers' carelessness, but simply of fifteen years of crises in the Argentine economy. In order to survive as such, productive units in our country had to find countless survival strategies: one of them was the generation of this situation".64

And the understanding of black labor as a choice had been stressed in a previous intervention in that debate by Deputy José J. Manny (UCD-Capital Federal), when he said: "A great part of our fellow citizens, took the lead in a virtual runaway from the system...We had runaways of citizens, of brains and of capital; we had had all kind of regrettable runaways...The informal economy reached 40, 50 or 60 per cent...As regards informal employment...very high figures are mentioned...What can we do to recover these runaways...?"65

There is a more formalized theoretical approach66 which was developed to analyze similar phenomena in Eastern Europe, that can be useful for considering the Argentine case. A brief stylized version of that approach is the following: Social responses to economic hardship or to structural reforms

64 H. Cámara de Diputados de la Nación: Diario de Sesiones; 26 y 27 de setiembre de 1991; pg. 3339
65 H. Cámara de Diputados de la Nación: Diario de Sesiones; 26 y 27 de setiembre de 1991; pg. 3250
66 See GRESKOVITS, Bela: The Political Economy of Protest and Patience, CEU Press (1998); pgs.69/91. And SIK, Endre: From the Multicolored to the Black and White
depend on the social learning determined by previous experiences of a particular society: in Eastern Europe, the legacy of Communism; in Argentina, the experience of the Bureaucratic-Authoritarian State and its economic model, Assisted Capitalism.

The theory of social responses developed by Albert Hirschman and its concepts of "Voice" and "Exit" help explain how social actors do not always "respond contentiously or collectively in expressing dissatisfaction". "As an alternative to 'voice'—that is to collectively and politically expressing their dissatisfaction—individuals or firms may 'exit' or abandon their unfavorable circumstances for something supposedly better". Facing circumstances considered as unfavorable, actors' choices are determined by social conditions. There are two types of basic responses: i) a coordinated, collective, political response—"Voice"; and ii) an uncoordinated, spontaneous, economic response—"Exit".

The typical form of "exit" is "going informal" through tax evasion and irregular employment. The choice for "exit" is determined by certain specific circumstances: i) the unavailability of "voice" alternatives (as under the Communist regimes in Eastern Europe or under the dictatorship in Argentina); ii) blurred boundaries between legal and illegal; iii) cultural ambivalence on the rule of law; iv) a tradition of repeated breaks of the Constitution. It is evident that the Argentine case fits to these conditions. The theory concludes that, as results, all social groups choose specific paths of
non-criminal forms of "exit" from the formal economy and, to some extent, from legality. Its magnitude, frequency and specific forms are relevant elements to explain variations amongst different cases\textsuperscript{71}.

This in a very plausible explanation for the existence of black labor in Argentina.

9. **The "irregular" economy**

The "exit" choice, that explains black labor, also led to the irregular economy. Although there has been an ample discussion on how to denominate this phenomenon\textsuperscript{72}, I will use "irregular economy", following the criterion used in Title II of Law 24013, which refers to "Regularization of Non Registered Employment".

Within the "not regular" part of the economic system, four sectors have been typified\textsuperscript{73}:

a) The Household Sector, in which production, distribution and consumption of goods and services are within the home; there are no market transactions nor prices; the outputs and its commercialization are not illegal.

b) The Informal Sector, in which production could be either within the home or among small units; distribution and consumption are out of the home; there are market transactions and prices; outcomes and commercialization are nor illegal.

c) The Irregular Sector, in which production and distribution could be among small or large firms; there are market

\textsuperscript{70} GRESKOVITS, Bela: Op.Cit., pg. 73
\textsuperscript{71} ibidem
\textsuperscript{72} See DALLAGO, Bruno: The Irregular Economy; Dartmouth (1990), Introduction.
\textsuperscript{73} THOMAS, J.J.: Informal Economic Activity; Harverster-Wheatsheaf (1992), pgs. 1/6
transactions and prices; its outcome is not illegal; its production and distribution involve certain degrees of illegality, including tax and social security evasion, black labor and avoidance of regulations.

d) The Criminal Sector, in which the outcome in itself is illegal.

Table II.II.7\textsuperscript{74} summarizes these features.

Table II.II.7
Structure of the Irregular Economy

<table>
<thead>
<tr>
<th>Sector</th>
<th>Market Transactions</th>
<th>Output</th>
<th>Production/Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household</td>
<td>No</td>
<td>Legal</td>
<td>Legal</td>
</tr>
<tr>
<td>Informal</td>
<td>Yes</td>
<td>Legal</td>
<td>Legal</td>
</tr>
<tr>
<td>Irregular</td>
<td>Yes</td>
<td>Legal</td>
<td>Illegal</td>
</tr>
<tr>
<td>Criminal</td>
<td>Yes</td>
<td>Illegal</td>
<td>Illegal</td>
</tr>
</tbody>
</table>

Since transactions are the microlevel analytical unit, the variety of types of transactions which the irregular sector of economy consists of, need to be ordered. Following a modified version of the criteria proposed by Istvan Gabor\textsuperscript{75}, these transactions could be classified accordingly: i) legality (or different grades of illegality); ii) marketization (done in the marketplace or out of it); iii) integration (different grades of interaction with the regular economy or absence of it); iv) source of income (black labor, social capital, or financial capital).

\textsuperscript{74} THOMAS, J.J.: Op.Cit., pg.6
\textsuperscript{75} SIK, Endre: Op. Cit., pg. 49
The following characteristics of the irregular economy have been pointed out\textsuperscript{76}: i) labor intensive; ii) postponement of investment; iii) innovation to survive, not to thrive; iv) short-term profit maximization; v) social capital based (trust and networks amongst transactors).

A reinforcement of the trend to the "exit" choice has been observed related to economic reforms; this also seems to be the case of Argentina. There are three factors that could have contributed to that reinforcement: i) Economic hardship experienced at some point of the processes of reforms led to the "exit" choice as a "defensive" response. ii) Changes and uncertainties associated with reforms led firms and individuals to the "exit" choice as "adaptive" response. iii) Since inflation had been the only unavoidable tax imposed on the irregular sector, economic stabilization-terminating inflation-eliminated that tax as well; and, at the end of the day, the elimination of the inflationary tax could also have functioned as an incentive to the "exit" choice.

The irregular economy has been a long-lasting phenomenon. As in the case of other enduring social situations, its permanency itself has produced relevant effects\textsuperscript{77}: i) Generalization: it has pervaded all the economy, even those activities in the regular sector. ii) Socialization: it has comprised the actors within a subculture related to the irregular economy, black labor and non-criminal illegality. iii) Organization: it has structured relations amongst irregular economy actors in a dense network.

\textsuperscript{76} SIK, Endre: Op. Cit., pg. 63
\textsuperscript{77} SIK, Endre: Op. Cit., pg. 67
These effects produced "path dependence"\textsuperscript{78}: once a choice has been made, several factors associated with that first decision determine that not changing the choice already made is the "rational" following decision, despite the existence of supposedly better alternatives. In the case of "irregular economy", actors acquired social learning and built networks that generate externalities; most important, they invested in building social capital, on which this type of economy is based. Once the "exit" choice has been made, social learning, externalities and investment in social capital make sustaining it and remaining "irregular", rational.

The abovementioned reinforcing factors—effects of permanency in itself and path dependence—explain the strong resiliency of irregular economy and black labor.

10. Convertibility and Wages

As it was explained above, the Argentine legal system developed an extraordinary number of complex mechanisms to modify the nominal amounts of money established in contracts, "in order to 'correct' currency depreciation caused by inflation"\textsuperscript{79}. The first realm where these mechanisms were applied, were public contracts; the second, wages and labor collective conventions.

The method applied was in general the indexing of nominal wages by "past inflation", in order to compensate for the effective loss of value in the currency over a certain period of time. The effect of this type of adjustment method has been widely described in the literature: it functioned as a

\textsuperscript{78} NORTH, Douglass: Institutions, Institutional Change and Economic performance. Cambridge University Press (1990); pg. 93

\textsuperscript{79} Introduction, 2
feedback that "fueled" the inflationary spiral, since increases in wages for "past inflation" were transferred to "future prices".

Since 1975, all collective labor conventions in Argentina provided automatic mechanisms for wage indexing by past inflation. Its application was suspended most of the time during the dictatorship, and wages increases were decided by the authorities; but when democracy was recovered, these mechanisms became effective again. However despite indexation and other adjustment mechanisms, real wages deteriorated sharply through the eighties.

Graph II.II.5\(^80\) shows that evolution.

The empirical evidence validates a famous observation by former President Peron: "In the race between prices and

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\(^{80}\) Data: MTSS
wages, prices rise in the elevator and wages climb by the stairs”.

In March 1991, the convertibility plan was prepared. Some in the government considered that, in order to avoid the inflationary effects of wages increases, it would be necessary to suspend the effectiveness of collective conventions and to manage the wages by the authorities.

As Minister of Labor at that time, my position was different. I was against the "statization" of wage determination, for several reasons: i) It was inconsistent with the general "market oriented" approach of the whole process of reforms. ii) Concentrating wage management in government's hands would determine that all workers' claims were to be intended not to different employers in a desegregated manner, but to the government in an aggregated one. Each conflict would be a national political conflict, much more difficult to resolve than a multiplicity of normal business-labor conflicts. iii) As a strategic choice, it would define a confrontational relationship with the unions. That was contradictory to the government's persuasion that a type of relationship from "non-confrontational" to "supportive" with the Labor Movement was a requisite for the successful implementation of the process of reforms as a whole.

Instead, my proposal was to maintain (and actually, to expand) the procedures of collective bargaining as regards wages. In order to make it consistent with the convertibility plan, a new technical legal framework was established: that wage increases had to be determined only by increases in productivity, and that their cost could not be translated to
prices. This proposal was accepted by the Cabinet and supported by the President, and was successfully implemented.

11. Wages Negotiation by Productivity

Argentina’s legal system guarantees employers and unions freedom of collective bargaining; once an agreement is reached, in order to be binding it has to be "homologated" by the authorities\(^81\). That homologation\(^82\) is subject to three legal conditions: not to violate "public order laws", not to "significantly" affect the general economic situation, and not to "gravely" hurt consumers\(^83\). In addition, articles 7 and 10 of the Convertibility Law 23928 eliminated all forms of indexation and other adjustment mechanisms from contracts, laws and regulations, including collective labor conventions.

Upon these legal bases, Decree 1334/91 was designed. This established a procedure for collective wage bargaining, which, in order to be homologated, had to conform to three objective parameters: i) Not to use indexation mechanisms; ii) Increases in wages had to be determined by increases in productivity; iii) Increases in wages could not be translated to prices.

A specific sequence of four stages was established which negotiators (employers and unions) had to comply with: i) To establish by agreement the methodology and basic criteria to be used; ii) To submit that methodology and those criteria for consideration by the authorities; iii) To determine the wage increase applying to the abovementioned methodology and

\(^{81}\) Law 23546, art. 6.

\(^{82}\) For the Spanish word "homologación": KAPLAN, Steven: English-Spanish, Spanish-English Legal Dictionary; pg. 486

\(^{83}\) Law 14250, art. 4
criteria; iv) To submit the new agreement to the authorities, in order to be homologated.

Moreover, this procedure was applied upon three general assumptions: i) Negotiators, not the government, had to determine the wages, complying with all legal requirements. Authorities' intervention was limited to verify whether those requirements had been complied with. ii) The determinations of wages by productivity had to be duly founded in terms of information, data, technical criteria and logical reasoning. iii) As variations in productivity could differ among sectors, corrections in wages among sectors could differ as well: no "general correction" of wages would be consistent with Decree 1334/91.

Methods of correction could be referred either to properly measured past increases of productivity ("past-productivity"), reasonably estimated future increases of productivity ("future-productivity") or a combination of both. When "past-productivity" was used as the criterion, the core of the negotiation had to do with measurement: which indicators would be used, which sources of data would be acceptable and which calculation formula would be used. When "future-productivity" was used, the center of the bargaining process was the foreseen changes in technology, organization and management.

12. Wages Negotiation and Stability

Decree 1334/91 was issued by President Menem on 15 July 1991 with my own countersignature as the ministerial legali-
zation. The process of collective bargaining was opened for all sectors and a "Technical Advisory Commission on Productivity and Wages" was created within the Ministry of Labor to support the enforcement of the new decree.

Despite certain initial resistance on both sides (unions would have preferred a simple indexation and business a simple fixation by the government) the process began almost immediately, and went on at a good pace. In October 1991 the first agreement that modified wages by productivity was homologated; it had passed the full process of negotiation and technical assessment in less than three months. Thereafter, all the conventional structures of the Argentine labor relations system moved to negotiate wages according to variations in productivity. By February 1992, 255 agreements had been homologated. Almost half of the homologated conventions used "future-productivity" as the criterion for wage determination; the rest was allotted between "past-productivity" and combinations.

Table II.II.8 presents the figures.

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Criterion</td>
</tr>
<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>Past Productivity</td>
</tr>
<tr>
<td>Future Productivity</td>
</tr>
<tr>
<td>Mixed Combinations</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

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86 National Constitution, Art. 100
87 Proyecto PNUD/OIT/-ARG/92/009: La Aplicación del Criterio de Productividad en la Negociación Salarial. Buenos Aires (1993), pg. 7
88 Proyecto PNUD/OIT/-ARG/92/009: op.cit., pg.7
Out of those that used the criterion of "past-productivity", 80% used the standard indicator of "outcome/labor income" ratio\(^89\). Those that used the criterion of "future productivity", referred to a more varied sort of indicators.

Table II.II.9\(^90\) shows this variety and its frequency, presenting figures extracted from 969 clauses comprised in the universe of agreements homologated until 1994.

\(^89\) Proyecto PNUD/OIT/-ARG/92/009: Op.cit., pg. 10
### Table II.II.9

**Future Productivity Indicators**

<table>
<thead>
<tr>
<th>Contents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increasing of effective working time</td>
<td></td>
</tr>
<tr>
<td>1.1 Modification of conventional leaves</td>
<td></td>
</tr>
<tr>
<td>1.2 Extension of operative time</td>
<td></td>
</tr>
<tr>
<td>1.3 Regulation of union’s activities</td>
<td>5.81</td>
</tr>
<tr>
<td>2. Reduction of Costs associated to wages</td>
<td></td>
</tr>
<tr>
<td>2.1 Diminution of Subsidies and Benefits</td>
<td></td>
</tr>
<tr>
<td>2.2 Diminution of additional payments</td>
<td></td>
</tr>
<tr>
<td>2.3 Habilitation of Promoted Contracting Modalities</td>
<td></td>
</tr>
<tr>
<td>2.4 Diminution of fixed crews and replacements</td>
<td>20.13</td>
</tr>
<tr>
<td>3. Reduction of Costs associated with capacity use</td>
<td></td>
</tr>
<tr>
<td>3.1 Additional for presence</td>
<td></td>
</tr>
<tr>
<td>3.2 Management of labor conflicts</td>
<td></td>
</tr>
<tr>
<td>3.3 Annual distribution of vacancies</td>
<td></td>
</tr>
<tr>
<td>3.4 Timetable reorganization</td>
<td></td>
</tr>
<tr>
<td>3.5 Diminution of labor rotation</td>
<td>26.48</td>
</tr>
<tr>
<td>4. Labor Incentives</td>
<td></td>
</tr>
<tr>
<td>4.1 Additional subject to performance</td>
<td>8.83</td>
</tr>
<tr>
<td>5. Work Reorganization</td>
<td></td>
</tr>
<tr>
<td>5.1 Functional mobility and team work</td>
<td></td>
</tr>
<tr>
<td>5.2 Internal bargaining on norms and methods of work</td>
<td></td>
</tr>
<tr>
<td>5.3 Changes in functions, categories, promotion and vacancies.</td>
<td></td>
</tr>
<tr>
<td>6. Increase of current productive capacity</td>
<td></td>
</tr>
<tr>
<td>6.1 Personnel training</td>
<td></td>
</tr>
<tr>
<td>6.2 Service delivery improvement</td>
<td></td>
</tr>
<tr>
<td>6.3 Investment in technological innovation</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
</tr>
</tbody>
</table>

Negotiation by productivity produced a lasting and significant impact on the Argentine labor relations system. "Analysis of productivity and labor relations, in the case of Argentina, seems particularly interesting, for it demon-
strates that productivity, far to be the expression of a merely technical relationship, is the expression of labor social relationships which requires to build particular forms of coordination and consensus. In this sense, negotiation by productivity, allowed the slow production of deep changes in the levels, actors, forms and matters adopted by collective bargaining. These changes indicates to be in presence of a new logic of collective action and of negotiation between capital and labor.  

From the technical point of view, the process under analysis was positively assessed: "It was effective...following the convertibility law and giving an economic criterion to negotiations developed in a situation of no inflationary stability".  

"As final conclusion has to be underscored the role played by the wages negotiation by productivity in the success of the current stabilization policy...Correlation between nominal wages and productivity make sure, as economic theory demonstrates, that the former do not have relevant incidence on the costs of production...neither in the prices...It is evident that negotiation by productivity contributed substantially to the prices stabilization process"

The process of wage negotiation by productivity established by Decree 1334/91 yielded the expected effects: i) it stopped the "race" between prices and wages, contributing significantly to the termination of inflation; ii) it created an opportunity for businesses and unions to modify many aspects of the labor relations system; and iii) it created an

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91 NOVICK et Al.: Op. Cit., pg. 241  
93 Proyecto PNUD/OIT/-ARG/92/009: op.cit., pg. 40
opportunity for government and unions to build a consensus supporting the process of reforms as a whole.

13. **Twofold results**

As was presented earlier, in the eighties in Argentina assisted capitalism and the Bureaucratic-Authoritarian State were related in a "multiple equilibria situation" in which inflation played a strategic role. The labor system was congenial with them: institutions of labor relations (both individual and collective) were adaptive to the type of economic units (private and state owned) characteristic to the model of the time. Furthermore, institutions and procedures to negotiate and to determine wages were highly adaptive to inflation, the model’s dominant phenomenon.

In conditions of multiple equilibria, "changes in exogenous variables...can lead to changes in institutions... when...an exogenous variable alters...a new strategy combination may come to form new equilibria".

When the process of reforms began in 1989, (through the implementation of Law 23696, of State's Reform, and Law 23697, of Economic Emergency) it became clear that those changes in the State's structure and in the economic institutions would determine changes in the labor system as well. Furthermore, when the Convertibility Law was passed, with the prohibition of all forms of indexation, the reform of the institutions and the procedures for collective bargaining and determination of wages became unavoidable.

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94 See Introduction, 3 and 4
96 See Chapter III.I
97 See Chapter I.I
As was presented in this section, institutions in both realms were changed: the labor relations framework, through the Employment National Law 24013, and wage determination procedures, through Decree 1334, of Wages Bargaining by Productivity.

The outcome was twofold: As regards labor relations, changes were not fully accepted and the new multiple equilibria was reached a certain amount of institutional change (limited use of new types of contracts), a certain number of "exits"\textsuperscript{98}, and a certain number of social costs (increasing unemployment). On the other hand, as regards wages, the institutional changes were more accepted, and the new equilibrium was reached with a substantial amount of institutional change (collective bargaining by productivity), and a high congeniality with the Convertibility Regime: excluding inflation from the equation.

Ten years time afterwards, it is safe to say that Decree 1334/91 of Collective Bargaining by Productivity was a remarkable success, and that the Employment National Law 24013 was not.

\textsuperscript{98} See this Section, 8
Social security within assisted capitalism was a distorted "pay-as-you-go" system; being exclusively financed with deferred wages, it was highly inequitable, both at the regional and social level. Pervaded by its own inefficiencies and the negative effects of inflation, it collapsed from benefits deterioration, financial unsustainability and judicial claims. The new system has two pillars: the public PAYG and the private Fully Funded; while the public tier slightly decreased, the private one grew more than 80%; it now has over $20 billion in savings. Ten provincial pension systems were transferred to the federal government. The public component has a very important financial deficit, because of transitional costs and high tax evasion.

The Social Security regime has been a major component of the Argentine state in recent decades. Given its size in relation to the economy as a whole and its present and future significance for different generations, changing it was one of the most hotly debated aspects of the process of reforms during the nineties.

The broad picture of Argentine pensions systems has three different components: the national social security system, the provincial pensions systems and the military retirement regimes. The Social Security Reform comprised the national system, and afterwards included half of the provincial systems, but the military regimes never were included (or reformed).

The initiative for the Social Security Reform was launched after both the Convertibility Law had controlled hyperinflation and the worst part of the economic "emergency" had passed. At that point, the end of the emergency and the nature of the problem led to a type of decision-making proc-
ess different from that of the laws of Economic Emergency, State Reform and Convertibility. Instead of a fast, dramatic approval, a slow, extensive and complex process of consensus building was required, all of which took more than two years of political dialogue, exposure to public opinion, and parliamentary bargaining.

Changes in social security systems are normally initiated to accomplish two primary objectives: to confront the financial crises of traditional systems, and to ensure the provision of expected legal benefits to current and future generations of retirees. Furthermore, since the well-being of a nation’s social security system is inextricably connected to its overall economic well-being, it is also expected that adequate and sustainable changes in the social security system will at the same time positively influence the processes of capital accumulation and economic growth.¹

This reform was linked to key aspects of the process of change in which the country was engaged. As in the case of the other reforms, the starting point was a system that had come to the end of its rope and which represented an unbearable weight on the structure of public spending. There had been several specific changes made to the old social security regime at different times, but all of them revolved around the classic principles of the pay-as-you-go (PAYG) system: social security benefits received by current retirees and pensioners were paid for by the contributions deducted from the salaries of currently active workers. But at the end of the day, all failed. Long before 1989 when the whole process

of reforms began, the old PAYG Argentine pensions system was no longer able to function.

The structure of social security systems lies between two extremes: pay-as-you-go (PAYG) and fully-funded (FF). In a pay-as-you-go system, the economically active generation finances the retirement of the retired generation; in a fully-funded system, an individual’s contributions finance his personal retirement. Whereas the rate of return for the contributing generation in a pay-as-you-go system equals the growth of the wage mass, in a fully-funded system, returns for each individual equal the real interest rate of the market on personal contributions.

It was pointed out above that the state that was reformed in 1989 was not the "populist" state built by the Peronists. In the same way, the social security regime that was reformed in 1993 was not the “peronist” pension system, which from the legal point of view was of the “fully-funded” (FF) type. The regime that was changed in 1993 was the one created in 1968, during the military experiment of General Ongania, when 'de facto' Laws 18,037 and 18,038 were dictated substituting the original “fully-funded” for the “pay-as-you-go" system that was in place at the beginning of the nineties.

Despite its "welfare-state likeness", that retirement system was a typical component of assisted capitalism, the political economy associated with the authoritarian scheme of organization of the state apparatus, which has been described elsewhere. The relationship between the type of economic organization and the type of welfare state have been under-

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2 See Introduction, 1.
4 See Introduction, 2.
scored in political science analysis. An innovative approach considers that "A production regime is defined by the set of complementary institutions...The varieties of capitalist literature distinguishes different clusters of such institutional complementarities. The welfare state...is another such institutional complementarity."\(^5\)

That was the case of the Argentine Pensions system effective at the end of the eighties. Its fundamental characteristic was that it was exclusively financed with deferred wages; whatever the name ("employers' contributions" or "workers' dues") they were taxes on salaries, and economically they affected only one economic factor: labor. Social responsibility and inter-generational solidarity, the ethical basis of welfare state's PAYG systems, were no more than rhetorical statements, as society as a whole did not have very much to do with social security: only one sector, registered dependent workers, had borne the weight of financing the system. Furthermore, its financial unbalances were solved by means of the adjustment variables typical of assisted capitalism: benefit deterioration, fiscal deficit and "inflation tax".

1. A Pensions System on the Ropes

The Argentine pensions system as it existed in 1989 had two basic problems: first, its incapability of complying with the payments of the benefits as they were legally established; second, the persistent deficit in its accounts\(^6\). In


\(^6\) MTSS: Bases para la Reforma del Sistema Provisional, Internal Memo (1991)
addition, incongruities between expected legal benefits and actual benefits, large-scale evasion, and tremendous debts that created a judicial crisis, also plagued the system. An expression of those weaknesses was the progressive deterioration suffered by the benefits, considering the minimum, the average and the replacement rate: i) in 1989, the minimum benefit had fallen to less than 60 dollars per month; ii) from 1975 to 1990, the average benefit was reduced to less than half; and iii) the replacement rate fell more than 15 percent points from 1980 to 1990.

Graph II.III.1 shows the evolution both of the average benefits and the replacement rate.

Since the sixties, the Argentine social security system had experienced a chronic deficit, thus limiting its viable
self-sustenance. Moreover, the skewed incentives of the old system contributed to high levels of evasion and fraud.\(^8\) This is a crucial point, because a progressive increase in the level of unemployment and in the precarious labor relations, coupled with high rates of evasion, decreased the number of contributors.

Additionally, non-registered salaried workers ("black labor")\(^9\) and "informal" labor arrangements undermined the system's revenues. By 1989, the effective number of contributors to the National Social Security System was estimated at five million, while there were some 3,300,000 retirees. The ratio of contributors to beneficiaries is known as the "dependency rate" (contributors/beneficiaries), and its proper proportion is based on the incidence of the payroll taxes on the wage mass. In Argentina at the end of the eighties, that incidence was 26%; therefore, the proper "dependency rate" should be 4 (four economically active persons for each retiree); but that ratio had dropped below 1.7, which made the system impossible to sustain.\(^10\)

The system was also characterized by regional inequities. For instance, whereas more than 20% of the population in Buenos Aires City had benefits, the proportion dropped drastically to single digits in smaller provinces; and the economic development of a region was inversely correlated to social security coverage in that region.\(^11\)

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\(^7\) Data: Ibid
\(^8\) ASAP-FIEL: La Reforma Previsional en la Argentina, Buenos Aires (1998) pg.14
\(^9\) BACCARIA, Luis and CARCIOFI, Ricardo: Argentina: La Política Social y el Ajuste Durante los Años Ochenta; en LUSTING, Nora Ed: "El Desafío de la Austeridad", FCE (1991); pg. 246
\(^10\) DIAZ, Rodolfo: La Reforma del Régimen Jubilatorio; Mensaje del Ministro de Trabajo y Seguridad Social a la Mesa del Diálogo Político (1991)
\(^11\) ISUANI, Aldo and SAN MARTINO, Jorge: El Nuevo Sistema Previsional Argentino: Punto final a una larga crisis?; en "Boletín Informativo Techint", N. 282; pg.49
The social security regime in place in 1989 had an organizational structure that accumulated highly inefficient overlapping structures (regimes, funds, institutes) in which public agencies not only multiplied but came to concentrate functions and quotas of power difficult to reconcile with the demands of basic principles of economic rationality and institutional transparency.\textsuperscript{12}

All these characteristics resulted, at the end of the eighties, not only in a very inefficient and bureaucratic organization, but above all in a highly inequitable system. The financing of the system was based on two payroll taxes: workers' dues (10\%) and employers' contributions (16\%). Within the specific type of economic organization that Argentina had at the time ("assisted capitalism", described elsewhere\textsuperscript{13}) institutional provisions and inflationary mechanisms made both function not as "taxes" but in effect as "deferred wages"; hence, and in light of overall income distribution, they were exclusively sustained by the labor sector of the economy.

The economic reason for this is that the tax burden allocation between labor and capital is a function of elasticities\textsuperscript{14} of labor demand and labor supply. Graph II.III.2 shows that given a payroll tax MP, employers bear NP and workers bears NM. Graph II.III.3 shows that when the labor supply is totally elastic, the tax is borne totally by employers; Graph II.III.4 shows that when labor demand is totally elastic, the tax is borne totally by workers.

Graph II.III.2

\textsuperscript{12} Decree 2284/91 dissolved all those overlapping structures. Afterwards a single agency (ANSES) was created.
\textsuperscript{13} See Introduction, 3.
\textsuperscript{14} LLOSAS, Hernan Pablo: Las ventajas del IEPE: Desempleo y Politica Tributaria; El Cronista Comercial, June 3, 1992.
Tax Burden Allocation
Employers-Workers

Graph II.III.3
Burden Totally on Employers
Labor Supply Totally Elastic
Therefore, the more elastic the labor demand, the more the burden lays on the workers; this was (and, regrettably, still is) the Argentine case.

Moreover, there was a structural tendency for benefits to decline in relation to average wages, a growing share of minimum pensions (63%) out of the total budget, and a lack of correlation between contributions effectively made and benefits received: contributing large sums on a regular basis or small sums occasionally did not affect the amount of retirement benefits received.\textsuperscript{15}

Long-term factors, such as the aging of the population, were relevant as well. In a pension system financed by contributions from the working population, the demographic age structure takes on a decisive role in determining the dependency rate between the active and passive population.\textsuperscript{16}

\textsuperscript{15} DIAZ, Rodolfo and ZULETA PUCEIRO, Enrique: Reform of the State and Policies of Infrastructure Today; Paper presented to the VI Argentine-American Forum; Airlie Center, Maryland (1993); pg.23
gentina, demographics clearly reflected the relative aging of the population as seen by a higher life expectancy and a decrease in the birth rate. Between 1960 and 1980, for instance, the population above 65 virtually doubled, whereas the total population grew by only 40%.\textsuperscript{17}

The system had a significant negative impact on the fiscal deficit: more than 20\% of the deficit in the late eighties originated from the social security system, since one-third of the benefits were not financed with resources from the system.\textsuperscript{18} This was the "consequence of the growing incompatibility between the system's financial needs and its capacity to generate resources"\textsuperscript{19}.

Table II.III.1\textsuperscript{20} presents the figures.

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal Deficit (%GDP) (A)</th>
<th>S.Security Deficit (%GDP) (B)</th>
<th>((B)/(A)\times 100)</th>
<th>S.Security Deficit (% Benefits)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>4.1</td>
<td>0.8</td>
<td>19.5</td>
<td>16.8</td>
</tr>
<tr>
<td>1987</td>
<td>6.7</td>
<td>0.6</td>
<td>9.0</td>
<td>13.4</td>
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<td>1988</td>
<td>8.6</td>
<td>1.7</td>
<td>19.8</td>
<td>38.7</td>
</tr>
<tr>
<td>1989</td>
<td>4.8</td>
<td>1.0</td>
<td>20.8</td>
<td>33.1</td>
</tr>
</tbody>
</table>

2. Debt and Lawsuits

The state was not paying the due benefits established by the system. So, the greatest problem the sector confronted in the late 1980s was the debt of the state towards retirees which was publicly reflected via the myriad of lawsuits filed

\textsuperscript{17} Ibid
\textsuperscript{18} Ibid
\textsuperscript{19} MTSS: Bases para la Reforma del Sistema Provisional, Internal Memo (1991)
\textsuperscript{20} Ibid
against the state. The government was unable to comply with either the payment of the due benefits, or with the judicial adjudications favoring retirees.

Therefore, in 1986 President Alfonsin, via Presidential Decree 2196, declared the system in a “state of emergency”, blocking the initiation of new lawsuits by retirees against the system until December 31, 1988. In April 1987, Alfonsin issued a new Presidential Decree (N. 648), establishing a methodology for the state to pay some of its debts to the elderly: All those who had filed legal action prior to June 1988 received the transactional proposition that if they renounced 40% of the debt, the system would pay them the remaining 60% in 15 consecutive monthly quotas. Many agreed. Law 23,549, on January 8, 1988, established a special tax on the consumption of gasoline and telephone pulses to raise funds for those transactions. But as the problem was a structural one—the exhaustion of the “pay-as-you-go” system—and it was addressed with ad-hoc measures, the result was a failure: more debt and more lawsuits.

This problem was not solved until after 1992, within the context of the process of reforms, through the acknowledgement of social security debts, enacted by laws 23,982 and 24,130: beneficiaries of the national system received—both in bonds and cash—payments for 10 billion US dollars. Table III.III.2\(^1\) presents the figures.

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\(^1\) ANSES: Sistema Previsional Nacional. Proyecciones Físicas y Financieras 2000-2010. MTSS, Buenos Aires (1999), pg.10
Table III.III.2
Social Security Debt Paid Off
1992-1998
(Millions of Pesos)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>Cash</td>
<td>181.6</td>
<td>1273.4</td>
<td>190.1</td>
<td>1.0</td>
<td>12.4</td>
<td>46.4</td>
<td>140.7</td>
<td>1845.6</td>
</tr>
<tr>
<td>Bonds Series 1</td>
<td>2096.8</td>
<td>1160.4</td>
<td>749.2</td>
<td>78.2</td>
<td>69.2</td>
<td>67.0</td>
<td>97.9</td>
<td>4318.8</td>
</tr>
<tr>
<td>Bonds Series 2</td>
<td>2573.5</td>
<td>867.9</td>
<td>91.1</td>
<td>72.8</td>
<td>50.9</td>
<td>27.1</td>
<td>3683.4</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2278.4</td>
<td>5007.3</td>
<td>1807.3</td>
<td>170.3</td>
<td>154.4</td>
<td>164.3</td>
<td>265.7</td>
<td>9847.8</td>
</tr>
</tbody>
</table>

3. The Original Proposal

The strategic objective of the reform required inverting the logic of the old system: i) to fully tie the social security system to the economic system as a whole; ii) to reconcile the demands of intergenerational solidarity; iii) to meet the basic needs of the most vulnerable sectors; iv) to attend the demands for equity and proportionality linking the benefits to the effective contribution of each individual; v) to protect society from the risk of individual lack of foresight; and vi) to encourage present conduct consistent with a secure future.

At the end of 1991 and the beginning of 1992, the government convened the political parties and a variety of social organizations to discuss issues on the national political agenda. It was called “Mesa del Diálogo Político” (Political Dialogue Table), and several commissions were created within it.
The Social Security Commission was chaired by the Minister of Labor and Social Security; it included the political parties (Justicialista, Radical, and the other seventeen), the major Business Associations (Argentine Bank Association, Argentine Chamber of Commerce, Argentine Rural Society, Construction Argentine Union, Argentine Industrial Union, and another eleven), the CGT (Labor General Confederation), and the Chairmen of the Social Security Commissions of both Houses of Congress. Upon the common perception that the Argentine social security system had to be reformed, an agenda of ten points was settled, among them: the State’s role, Financing, Pension Fund Administrators, and Investment. The “extensive and complex process of consensus building” that was mentioned before, had begun.

The government's original proposal was developed in the Ministry of Labor and Social Security by a team of outstanding technicians led by Walter Schulthess (then Secretary of Social Security) a recognized specialist with national and international experience. It consisted of a Retirement System of two components—one of them public, the other private—both mandatory and both aimed at the same universe of beneficiaries: all the economically active people, whatever dependents or autonomous, of the formal sector of the economy. It was not a “mixed” system, but a "concurrent" one, because each component had different financing, different administration and different organization; but they "concurred" on the same universe of beneficiaries.

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22 Myself, at that time
23 See the beginning of this Section.
24 DIAZ, Rodolfo: La Reform del Régimen Jubilatorio; Mensaje del Ministro de Trabajo y Seguridad Social a la Mesa del Diálogo Político (1991)
a) The Public Component was a "pure" pay-as-you-go system, administered by the state, which would provide a single benefit—the "Universal Basic Benefit" (PBU)—based on the relation revenues/beneficiaries. Its financing was not based on payroll taxes; employers' contributions were eliminated, and substituted by a different type of tax: the IEPE (Firms Primary Surplus Tax), a "value added" type of tax, with a full deduction of wages, salaries and all other labor related costs.25

This design would have two impacts on the public retirements system: first, a diminution of the pressure on its already large deficit, because the PBU was a function of the revenues of the system; second, the most important expected effect of the change in the financing was a significant improvement of the system's equity, since, by substituting payroll taxes with the IEPE the burden of social security financing would be distributed amongst the different productive factors instead of relying only upon labor.

As the policymaking process progressed this design of the public component was changed: PBU was unchained from revenues, IEPE was discarded and payroll taxes were maintained. Hence, none of the expected effects were attained.

b) The Private Component was a "pure" fully-founded system, administered by specific private entities (AFJP); contributions made by each person throughout their working life were deposited in a personal account; and it provided a Pension Benefit whose amount was in proportion to the contributions made. Financing was exclusively by the personal contributions of potential beneficiaries (workers' dues) that was

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25 See Chapter I, Section III.3
not a tax, because it went to the contributor's personal account and not to the state.

Two principal effects were expected of this new system: first, a positive impact on the level of confidence in the system, due to the fact that contributions would go to a personal account and not to a "budgetary nowhere"; second, an increase in domestic savings and capital accumulation.

Since the basic characteristics of this design of the private component were maintained through the lawmaking process, both expected effects have been reasonably attained.

4. The Bill

As a result of the process of negotiated consensus building, the government's original proposal experienced many changes before the bill was sent to Congress. As regards the Private Component of the new regime, there were several innovations, technical developments and fine-tunings in the legal provisions that undoubtedly improved the institutional design. Conversely, as regards the Public Component, a much more conservative attitude prevailed, and the more innovative changes (PBU related to revenues and the IEPE) were abandoned.

The bill for reforming the Social Security System was presented to the Chamber of Deputies on June 5, 1992.26 The proposed system has been described as “the combination of a ‘pay-as-you-go’ regime, administered by the state, and a ‘fully-funded’ regime administered by public or private firms, called ‘Retirement and Pension Fund Administrators’

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26 H. Cámara de Diputados de la Nación: Trámite Parlamentario N. 27/92. The project was signed by president Menem with the countersignatures of Minister Cavallo and myself.
(AFJP). This variant of social security organization is called the "Integrated System of Retirement and Pensions’ (SIJP).  

The resulting system is one among several political options that combines technical demands with elements of the Argentine social security culture. The fundamentals sent to the Congress enclosed with the bill, mentioned seven "great principles" that "ought to be in the social security systems."  

i) The first is "universality". The new social security regime covers all workers, whatever their activity, gender, geographic location, or age upon entering the workforce. The regime is not voluntary, but compulsory, for both wage workers—full-time employees—and for self-employed workers who derive income from independent activities. The logical sequence of this principle is the finding that there is a public need for a social security system, whatever its design.

ii) The second is "equity". The system tends to recognize proportionality between the levels of an individual’s effective contributions to the system and the benefits he or she will receive.

iii) The third is "solidarity". This is to be understood in two main senses: The first is guaranteeing all who pay into the system the ability to receive a certain minimum income that covers basic subsistence needs. Second, it covers the situation of people who, for several duly justified reasons, have not been able to comply with the requirements for obtaining a regular requirement benefit or pension.

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iv) The fourth is "efficacy." Administration, both of the regime and of the funds, has to be considered according to basic economic principles in order to have a rational allocation of resources.

v) The fifth is "freedom". Assuming the government role in social security, given its profound social implications, the new regime tends to allow for contributors to express their desires. Therefore, besides the compulsory requirement to pay dues, the regime offers contributors various options so as to secure a future situation more in line with his or her expectations and possibilities.

vi) Sixth is "transparency". Beneficiaries and affiliates can have access to information to enable them to evaluate the system’s performance. Each contributor is owner of his contributions, and as such has the full right to complete information about his own interests, expressed in the statement of his or her social security account.

vii) The seventh and last is "credibility". The system has been designed in such a manner that workers can form a clear idea of the benefits that their contributions will generate, and identifying how it operates with stable regulations autonomous from bureaucracy.30

5. Approval

The project proposed by the government to the Congress was intensively discussed within several Parliamentary Commissions: again, political parties, business organizations, labor unions, retiree associations, the Catholic Church and other groups and experts were invited to give their opinions.

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29 H. Cámara de Diputados de la Nación: Trámite Parlamentario N. 27/92
It has been reported that the Parliamentary Commissions met more than thirty institutions professionally related to Social Security, and whose criticisms were focused on the following aspects:\textsuperscript{31}: i) Inconvenience of the establishment of a Fully Funded system; ii) High cost and difficulties of private administration; iii) No recognition of the contributions made by people under the age of 45; iv) The state's lack of capacity to control the AFJP; v) Difficulties in the investment process.

Those criticisms were a way of expressing rejection of the reform. Nevertheless, there were other voices, mostly in the business community, supporting the idea. In November 1992 there was a meeting among officials from the Ministry of Economy and the Ministry of Labor with the CGT, in which it was agreed that the Unions would be allowed to be part of an AFJP. That agreement opened new opportunities for the consensus-building process; in order to facilitate it, the government decided to take back the first project and to send Congress a second one which, though it substantially maintained the basic design of the first one, took some of the suggested changes into account.

By the end of that year, society was well informed of the ongoing debate, since the media gave the discussion on social security reform great exposure, presenting many controversial issues. Some of the arguments made in the debate were the following: i) a system like the Chilean one—based exclusively on individual capitalization—would be too difficult to apply to Argentina because Argentina’s economy is too

\textsuperscript{30}H. Cámara de Diputados de la Nación: Trámite Parlamentario N. 27/92, pg. 130.
\textsuperscript{31}ISUANI, A. and SAN MARTINO, J.: Op.Cit. pg. 49
cyclical and volatile.\textsuperscript{32} ii) Considering the 4 million retirees in 1992, there is an important matter of prioritization: who should be more important, current retirees or future ones?\textsuperscript{33} iii) There was a grave need to revise the status of federal co-participation; the provinces should cede part of their share of earnings to the federal system.\textsuperscript{34} iv) The adoption of mixed systems allows for the diversification of risk present in any social security system; pay-as-you-go systems are sensitive to wage fluctuations; fully funded systems are sensitive to the rate of supplies for funds.\textsuperscript{35} v) Another important consideration in the debates was the transition costs from the existing system to that planned by the reform.

The Chamber of Deputies discussed the bill on April 23, 1993. The general presentation sustaining the bill was made by Deputy Gerardo Cabrera (PJ-Buenos Aires). Deputy Jorge Matzkin (PJ-La Pampa), Oscar Lamberto (PJ-Santa Fe), Juan Gonzalez Gaviola (PJ-Mendoza), and Oscar Castillo (PJ-Buenos Aires) (among many others) made complementary speeches. The case for the opposition was made by Deputy Raul Baglini (UCR-Mendoza); Deputies Santin (UCR-Buenos Aires), and Olivera (UCR-Capital Federal) among many others, also intervened: they made procedural arguments and presented a general political rejection of the project. But three real issues were widely discussed: i) different types of social security systems; ii) the convenience or lack thereof of a change from one system to the other; and iii) the viability of a “fully funded” system in a country like Argentina.

\textsuperscript{32} Clarín, 09-12-1990.  
\textsuperscript{33} Daniel Marcú, in El Cronista, 11-22-1992.  
\textsuperscript{34} La Nación, 06-06-1992.  
\textsuperscript{35} El Cronista, 11-12-1992.
The Justicialista bloc of deputies was very active—and successful—in negotiating changes with the Government, and many other specific changes were made over the ongoing session.

On April 30, 1993, the Chamber of Deputies approved the project of Social Security Reform. It was supported by the Government PJ Deputies and some allies from the provincial parties. The opposition UCR Deputies voted against the reform of the Pensions Regime. On September 23 1993, Law 24,241 was approved by the Senate.

6. The New System

As has been explained before, the "Integrated Retirements and Pensions System"\textsuperscript{36} (SIJP) established by Law 24,241 combines two different regimes: the pay-as-you-go regime and the fully funded one. The pay-as-you-go regime is public, administered by the state, and financed by workers' dues, employers' contributions, and special taxes. The "fully-funded" regime is private, administered by firms (public or private) called the "Retirement and Pension Funds Administrators"\textsuperscript{37} (AFJP), and financed only by workers' dues. In this regime, each affiliate's dues go to a personal account.

The affiliate has the right to choose which of those two regimes to join, as well as—for two years—the right to change from one to the other. The system is called "Integrated" because, despite the regime choice of the affiliate, the benefits that he/she will receive will always have components provided and financed by the public system. In both cases,

\textsuperscript{36} Sistema Integrado de Jubilaciones y Pensiones
\textsuperscript{37} Administradoras de Fondos de Jubilaciones y Pensiones
the ‘Retirement Benefit’ of any individual will have three components:

a) Universal Basic Benefit (PBU): that is a minimal, universal, and equal amount of money paid by the state, financed with resources from the public regime.

b) Compensatory Benefit (PC): paid by the state to affiliates who have made contributions to the public system prior to the reform.

c) “Additional Benefit for Permanency” (for affiliates of the pay-as-you-go-regime) or ‘Ordinary Retirement’ (for affiliates of the “fully-funded” regime).

Elements a) and b) are the same for the pay-as-you-go regime and for the fully-funded regime; both are calculated according to standards established by public regulations.

The only difference regards element c). In the case of the pay-as-you-go regime, the Additional Benefit for Permanency will be calculated as a function of the average of salaries received by the affiliate over the last ten years. On the other hand, in the case of the fully-funded regime, the “Ordinary Retirement” will be a function of the accumulated balance of the personal account.

Graph II.III.538 summarizes the benefits structure.

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38 SCHULTHESS, Walter and DEMARCO, Gustavo: El Sistema de Jubilaciones y Pensiones de Argentina a Dos Años de la Reforma; SAFJP, Serie Estudios Especiales, Año 1, N. 1; pg. 15.
The system’s key difference with respect to other graduated alternatives that had been explored in other countries rested on the active role of private initiative through the “Retirements and Pensions Fund Administrators” (AFJP). These are private or public firms whose exclusive function is to invest the funds contributed by the workers in different types of assets. This investment then yields the capitalization of workers’ contributions. In accordance with the general principle of freedom, each contributor chooses the AFJP in which to deposit his or her dues and may switch AFJP as often as two times a year if not satisfied with the one chosen.
The competence of the AFJPs is guaranteed by a Superintendence created for this purpose, and the same law establishes limitations on the minimum volume of capital and cash necessary for the Administrators to operate.

The distinctive property of the new system is its “bi-dimensionality,” which comes out of the word “integrated” in its denomination. The following are key characteristics of bi-dimensionality: i) the coexistence of public and private institutions; ii) the reconciliation of the basic values of equality and intergenerational solidarity; iii) the response to social demands of modern democracy reflected in the universal basic benefit; iv) the response to market-oriented demands of modern economy reflected in the capitalization component.

This profile seems to be highly sustainable in political terms, but it is costly in economic terms. Furthermore, as will be seen, Argentina is paying a price for it.

7. Modifications

It has been considered that "It is probable that at the time the new system was put into gear, the authorities had minimized the problems that derived from the transition from one regime to another" 39. Regarding pensions-related lawsuits against the state, that seems to be true.

That is why, on March 8, 1995, Congress sanctioned Law 24,463 (otherwise known as the "Law of Previsional Solidarity") introducing reforms to the social security legislation. The objective was to limit costs and to avoid "the reiteration of processes already experienced in the country in re-

39 ASAP-FIEL: Op.Cit, pg. 107
cent times, consisting of the usage of the judicial via to solve situations considered unsatisfactory by affiliates”

The principal modifications introduced by the Law of Previsional Solidarity were the following: i) It limited the state's guarantee for benefits and related payments to the resources appropriated by the respective Budget Law (Art. 1). ii) The maximum amount of benefits of the public regime will be established by the Budget Law (Art. 3). iii) Judicial sentences condemning the state to make payments will be accomplished within the limits of the resources appropriated each year by the Budget Law (Art. 22). iv) Assets belonging to the Social Security National Administration (ANSES) or to the state are not subject to attachments (Art. 23).

8. Effects

The reform of the Social Security system has been a major change that strongly impacted the Argentine economy, polity, and society. In order to draw a general picture of the direct effects of this reform, aggregated data will be summarized.

a) The total number of people affiliated with the “Retirements and Pensions Integrated System” (SIJP) rose from 5.7 million in 1994 to 10.4 million in 1999. In that period, the pay-as-you-go regime decreased from 2.7 to 2.2 million, and the fully-funded regime grew from 2.2 to 7.9 million: while the public tier slightly decreased, the private tier grew more than 80%.

Graph II.III.6 shows this trend.

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But not all affiliates (or their employers) pay their
dues (or contributions) in both regimes; more than 40% do
not.

b) The total amount of the “Retirement and Pensions
Fund” managed by the private regime rose from $525 million in
1994 to $18.5 billion in 1999. And its profitability was
high: 13% as annual average over the period 1994/99 (overcom-
ing the impact of three international financial crises—
Mexico, South East Asia, and Russia—as well as the Brazilian
devaluation).

c) The number of benefits paid by the SIJP (basically by
the public component, as the private one is too new to pro-
vide a relevant number yet) has remained stable: it was
3,264,484 in 1995 and 3,369,270 in 1999 (despite the inclu-
sion of some transferred provincial retirement systems). And
the average benefits of the public system which was $176 in 1990 (and less than $60 in 1989) rose from $297 in 1995 to $360 in 1999.

d) The reform produced important effects on the structure of savings and the capital markets, because of the stability introduced by the AFJPs as institutional investors. For instance, the AFJPs virtually replaced foreign investors during the 1995 crisis, given that the total invested by institutional investors managed to grow, whereas foreign investment fell by 12%. There was also a slight growth in the investment of insurance companies, which tend to expand in part on the expansion pension funds.42

e) A negative aspect of the reform is that the system has not increased the range of coverage; that is, the number of people who effectively contribute to the system. This is aggravated by the fact that, in Argentina, there is no system to substitute for the pensions system, and it has been said that there needs to be an assistance mechanism for those who are not included in the pensions system.

f) Another negative aspect is that there are still delays in the approval of benefits by the state-run ANSEs. Again, a grave problem is the accumulation of lawsuits against the state.

g) The most important success of the new system has been its massive acceptance by the workers, as the above mentioned figures show. This effect has been motivated by one of the structural changes produced by the reform: contributions to the system are no longer perceived as "taxes" but as "savings".

42 ASAP-FIEL: La Reforma Previsional en la Argentina, Buenos Aires (1998) pg. 159
In the old system, workers' personal dues functioned as a "tax": the money was detracted from the salary and disappeared into the state’s "general revenues", and there was no relation between contributions and benefits. In the new system, personal dues function as "savings": the money goes to a personal account for each worker, who decides which AFJP will manage his or her money, and who always knows where the money is and how much it is. At the end of the day, each worker’s retirement benefit will be a function of his or her savings.

Contributors belonged to the workers, and their administration depends on each worker’s decisions. This "distributational effect" of ownership and power is a "progressive" characteristic of the new Argentine social security system43, which explains the strong political support of the workers.

9. **Deficit**

As was pointed out above, the "bi-dimensionality" of the new pension system’s institutional design made it highly sustainable in political terms, but costly in economic terms: its public component has a very important financial deficit.

The principal financial source of the public component of the SIJP are the so-called payroll taxes: workers’ dues and employers’ contributions. The 2000 National Budget Law estimates revenues of $10,291.6 million for those concepts; from that amount, 5% has to be detracted for the military and police retirement regimes. So the actual amount expected to enter to the SIJP is $9,786.6 million. On the other hand, the same Budget Law estimates the total amount of the benefits to

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43 Which is almost always ignored, as a characteristic.
be paid by the SIJP at $13,145 million (30% of Total Public Expenditure).

This very simple calculation shows a financial deficit of $3.359 billion, defined as the difference between the system's own revenues (payroll taxes) and the total amount of the system's benefits. This amount is, on the one hand, 25.5% of the system’s pensions payments; on the other hand, it is 76% of the total public deficit estimated by the 2000 Budget Law.

Upon these data, two comments might be made: i) SIJP's Public Component deficit is a hard constraint for its sustainability over time; ii) SIJP's Public Component deficit is the single major determinant of the overall public deficit of Argentina. Thus is the current situation the same as before the reform was implemented?

No. It seems to be the same, but it is not. A major difference is the SIJP's Private Component. In the Fully Funded Regime of the SIJP, people's money belongs to the people, not to the government; it is deposited in people's personal accounts, not in the public treasury; it is destined for a single specific purpose: people's personal retirement benefits; and it cannot be affected by the public component deficit.

So, the deficit problem that the SIJP has nowadays is limited to its Public "pay-as-you-go" Component. In the following section the causes of this phenomenon will be addressed.

10. Transference of Provincial Pensions Systems

Following the 1993 Fiscal Pact, ten provinces transferred to the federal government their own provincial pen-
sions systems. Therefore, almost 365,000 contributors (active workers) and more that 200,000 benefits were included into the National Social Security System.

Table III.III.3 presents the figures

<table>
<thead>
<tr>
<th>Province</th>
<th>Contributors</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catamarca</td>
<td>28482</td>
<td>24131</td>
</tr>
<tr>
<td>Jujuy</td>
<td>33070</td>
<td>15312</td>
</tr>
<tr>
<td>La Rioja</td>
<td>28856</td>
<td>19548</td>
</tr>
<tr>
<td>Mendoza</td>
<td>65042</td>
<td>31875</td>
</tr>
<tr>
<td>Río Negro</td>
<td>28381</td>
<td>12264</td>
</tr>
<tr>
<td>Salta</td>
<td>40107</td>
<td>18750</td>
</tr>
<tr>
<td>San Juan</td>
<td>31401</td>
<td>19978</td>
</tr>
<tr>
<td>San Luis</td>
<td>15245</td>
<td>9877</td>
</tr>
<tr>
<td>Santiago del Estero</td>
<td>35104</td>
<td>24135</td>
</tr>
<tr>
<td>Tucumán</td>
<td>59024</td>
<td>32820</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>364712</strong></td>
<td><strong>207690</strong></td>
</tr>
</tbody>
</table>

11. **Transition and Evasion**

a) One of the causes of the SIJP Public Regime deficit is the transition between systems.

The reason is that, in the still ongoing transition period, the public regime must continue to pay benefits to current (and some future) retirees, but without the financial contribution of the active workers' dues, which are being de-

posited in their personal accounts in the Private "fully founded" Regime.

That is why the replacement of a deficitary pay-as-you-go system has been considered "an impossible endeavor from the financial point of view"\(^45\). Nevertheless, preparatory studies for the reform considered the transition financially viable, though anticipating unbalances in the public component of the SIJP. What seems not to have been expected was the actual size of the problem; one of the drafters of the new system pointed out that "it reveals that processes of economic policy are phenomena of a more complex nature than the mere enunciation and quantification of goals and instrumental variables."\(^46\)

b) Another cause of the SIJP Public Regime deficit is payroll tax evasion.

The number of people encompassed by the SIJP is always presented distinguishing those who are “affiliated”, from those who actually pay their dues (and whose employers pay their contributions).

Table III.II.\(^47\) shows the figures from 1994 to 1999.

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\(^{45}\) ASAP-FIEL: La Reforma Previsional en la Argentina, Buenos Aires (1998) pg.108
\(^{47}\) SAFJP: Plan Estratégico, N. 22; pg. 26
Table III.II.4
Evasion in the Social Security System
(SIJP: Affiliates/Contributors)

<table>
<thead>
<tr>
<th></th>
<th>Affiliated</th>
<th>Contributors</th>
<th>Rate % (Af/Con.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FYAG FF Total</td>
<td>FYAG FF Total</td>
<td>FYAG FF Total</td>
</tr>
<tr>
<td>1994</td>
<td>2,674,035 2,242,188 5,730,485</td>
<td>1,979,942 1,289,961 4,269,903</td>
<td>74.04 57.53 71.27</td>
</tr>
<tr>
<td>1995</td>
<td>2,839,948 3,843,099 6,683,047</td>
<td>1,844,194 1,872,145 4,716,339</td>
<td>64.94 48.71 57.48</td>
</tr>
<tr>
<td>1996</td>
<td>2,598,248 5,245,208 8,843,456</td>
<td>1,426,603 2,335,091 3,761,694</td>
<td>54.91 44.52 48.83</td>
</tr>
<tr>
<td>1997</td>
<td>2,396,397 5,820,534 8,216,931</td>
<td>1,259,600 2,986,667 4,246,267</td>
<td>52.56 51.31 51.38</td>
</tr>
<tr>
<td>1998</td>
<td>2,280,960 6,696,248 9,500,898</td>
<td>1,044,022 3,274,847 4,318,869</td>
<td>45.77 48.91 48.46</td>
</tr>
<tr>
<td>1999</td>
<td>2,184,657 7,854,363 10,039,020</td>
<td>995,709 3,483,261 4,478,970</td>
<td>43.61</td>
</tr>
</tbody>
</table>

A more precise analysis of evasion in the Argentine social security system shows the following data for 1998:

Out of 13,034,000 employed people, 3,586,000, because of different legal situations, were not obliged to contribute to the SIJP; therefore, the universe of obligated employees is 9,447,800: 72% of the workforce. Out of the obligated workers, 4,659,400 were actual contributors; there were also 4,788,400 "evaders." That means that "for each two obligated, only one pays." In 1998, the level of evasion in the SIJP (obligated workers and their employers who didn’t pay) was 50.7%.

This phenomenon, payroll taxes evasion, is part of a more encompassing process: the "exit" social response to eco-

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49 Along with these obligated employees, their employers are obligated too.
onomic hardship and structural reform that is observable in Argentina and which has been extensively analyzed elsewhere\textsuperscript{51}.

\textsuperscript{51} See Chapter II, Section II.8 and 9.
Chapter III: REFORMING THE POLITY

I. State Reform
II. Constitutional Reform
III. Civil Service Reform
Assisted capitalism rested upon the Bureaucratic Authoritarian State apparatus, notably the State Owned Firms (SOFs); as long as assisted capitalism remained untouched by democratic transition, SOFs remained untouched as well. Privatization of SOFs was a key element in overcoming assisted capitalism, its collapse and hyperinflation. Moreover, they produced substantial changes in the state structure which contributed to its democratization. Although the law provided several methods to privatize, all of them were required to be authorized by the Congress—declaring each single SOF or asset "subject to privatization"—and in this way it was done; moreover, most privatizations were implemented with congressional participation. Their overall effect has been highly positive. Both political legitimacy and economic efficiency gave the state reform strong stability.

1. Survivals of the Past

The eighties ended in a context of vast economic transition and globalization, in which the relations among state, economy, and society had come to be questioned worldwide and hotly debated. The rapid shift to a new framework of those relations posed anew old questions regarding state's functions and the changing boundaries between public and private. Argentina was not isolated; on the contrary, it was a space in which those debates were reproduced. The trend to reformulate the role of the state, which began internationally with the oil crisis of the seventies, took place in Argentina in the eighties and gained momentum at the end of the decade. It was not about the Nation-State, not even about the state as institution of society's power; what was installed in the Argentine political agenda of the eighties was the theme of the state "apparatus": the structure of administrative services

and public enterprises, and its behavior in the long run as political and economic "actor".2

The conventional wisdom considers that the state that was changed in Argentina in the nineties was the old populist state that the peronists had built in the forties and fifties; as it was exposed at length above3, that view is wrong. By 1989—when the process of reforms began—the "peronist state" had already disappeared a long time before; the state apparatus in place at that time was that of the "Bureaucratic-Authoritarian State", the state model built by the military regimes since 1966.

Hence, the reform process had to take on the Argentine state not as an institutional abstraction but as a concrete "historic formation", namely the state "model" forged by authoritarianism, which survived the first democratic government. A state that was producer, regressive redistributor of income, and main player—in the best case scenario—of processes of corporatist arbitration. A sort of "ineffective absolutism" revealing the weakness of a corporatized society which, without a consolidated political system that rationalized its relations with the state, was helpless in the face of the arrogance of the power groups and the autism of the bureaucratic apparatus.4

2. The Political Nature of State Reform

The constitutional government inaugurated in 1983 when democracy was restored in Argentina, mistook the diagnosis: they considered "the problem of the state" as a matter of

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2 DIAZ, Rodolfo: El Ajuste Estructural como Cambio de Modelo. MTSS (Mimeo); Buenos Aires (1992), pg. 4.
3 Introduction, 1.
"size", "centralization" and "backwardness", ignoring absolutely its role in the political system; therefore, they addressed the issue with old blueprints of "downsizing" and "modernization" and—hence—failed. On the other hand, the primitive "anti-statism" of the conservative opposition of that time, did not address the political substance of the problem either: they passed directly from ideology to accountancy without grazing political analysis.

State Reform is a deliberated process of significant changes in the structure of the state, referring to an essential "presupposed" aspect of the polity: the relationship between "public" and "private". This relationship remits to some of the central questions of modern political theory: What part of human life should be "socialized" in order to make possible a project of life in common? What "rules" are needed? What type, form and mode of power organization is required? Hence, state reform is a matter specifically political "in nature".

In a broader sense, "state reform" encompasses a wide array of changes; given that several of them are addressed in other chapters of this book, this section will focus on the utmost relevant component of the Argentine process of state reform: privatization.

It is defined as "the partial or total transfer of an enterprise from public to private ownership. As such, it is the precise reverse of nationalization". Privatization is

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5 FREUND, Julien: L’Essence du Politique, Ed. Sirey, Paris (1965); Chapitre V: Le privé et le public; pg. 280
"first and foremost a political process". It is "a policy of the state...determined by political decision makers", which "although...may aim to limit politicians' interference with...the economy...the transition itself can be accomplished only by state institutions through political means".

State Reform and its most important component, privatization, are political phenomena in nature; therefore, their analysis and overall assessment should be properly political.

3. The Public Sector and the SOFs

By the end of the eighties, the public sector in Argentina was bloated, inefficient, and near collapse in many areas. The public-private structure of assisted capitalism included not only an expansive public component with numerous inefficient state-owned firms, but also a private component (the assisted sector) that propped up inefficient private companies with subsidies and other breaks financed by public money.

Between 1960 and 1988—the period of the assisted capitalism—the participation of the public sector in the Argentine economy increased substantially.

Table III.I. presents the figures.

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7 JOHNSON, Gordon: Privatization in Developing Countries; Center for Privatization, Washington DC (1990); Mimeo.
9 DIAZ, Rodolfo: El Ajuste Estructural como Cambio de Modelo; pg. 5
10 See Introduction, 2.
11 Ibid
On the brink of privatization in 1989, there existed 236 SOFs in total, made up of 70 national, 4 binational, and 162 provincial firms. These SOFs covered a wide variety of economic activities: exploitation of natural resources (oil, gas, energy); public services (water, electricity, railroads, airlines); infrastructure (roads, ports); industries (steel, plastics, chemicals, textiles, food); banking (state owned commercial banks). National SOFs took three different forms: i) monopolistic firms in the public services (such as telecommunication, transportation, electricity, gas, water and the postal service); ii) firms that participated in the competitive market (petrochemicals, iron and steel, radio, TV, textiles, and banks); and iii) firms of strategic interest, such as the defense industry.

The state owned media deserves special mention. As a legacy of the Bureaucratic Authoritarian State, many relevant
electronic media were in the hands of the state: three out of four TV channels and six radio stations in Buenos Aires, and a number of local TV and radio stations all over the country. On the other hand, most of the printed newspapers were actually private; however, the provision of paper to print the dailies was in the hand of the state too: the only producer of the specific type of "newspaper paper" required for the rotative presses, was a firm controlled by the state: "Papel Prensa S.A.".

In the Introduction, a full analysis of the Argentine SOFs was presented\(^\text{14}\); notwithstanding, a brief summary of it will be useful to better address the process of privatization: i) Assisted Capitalism had two main actors: State Owned Firms in the public sector and Assisted Private Firms in the private sector; the interplay between both (in a business environment characterized by institutionalized subsidies and adjustment mechanisms of contracts) produced substantial transfers of income from the public sector to the assisted private firms; those transfers resulted in a substantial deficit for the public sector, which was financed by inflation. ii) Transfers to the assisted sector was the most important single component of the fiscal deficit over this period, and they explain half of that deficit; the Treasury transferred 22.4 billion dollars to the ten major Argentine SOFs from 1980 to 1989; they only collected enough for 63% of their expenditures, and were left with a deficit of 37%.

There were numerous problems within the SOFs that brought them in 1989 to such a state of near-crisis: Water and Public Works was over-employed and its existing facili-

\(^{13}\) See Introduction, 2.a.
ties were deteriorating; the electric sector was very near to collapse, as supply could not keep up with demand, often resulting in rolling blackouts; public transportation was congested. To further complicate and impair improvements in the sector was the severe lack and incompatibility of fiscal data and production numbers between firms. The deficits of the SOFs contributed thus to the overall macroeconomic crisis of Argentina and were in turn affected by the economic downturn. Public firms made up the greatest part of the fiscal deficit, thereby contributing to fiscal imbalance.

Table III.I.2 presents the figures.

Table III.I.2
Situation of the Public Sector in the 1980s
(As % of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Revenues</th>
<th>Public Expenditures</th>
<th>SOFs: Deficits</th>
<th>SOFs: Investment</th>
<th>Total Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>19.3</td>
<td>28.0</td>
<td>4.0</td>
<td>3.6</td>
<td>-16.5</td>
</tr>
<tr>
<td>1984</td>
<td>22.4</td>
<td>24.4</td>
<td>3.0</td>
<td>3.3</td>
<td>-8.8</td>
</tr>
<tr>
<td>1985</td>
<td>23.1</td>
<td>25.1</td>
<td>1.9</td>
<td>2.8</td>
<td>-8.2</td>
</tr>
<tr>
<td>1986</td>
<td>21.7</td>
<td>23.5</td>
<td>0.8</td>
<td>2.6</td>
<td>-5.8</td>
</tr>
<tr>
<td>1987</td>
<td>20.0</td>
<td>23.4</td>
<td>1.7</td>
<td>3.2</td>
<td>-10.1</td>
</tr>
<tr>
<td>1988</td>
<td>19.1</td>
<td>23.1</td>
<td>3.5</td>
<td>4.2</td>
<td>-10.0</td>
</tr>
<tr>
<td>1989</td>
<td>17.6</td>
<td>19.9</td>
<td>1.9</td>
<td>2.5</td>
<td>-10.5</td>
</tr>
</tbody>
</table>

In summary: the role of the SOFs in the—collapsed—assisted capitalism, transferring public money to the private sector, the economic dis-functionalities that prevented them from delivering the expected outcomes and services, and the impact of their financial unbalances on the fiscal deficit that fueled the inflationary process, made privatization of

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14 See Introduction, 1, 2 and 4.
16 ALEXANDER, Myrna: Privatizaciones en Argentina; in "Privatizaciones e Impacto en los Sectores Populares", Banco Mundial- Ed. Belgrano (2000); pg. 32
the SOFs vital, not only to the recovery of the economy, but also to the consolidation of the democratic transition.

4. Crisis, Opportunity and Change

Not only were reforms necessary, but they were made possible by public opinion and the political situation of the time. By the end of the eighties, 70% of the Argentine public supported a plan to privatize state-owned firms\textsuperscript{17}, for people were tired of the inefficiencies and substandard service of SOFs and the negative impact they had. And by the beginning of the nineties when the reforms begun, 67% of the public thought that the plan being implemented was necessary to control inflation.\textsuperscript{18} Positive public attitude toward reform probably made it easier to implement such a plan, despite certain costs or drawbacks.

The political situation at the end of the decade also enhanced the ability of the state to undergo reform. The Partido Justicialista defeated the Unión Cívica Radical in the 1989 elections, and Carlos Menem became President. Party politics gave the PJ an advantage in implementing reforms because of its great political capital, further strengthened by the failure of the UCR to improve the conditions of the public sector throughout the eighties, and the consequent impatience of the public to see results. The leadership of the new President has also been sighted as a strengthening factor in the state’s ability to implement reforms, in that he was a realist, quite persistent, and able to communicate clearly

\textsuperscript{17} ROCCA, Agustín and OROMÍ ESCALADA, Miguel: Privatizaciones, Experiencia y Oportunidades; in "Boletín Informativo Techint" No. 287; Buenos Aires (1996), pg. 58.

\textsuperscript{18} Generalizada Aceptación; La Nación (Buenos Aires), 5/6/90.
with the public. Finally, the bout of hyperinflation that flared up in 1989 and again in 1990 can be seen as a political opportunity for reform. In 1990, 67% of the public felt that hyperinflation was the most severe economic problem the nation faced, and that a process of privatizations would be necessary to address this problem. The public sentiment made politically feasible a greater realm of policy.

The Reform of the State was thus not a progression of the political economy of the time, and it did not emerge as an extension of the state’s policy in governing the economy. Rather, the reforms signified a drastic break with the status quo, a complete rethinking of economic policy and the role of the state. This drastic break was a targeted response to a specific set of problems, and was the result of several factors, including: the economic crisis resulting from the SOF’s own crisis as well as the macroeconomic crisis (which was related to and partially caused by the SOFs); the shift in political power to the PJ and to the new administration and their strengths in governance, and public opinion and the political opportunities it created. The reforms required, and were a result of, a rethinking in national economic policy and a rethinking of the roles of the private and public sector in the economy, which in turn were sparked by the near-crisis situation of many of the State-Owned Firms.

5. The Proposal

Privatization was defined within the framework of the promotion of competence and the stimulation of investment in a modern market economy, which render impossible the suste-

20 Generalizada Aceptación; La Nación (Buenos Aires), 5/6/90.
nance of inefficient and ineffective activities of production and services carried out by the state. It was considered that all activities capable of being performed by the private sector should be privatized, and the process should be transparent and regulated in order to maintain stability and produce long-lasting changes.\(^{21}\) It was also deemed necessary to define a new role for the state as a governing framework for the reforms, because there were many tensions in the environment in which the reforms would be carried out. The core of the State Reform program was the privatization of state-owned firms; but it also comprised a reorganization of state functions and human resources, as well as processes of deregulation and debureaucratization.

As early as June 1989, the new administration began the transitional activities. The working group that prepared the reform plan split into two teams, one located in Cerrito and Cordoba\(^{22}\), the other located in the "transitional offices", that was called "La Rosadita", as a reference to the "Casa Rosada", the Presidential Executive Building.\(^{23}\) Eventually the initial work was divided into two thematic groups, resulting in two laws: Law 23,697 (Law of Economic Emergency) and Law 23,696 (Reform of the State). The first eliminated certain legal dispositions and regulations in order to assuage the grave economic crisis\(^{24}\). The second offered a structural design and procedures for privatization; this one is the subject of this section.

\(^{21}\) DOMENICONI, Héctor: La Reforma del Estado en Argentina; in "Anales", No. 5; CLAD, Caracas (1997), pg. 163.
\(^{22}\) The Legal Chambers of Roberto Dromi
\(^{23}\) Interview with Dr. Rodolfo Barra, by Carlos Roberto Cagnoli (August 2000).
\(^{24}\) See Chapter I, Section I.
The main guidelines of the reform process were based on lessons learned from other countries’ attempts at privatization, as well as on elements specific to the Argentine economy and society; some of the guidelines were the following: i) Legality, meaning that the Constitution and the laws would define who had the power to perform each step of the program, guaranteeing respect for equality, reasonability, control and responsibility, and protecting the process from arbitrariness; ii) Integrality, considering the reform program an integral and encompassing model; iii) Celerity, privatizing the strategic sectors in one year; iv) Foreseeability, preventive monitoring, and background work to know the market and the consumers—and to let them know—in order to better design and customize the reform program; v) Flexibility, of methods of implementation, while keeping firm the main goal of the program; vi) Publicity, transparent process to inform the public; and vii) Finality, the political objective of reforms as a democratic endeavor, considering that privatization is the transfer of the state to its citizens.25

The proposal for the State Reform Law was developed basically in June 1989—before the inauguration of the new government on July 9—by a team of legal experts composed of Rodolfo Barra, Juan Carlos Cassagne and myself, and a few more who participated and contributed to specific topics; this team functioned under the supervision of the future Minister of Public Works, Roberto Dromi, a leading legal expert himself. The bill was to be sent to Congress as soon as the new administration took power.

The response to the privatization proposal was mixed. At first, many Peronist legislators were concerned by the program; legislators of the Radical Party—having agreed to help facilitate the development of the reform program until December 10—reserved the right to dissent or propose alternatives to particular articles. Business, including the Union Industrial Argentina and the Sociedad Rural Argentina, announced their support for the program on July 19, 1989, considering that Argentina was in the midst of an economic crisis, and that the reforms were necessary to regain growth and improve the well-being of society. The role of unions in the reform process followed a pattern of "a dialectic of participation and resistance", becoming at the end of the day a major factor of support as well as committed actors, that contributed visibly to the success of the program.

6. Antecedents

The market-oriented reforms program carried out by the peronist government in the nineties, especially privatizations, has been considered—at least—unexpected. To a certain extent it was unexpected; but to discuss the measure of that extent is far beyond the boundaries of this chapter. Nevertheless, it should not have been so unexpected: there were antecedents that showed an evolutionary process within the peronist party—especially amongst the leaders of the "Renovación"—towards more modern, western, market-oriented policies.

26 Disidencias por el plan, in La Razón, 1989.
29 The phrase is of Georges Vedel, who defines democracy as such a dialectic.
The Justicialista Party was part of the national and international political debate that took place in the mid eighties as regards privatization. In order to illustrate the evolution of the "privatization idea" within the peronist party, five documents will be presented: two publications of my own, two congressional documents, and the 1989 Party's Platform.

a) Starting at least five years before the 1989 elections, there had been several publications by peronist leaders and intellectuals that addressed the theme of privatization. For instance, on August 7, 1985 an article by myself, "Una Estrategia de Privatización" ("A Strategy for Privatization") was published in Clarín, an important newspaper in Buenos Aires. The article considered that the expropriation of centers of production, of solidarity and of power from society was an instrument of the authoritarian regimes, and that democratic rebuilding required the return to society of those centers of production and power, taking out the SOFs from the state's apparatus and integrating them into the market.30 Other articles making the case for privatization upon similar arguments were published as well31.

b) In 1985, Deputy José Luis Manzano (PJ-Mendoza) filed in the Chamber of Deputies a project of Privatization Law32. It included two elements that afterwards were included as

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30 DIAZ, Rodolfo: Una estrategia de privatización; in Clarín, Buenos Aires, 7 August 1985.
well in the bill sent by the government to the Congress in 1989: i) the requirement that to be privatized, any public asset had to be declared "subject to privatization" by Congress; and ii) the Participated Ownership Program, for workers to become shareholders of a privatized former SOF.

c) In 1986, the Committee of Industry of the Chamber of Deputies approved a Committee Report merging proposals of two different projects: the already mentioned proposal of Deputy Manzano and another by the then chair of the Committee, Deputy Hugo Socchi (UCR-Buenos Aires); this report was named by the press "the Socchi-Manzano bill". This proposal contained several elements that afterwards were included in the Privatization Law 23,696: i) the declaration of "subject to privatization" by Congress, as a requisite for privatization; ii) the "procedure alternatives" to adequate the entities to be privatized; iii) the "selection procedures" for the privatization process; and iv) the Participated Ownership Program.33

d) In 1987, the "Frederick Ebert Foundation" sponsored a research project on Privatization that I conducted for "Fundación América", a peronist think tank; there we developed some of the theoretical arguments afterwards used in the political and lawmaking processes of the reforms. Some of the contents of the small book that was then published, were the following: I. The Authoritarian State. II. The State's Enterprises; 15. Public Sector Enlargement. III. The Case "Austral". IV. The Case "Greco". VII. Some Antecedents; 51. The

32 H. Cámara de Diputados de la Nación: Trámite Parlamentario, No. 91 (9/17/85), pg. 2192.
33 H. Cámara de Diputados de la Nación (Comisión de Industria): Expediente 708/86
First "Privatization Law". Chapter Six: The Participated Ownership Program.  

e) Finally, the Justicialista Party's Platform for the 1989 presidential elections ("Plataforma Electoral 1989, Menem-Duhalde") made specific references to State Reform and Privatization: i) Under the subtitle "To reform the state is to democratize it", the platform said: "In Argentine society there is a growing consensus that our economy does not combine activities of the state and of the private sector in adequate form...For Justicialism, state reform is a central component of our 'model of the future'...It is not going to be Productive Revolution without state reform".  

ii) In the section "Privatizations", the document said: "There are...many sectors where it is possible to carry out an ample policy of privatization...For Justicialism privatization has to be addressed not as isolated administrative acts, but as a process which is political in nature and has economic, fiscal and social impacts".

To implement the reforms policy was an innovative decision by the new peronist administration; but the way had been prepared by intellectuals, legislators and party authorities as well.

7. The Approval

On July 26 and 27 of 1989, the proposed "State Reform Law" was debated in the Senate. There were twenty interventions in the debate: seven by the government's PJ Senators,

nine by opposition UCR Senators and four by Senators of other
parties. The general presentation sustaining the bill was
made by Senator Eduardo Menem (PJ-La Rioja), and the case
against it for the UCR was made by Senator Antonio Berhonga-
ray (UCR-La Pampa).

The parliamentary debate highlights the political and
economic situation of the time as well as the major pivotal
and divisive points within the reform of the state. Some of
the arguments made by Senator Eduardo Menem were the follow-
ing: i) it was the first time a law significantly attacked
the structural deficiencies of the state; ii) it was neces-
sary due to the expectations it had enlivened among the pub-
lic whom had grasped the gravity of the crisis; iii) two im-
portant things have to be considered regarding the reforms:
the context of the economic emergency, and the new role the
state would have to play.\footnote{H. Senado de la Nación: Diario de Sesiones; 26/27 de Julio de 1989; pg. 1352, 1368 and 1384} Senator Berhongaray, on his part,
said the UCR was to honor the political compromise to make
possible the treatment of government initiatives\footnote{See Chapter IV, Section 2.d}; neverthe-
less, he and Senators Luis Brasesco (UCR-Entre Ríos),
Hipólito Solari Yrigoyen (UCR-Santa Cruz) and Fernando De la
Rúa (UCR-Capital), brought up concerns regarding the new role
of the state, limits on services provided to firms being pri-
vatized, and limits on the extent of the calling of “Administrative Emergency.”\footnote{H. Senado de la Nación: Diario de Sesiones; 26/27 de Julio de 1989; pg. 1352, 1368 and 1384} The bill was approved—in general—unanimously\footnote{H. Senado de la Nación: Diario de Sesiones; 26/27 de Julio de 1989; pg. 1309/1312}.

The proposed law was passed in the Senate and then went
on to the Lower Chamber of Congress. After the Chamber of
Deputies’ Committees of Public Works and Budget and Finance approved its Report on the reform plan, it was debated on the Floor on August 8 and 9. There were twenty-three interventions in the debate: seven from PJ Deputies, five by UCR Deputies and eleven by Deputies of Provincial and other parties. The general presentation was made by Deputy Olga Riutort (PJ-San Juan) and the opposition case was made by Deputy Raul Baglini (UCR-Mendoza).

As in the Senate, the Chamber of Deputies debated issues regarding the level of intervention of the state in the political, economic and social realms, the procedural details of the privatization process, and especially the mechanisms of control over the process. Some of the arguments made by Deputy Riutort were: i) In the past the state served the people, balancing inequalities and repairing injustices; ii) nowadays the state is bureaucratic, adipose, oversized; it serves itself from Argentineans instead of serving them; iii) we do not want this state; it shall be changed.41

On August 18, 1989 Law 23,696 was approved by the Chamber of Deputies, with the affirmative vote of the PJ Deputies and some allies; the UCR Deputies voted against the State Reform Law.42

8. Contents of the State Reform Law

State Reform Law 23,696 established the legal framework of the privatization process in its Chapter II, under the title “Privatization and Participation of Private Capital”. It

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40 H. Senado de la Nación: Diario de Sesiones; 26/27 de Julio de 1989; pg. 1408.
41 H. Cámara de Diputados de la Nación: Diario de Sesiones, 8 y 9 de Agosto de 1989; pg. 1854.
42 H. Cámara de Diputados de la Nación: Diario de Sesiones, 8 y 9 de Agosto de 1989; pg. 2188
can be said that the performance of this legal instrument has been considered satisfactory. As regards privatizations, this law has four main elements: i) the legal declaration of “subject to privatization”; ii) the competencies of the authorities involved in the process; iii) the methodological structure of the privatization process; and iv) the guarantees and benefits for the employees.

a) *Legal Requirement: Declaration of “subject to privatization”.*

The first step in the privatization process is to declare a state-owned asset “subject to privatization.” Articles 8 and 9 of Law 23,696 give the executive branch the power to issue a decree declaring a state-owned asset “subject to privatization”, but this decree must then—in all cases—be approved by a law of Congress before a firm can actually be considered for privatization.

The rationale of this procedure is that, as to expropriate a private asset (to transfer its ownership from the private sector to the state) a law of Congress must declare it “subject to expropriation” (National Constitution, Article 17). To privatize a public asset (to transfer its ownership from the state to the private sector), a similar requirement has been established: the declaration of “subject to privatization” by a law of Congress.

The executive branch also has the authority to outline the politics of the privatization process once an SOF is declared subject to privatization, establishing the “specifics” of each case: proportions, modalities, exclusion of monopoly, privileges or discriminations (Art. 9).
b) Authorities involved in the Privatization Process

The system established by the law attributes different levels of competencies to the authorities involved in the process: i) President: decision competency; ii) Ministers: execution competency; iii) Congressional Commission: Political Monitoring; iv) General Controller: Administrative Monitoring; v) Public Accounts Court: Financial Monitoring.

In addition, the actual “Application Authority” (i.e. the office or person with the responsibility of carrying out the privatization process) is the Ministry under which each specific firm falls (Article 13). Thus, for example, privatization of a bank would be run by the Ministry of Economy, whereas privatization of a military industrial facility would be run by the Ministry of Defense. The law provided several checks to the executive’s power, however: while the State Reform Law delegated the power to sell the firms to the executive branch, it also established a bicameral congressional commission to give Congress a mechanism of control and oversight over the process; it also limited the power of the executive by laying out a long list of the public firms that had to be sold.

c) The Privatization Process: Methodological Structure

The law organizes the privatization methodology in three levels: "Procedure alternatives" (Art. 15), "Modalities" (Art. 17) and "Selection Procedures" (Art. 18).

i) "Procedure alternatives" are the powers of the executive branch (President and Ministers) to use a wide “options menu” to adequate the “legal situation” of entities “subject to privatization”: to dissolve, set up, transform, split or merge state owned companies; to amend bylaws; to renegotiate
its contracts; to grant or eliminate benefits (tax or others).

ii) "Modalities" are the basic forms in which privatization may be carried out (they may also be combined); the five options are: sale of shares; sale of assets; leasing, with or without option to purchase, for a pre-determined time period; management contract, with or without option to purchase, for a pre-determined time period; concessions licenses or permits.

iii) "Selection Procedures" are the established ways to select and to determine the other party in the privatization contract; the possible procedures are five: public tender (bid), public contest, public auction, sale of shares in the public market, and direct contracting (though only in a few special cases).

d) Guarantees and Benefits for the Employees

Chapter III establish the "Participated Ownership Program" (Programa de Propiedad Participada) through which employees of an SOF undergoing privatization can become shareholders (Arts. 21/40); Chapter IV is devoted to the protection of the workers (Arts. 41, 42 and 43).

i) The Participated Ownership Program (PPP): The "State Reform Law" establishes the procedures for workers to become owners of substantial amounts of stock in those companies through this program. It is a method by means of which the employers buy, pay and eventually sell stock equal to that of whatever other investor.

ii) Workers Protection: It is stipulated that all privatization efforts must take into account and attempt to avoid negative effects on workers and the loss of employment posi-
tions that may result from privatization. During the process of privatization, all employees of the firms undergoing privatization remain protected by labor laws and they maintained their rights and obligations regarding social security and union affiliation.

9. Implementation

The implementation of the State Reform Law can be seen as a major factor in the success of the privatization process; to judge the success and efficacy of the privatization of state-owned firms based only on the effects the reforms had would be incomplete and insufficient. One must look not only at the outcome but also at the process by which the reforms were carried out; in this case, the implementation of Law 23,696 lent legitimacy to the reforms, and in turn played a key role in its ultimate success. Three aspects of this implementation can be considered characteristics of the experience under analysis: problem-solution orientation, flexibility of strategies and strong commitment on behalf of the Argentine government.

The law delegated and limited power to the various branches of the government, which ensured a varied and broad participation in the privatization process; the executive and legislative branches of the government had to cooperate and work together in order to declare SOFs “subject to privatization” and to follow through the process.

The government also used institutional incentives to acquire support and participants for the project, as well as to ensure maximum benefits from the project. For example, the Participated Ownership Program described above, which allot-
tated 10% of the shares of privatized firms to the workers; this guaranteed the support of the employees and helped gain support of the unions and of the Peronist party. Also, in addition to the PPP, at least in several cases (for instance, Water and Sanitation and Energy), the workers unions were involved in privatization planning and dealing from the very beginning, which made workers more comfortable with the process as they felt they were part of the plan, and legitimized the process itself.

Given the tough economic climate there were some worries about the interest in buying the firms. Yet the government attracted participants through various methods: i) First, the government accepted public debt bonds as a form of payment for the firms and set realistic prices. ii) Second, the government carried out macroeconomic reforms which reduced country risk and enticed investors. iii) Third, the government divided the firms into different packets, making it easier and less costly to buy the units. iv) Fourth, the firms were sold without the burden of the liabilities of the old SOFs. v) Fifth, the process of privatization was not uniform for all firms and sectors; rather, there was considerable flexibility not only in methods of privatization but also in the ultimate goals for each sector.

Other way used to entice buyers was dividing the operation in two steps: In the first, the government would sell 51% or more of the firm at a convenient price. The newly privatized portion of the firm would then be re-organized and reformed by the new owners to make it more efficient and profitable. After those reforms, the government would sell

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the remaining portion of the firm for a higher price (due to the greater value of the firm) and thus make up for the money not collected in the first transaction.44

In addition to explicit strategies to entice buyers with economic incentives, the government more indirectly encouraged buyers by demonstrating its strong commitment and resolve to following through with the process of reforms in its entirety. The ultimate decision to sell off all SOFs signaled to buyers that they would not be in the minority (and therefore they would be treated equally under the law) if they owned a privatized firm; they would not have to contend with SOFs and Assisted Sector firms that would get benefits and advantages over them.45 This commitment to a full approach rather than a gradualist approach likely encouraged buyers, for through it Argentina showed its resolve to accomplish full privatization. Another show of resolve on behalf of the government to go ahead with these reforms was the decision to always sell the majority of the firm in the first round, even if the entire firm wasn’t sold immediately. Portions of firms sold always comprised at a minimum 51% of the firm, so that the buyer would have control.46

10. Effects

The process of privatization of state-owned firms carried out in Argentina can be considered highly successful. On a broader scale, the state reform achieved the goals that were set out for the process: i) eliminating the SOFs as instruments for transfers of income from the public to private

sector, as they were under assisted capitalism; ii) aiding Argentina in opening up its economy to the world market, bringing in greater trade opportunities, investment and credit; and iii) contributing to terminating inflation, changing the fundamentals that had made it possible.

Table III.I.4\(^{47}\) presents the financial results of the privatization process.

### Table III.I.4
Revenues for Privatizations

<table>
<thead>
<tr>
<th>Sector</th>
<th>Form of Transfer</th>
<th>Cash</th>
<th>Bonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>. Sale of shares</td>
<td>2,277.90</td>
<td>1,257</td>
<td>3,534.90</td>
</tr>
<tr>
<td></td>
<td>. Concession</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>. Association</td>
<td>9,701.89</td>
<td>5,657.77</td>
<td>15,359.66</td>
</tr>
<tr>
<td></td>
<td>. Sale of shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>. Sale of assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>. Concession</td>
<td></td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>Transport</td>
<td>. Concession</td>
<td>804.6</td>
<td>483</td>
<td>1,287.60</td>
</tr>
<tr>
<td></td>
<td>. Sale of shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>. Sale of assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ports</td>
<td>. Concession</td>
<td>16.02</td>
<td></td>
<td>16.02</td>
</tr>
<tr>
<td>Defense</td>
<td>. Sale of assets</td>
<td>229.19</td>
<td>36.61</td>
<td>265.80</td>
</tr>
<tr>
<td>Banks</td>
<td>. Sale of shares</td>
<td>352.30</td>
<td></td>
<td>352.30</td>
</tr>
<tr>
<td>Media</td>
<td>. Concession</td>
<td>13.9</td>
<td></td>
<td>13.9</td>
</tr>
<tr>
<td>Government Administra-</td>
<td>. Sale of assets</td>
<td>286.90</td>
<td>9</td>
<td>295.90</td>
</tr>
<tr>
<td>tion</td>
<td>. Concession</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provincial</td>
<td>. Various</td>
<td>1,637.00</td>
<td></td>
<td>1,637.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>15,319.60</td>
<td>7,443</td>
<td>22,762.98</td>
</tr>
</tbody>
</table>

\(^{47}\) JEFATURA DE GABINETE DE MINISTROS: *Op. Cit.*; pg. 4
The reforms were carried out particularly quickly: 80% of privatizations occurred between 1990 and 1993. Celerity had been one of the guidelines of the reform process outlined by the government from the very beginning, and it was successfully abided.

Graph III.I.1 shows the progression of the process.

Graph III.I.1
Business Units Privatized
(1990-1997)

Privatization greatly improved the productivity and efficiency of the firms themselves, benefited the economy as a whole, and improved relations between firms and customers; in addition, it contributed to the consolidation of democracy. A summary of the effects of the process is the following:

a) Impact on the Firms

Ibidem
Privatization proved to have a positive impact on the firms themselves. The reform process lowered operating costs, increased competition, increased the supply and quality of goods and services, improved customer satisfaction, and increased technical sophistication and modernization.

b) Competition

Competition was enhanced in most sectors and is evident in a variety of ways. In the electric and gas sectors, the vertical integration of firms was eliminated and prohibited from then on, thereby preventing favoritism that could occur if a firm were to both transport and distribute certain public utilities. This separation was distinctive of Argentina, for although they may have borrowed some ideas from the British methods and experience of privatizing gas, the British kept distribution and transport together in one monopoly.50 Furthermore, in the gas sector, the use of a “by-pass” system for the transport and distribution of gas further increased competition, as large users were able to choose their distributor. Regional monopolies or monopoly-like situations were thus undercut, as choice was given to the consumer. The rise in by-pass use over the past decade is evidence of rising competition in the gas sector: in 1993, by-pass comprised only 3% of the total gas distributed, but in 1998 it comprised 36% of the gas distributed, at which point it comprised more than 30% of the total national demand for gas.51

Also, the number of competing firms in many sectors increased. In the electric sector, for example, which pre-reforms was dominated by 3 major state-owned firms, by 1999

50 INSTITUTO ARGENTINO DE SERVICIOS PÚBLICOS: La Transformación de los Servicios Públicos; Buenos Aires (2000), pg. 27.
51 Ibidem
there were 47 transmission companies, 50 distribution companies, and 44 generators, along with 2 state-owned generators. The 10 largest companies comprised 51% of the market.  

**c) Productivity**

Privatization also improved the productivity of firms and the production capacity of firms. As a result, the firms were able to serve a larger customer base and expand operations. In the telecommunications sector, the density of telephones (lines per 100 inhabitants) increased from 10.6 in 1990 to 21 in 1998. Over the same time period, the number of installed lines increased from 3.6 million to over 8 million, the number of mobile phones increased from 15,200 to 2.8 million, and the number of public phones increased from 22,549 to 107,580. In the gas sector, production, transport and distribution was greatly improved in efficiency and number of customers served. For example, production grew by over 50% from 1993-1999, capacity of transport increased by 34%, number of consumers grew 18%, and total amount of gas sold increased 24%.

**d) Investment**

Privatization of many sectors was followed in subsequent years by high levels of investment. Private owners were able to put more capital into the firms than was the public sector previously, and the greater efficiency and productivity of firms post-reforms attracted greater investment. For instance, the gas sector saw investment rise from $238 million in 1993 to over $588 million in 1998. From the start of re-

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53 INSTITUTO ARGENTINO DE SERVICIOS PÚBLICOS: Leaflet.
54 INSTITUTO ARGENTINO DE SERVICIOS PÚBLICOS: Op. Cit.; pgs. 21/22
forms to 1998, the electric sector has had $3.6 billion in private investment. Investment in telecom has increased by 1000%\textsuperscript{55} and since 1990 the sector has had over $16 billion in investment, and transportation (especially airports, ports, and train networks) have invested millions of dollars in new projects to improve infrastructure and equipment.\textsuperscript{56} Water and sanitation, which pre-reforms had investments of about $130 million per year, averaged $240 million per year in investments in the first 5 years after privatization; in total, this sector had $1.2 billion in investments in its first five years after privatization.\textsuperscript{57}

e) Impact on the Economy

The process of privatizations also had an excellent impact on the economy as a whole. The income the state received in selling off state-owned firms was used in part to pay off 30-35% of its debt. Furthermore, because 60% of the buyers of privatized firms were from outside of Argentina, a great amount of foreign capital flowed into Argentina.\textsuperscript{58} International trade also benefited greatly from privatization, particularly in the gas sector. One of the original goals or reasons for privatization was to open up the Argentine economy to the world market and to benefit from greater globalization. After privatization of the gas industry, Argentina began exporting natural gas to Chile, Bolivia and Uruguay, and more transportation networks are under construction to

\textsuperscript{55} NAME, Antonio: Presentation at the Seminar on “Public Services Regulatory Framework”; Instituto Argentino de Servicios Públicos, Buenos Aires, 21 March 2000; pg. 54.

\textsuperscript{56} See JEFATURA DE GABINETE DE MINISTROS: Op. Cit.

\textsuperscript{57} PEDERSOLI, Juan Mario: Presentation at the Seminar on “Public Services Regulatory Framework”; Instituto Argentino de Servicios Públicos, Buenos Aires, 21 March 2000; pg. 64.

\textsuperscript{58} DOMENICONI, Héctor: Op. Cit., pg. 186.
Brazil and more to Chile and Uruguay. These exports increase revenue and profits to the sector, and lead to a greater integration of the Argentine economy in regional markets.

f) Workers' participation

The Argentine PPP (Programa de Propiedad Participada) was developed according to the model of the American "ESOPs" (Employee Stock Ownership Plans) through which millions of American workers participate in the ownership of thousands of American companies; and the Argentine experience has been successful.

Table III.I.3 presents the figures.

Table III.I.3
Participated Ownership Programs
(April 1997)

<table>
<thead>
<tr>
<th>Companies</th>
<th>Participants</th>
<th>Shares</th>
<th>Face Value (US $)</th>
<th>Average (US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>51</td>
<td>90,589</td>
<td>1,365,194,554</td>
<td>2,534,355,210</td>
<td>27,976</td>
</tr>
</tbody>
</table>

In 51 privatized companies, more than 90,000 employees are or were stockholders; in general, the equity proportion of the PPP in the company is 10%, and the average amount for employees is above 25,000 dollars; as a whole, the PPPs have produced hundreds of millions in dividends. Moreover, the program has produced two other positive effects: support of the workers to the privatization process, and common interests between the new privatized companies and their workers.

g) International credibility

Also, after the start of privatization of state-owned firms, Argentina enjoyed renewed international credibility.

60 Data: MEOSP: Porcentajes/Participación de los Programas de Propiedad Participada en las Empresas; Buenos Aires, (1997).
Whereas in 1989 Argentine bonds were at 12% of their nominal value, by 1992 they were at 50% of nominal value.\textsuperscript{61}

\textit{h) On the Focus for the Public Sector}

In addition to improvements in the economy as a whole, another effect of privatization was a shift in focus for the public sector. Comparing public spending by category both before and after reforms, there is a clear move away from spending on economic subsidies and towards an emphasis on social services, health and education: a substantial change from assisted capitalism to market economy.

Table III.I.5\textsuperscript{62} presents the figures.

\textsuperscript{61} MURILLO, M. Victoria: Op. Cit.
Table III.I.5
Public Expenditure, Before and After Privatizations
(As % of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Public Sector</td>
<td>33</td>
<td>27.2</td>
<td>-5.8</td>
<td>-17.6</td>
</tr>
<tr>
<td>Administration</td>
<td>2.1</td>
<td>2.6</td>
<td>0.5</td>
<td>23.8</td>
</tr>
<tr>
<td>Defense</td>
<td>2.3</td>
<td>2.0</td>
<td>-0.3</td>
<td>-13.0</td>
</tr>
<tr>
<td>Health</td>
<td>4.5</td>
<td>4.7</td>
<td>0.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Education</td>
<td>3.5</td>
<td>3.9</td>
<td>0.4</td>
<td>11.4</td>
</tr>
<tr>
<td>Economy (Subsidies)</td>
<td>7.5</td>
<td>2.0</td>
<td>-5.5</td>
<td>-73.3</td>
</tr>
<tr>
<td>Social Assistance</td>
<td>8.6</td>
<td>9.6</td>
<td>1.0</td>
<td>11.6</td>
</tr>
<tr>
<td>Social Security</td>
<td>5.9</td>
<td>7.0</td>
<td>1.1</td>
<td>18.6</td>
</tr>
<tr>
<td>Judiciary</td>
<td>0.4</td>
<td>0.7</td>
<td>0.3</td>
<td>75</td>
</tr>
<tr>
<td>Public Debt</td>
<td>4.1</td>
<td>1.6</td>
<td>-2.5</td>
<td>-61</td>
</tr>
</tbody>
</table>

i) Consumers

The process of reforms also led to a cultural change on behalf of the Argentine consumer, and specifically the growing prominence of the right of the consumer. Even if there was not a direct causal link, at the very least privatization allowed this new culture of the consumer to flourish. Consumers began to demand more from services and goods, consumer organizations grew, and generally the welfare of the consumer began to take on a greater role in business vocabulary and decision-making and became more of a factor in price setting, as well. In addition, the Constitutional Reform of 1994\(^63\) gave constitutional protection to consumers' rights.

\(^63\) See this Chapter, Section II.
There are now twenty consumer organizations in Argentina, indicative of a robust civil society and the important role of the consumer. It is interesting to note that Chile and Mexico, which also underwent privatization of public utilities in the nineties, have much lower incidences of consumer organizations: Chile has two, and Mexico has one. Thus privatization alone cannot cause a robust consumer society; rather, laws that protect and inform the consumer, among other things, are also necessary components.

j) Free press

The first privatization actually implemented was that of the state owned media: in January 1990 two commercial TV Channels of Buenos Aires City (Canal 11 and Canal 13) were privatized; in February 1991, six radio stations of Buenos Aires were transferred to the private sector; from then until 1995, all the media that had been in the hands of the state were privatized. Finally, the state sold the shares it had of Papel Prensa S.A.

Gillermo Ocampo, then Legal Undersecretary of the Presidency, recalls the process: "The initiative had no antecedents in Argentina; it meant not only a substantial change in the way the subject was approached, but also the decision to give up communication media which—up to then—had been utilized by all governments for political purposes. Although of no significant economic relevance, privatization of TV Channels had symbolic value to show government's commitment with state reform and democratic consolidation. A Commission comprised by different government offices was constituted and a term of five months was established for the process: in De-

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64 MURILLO, M. Victoria: Op. Cit..
December 1989 (less than six months since the new government's inauguration) these privatizations were concluded.

k) Political evidence

In addition to economic indicators, we can also look at political evidence that indicates the success of Argentine privatization: after the change of Administration in December 1999, the Alianza government and De La Rua’s administration have not chosen to undo the reforms. At most, they have modified them. This continuity and non-partisan support is a testament to the efficacy, importance and success of the reform of the state carried out in Argentina throughout the nineties.

11. Challenges Ahead

There are still challenges ahead, however; particularly in the realm of regulation and consumer rights and education. Regulatory bodies should be protected from political pressure, and should strive to eliminate any vestiges of the pre-reform price structure they may still have. The various privatized sectors should also continue to increase competition within the sectors, and should continue to educate and inform consumers of their rights and options.

Eduardo Cevallo, former Secretary of Public Services and President of the Water and Sanitation Service regulatory body (ETOSS), considers that regarding public services, "After eight years...contrast to the previous performance of SOFs is conclusively in favor of the transforming process... Nevertheless, the task ahead is arduous: regulatory frameworks by decree, excessive incidence of political power and weakness of..."

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65 OCAMPO, Guillermo: Memo to the author; (2001).
regulatory bodies, are some of the present deficits and simultaneously part of the future agenda in this post-privatization stage. He made three conclusions: first, the country actually has public services; second, the new model is more efficient than that of the "deliverer" state; and third, there are problems of institutional design that shall be addressed immediately.

The proposed agenda is the following: i) Legal certainty: the regulatory frameworks enacted by decree, have to be approved by a law of Congress. ii) Credibility and independence of regulatory bodies. iii) Strengthening consumers' organizations' role; allowing them to participate in the regulatory and monitoring bodies. iv) Improving economic regulation: rates declining over time. v) Universal access to essential public services. vi) Quality assurance. vii) More competency in public tenders.

12. A Change to Last

A first distinction amongst privatization processes is between "incremental" and "transformational" privatizations. i) Incremental are those which changed the ownership of certain firms, but the system remained the same although—allegedly—improved in its efficiency; cases of this class are the UK and New Zealand. ii) Transformational privatizations, instead, are those processes which not only changed the ownership of the SOFs, but also changed the organization of the system itself, passing from one type of economic organization

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66 CEVALLO, Eduardo: Presentation at the Seminar on "Public Services Regulatory Framework"; Instituto Argentino de Servicios Públicos, Buenos Aires, 21 March 2000; pg. 3
67 Ibidem
68 JASINSKI, Piotr and YARROW, George: Op. Cit.; esp. pgs. 5 and 34.
(Socialist, ISI or Assisted Capitalism) to another (in general, some of the varieties of western market economy); Central Europe and Russia are examples of this class.

A second typology distinguishes amongst "pragmatic", "tactical" and "systemic" privatization\textsuperscript{69}. i) Pragmatic privatizations are discrete and context-dependent episodes, short term and often ad hoc solutions to immediate problems (such as need of cash); the US at the municipal level is one case. ii) Tactical privatizations are the result of short term political goals of particular parties, politicians or interest groups; they are not an end in itself, and are related to a political situation or to a government decision; some privatizations imposed by international institutions as a prerequisite to receive funds, belong to this type. iii) Systemic privatizations tend to reshape the political and economic institutions of a society. It can take one of the following three forms: "power shift", changing the capacity of existing groups to pursue their own interest; "perceptual shift", changing values and expectations of the active public; and "institutional shift", changing the institutional arrangements of the society, and—transferring SOFs to private ownership—changing their nature from political entities to economic entities.

The Argentine privatization process was "transformational" and "systemic". It changed not only the ownership of certain economic units but also the way and the environment in which they operated. The privatization process modified fundamental elements of the economic and political institu-

\textsuperscript{69} FEIGENBAUM, Harvey B. and HENIG, Jeffrey R.: The Political Underpinnings of Privatization; A Typology; in WRIGHT, Vincent and PERROTTI, Luisa (Ed.): "Privati-
tions in Argentina, changing cultural attitudes and expectations of the public, and establishing an entirely new set of institutional arrangements: the survival elements of the bureaucratic authoritarian state were eliminated, the logic of economic functioning was modified and the economic organization was fundamentally changed: assisted capitalism was dismantled.

It has been considered that "the most important criterion for evaluating privatization alternatives is whether they represent substantial and not easily reversible reductions in state responsibility and capacity". Incremental and pragmatic privatizations did not change the state; hence, they are more readily reversible. Transformational and systemic privatizations, on the contrary, actually produced substantial changes in the state's structure; they established new incentives and constraints, created new interests and constituencies, and produced cultural and political shifts which—all together—give the new situation a high level of stability. That is why State Reform in Argentina is a change that will last.

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70 FEIGENBAUM, Harvey B. and HENIG, Jeffrey R.: Op. Cit., pg. 208
The reform of the Constitution gained momentum because of the erosion of its “majesty” by the abuses of the military, its shortcomings to solve the traumatic end of Alfonsin’s administration, and the “epochal climate” of the reforms of the nineties. The Pact of Olivos institutionalized a consensus amongst political parties. The Constitutional Convention introduced many significant amendments: presidential reelection; empowerment of the provinces; new rights regarding political participation, environment, human rights, consumer rights, affirmative action, and ethnicity; new institutions such as the Chief of Cabinet, the Public Ministry, the Ombudsman, the General Controller and the Council of the Magistracy. The new constitutional text was approved unanimously. Afterwards, several laws implementing new constitutional institutions were passed by Congress.

1. The Historic Constitution

The original Argentine Constitution was based on the model of the Constitution of the United States. It should be said that it was not merely a copy, but an intelligent development of the political innovations of Philadelphia, evolved over almost two decades in the writings and debates of some of the leading Argentine intellectuals of that period. It was a short, precise, and very well written text of only 110 Articles.

Its contents were the following: Preamble, which introduced the intents and purposes. First Part: “Declarations, Rights, and Guarantees”, which was the equivalent of the American Bill of Rights. Second Part: “Authorities of the Nation”, divided in two titles: Title I: “Federal Government” encompassing three Sections: Section I, “Legislative Power” (Chamber of Deputies, Senate, Common provisions, Powers of
Congress, Lawmaking Procedures); Section II, “Executive Power” (Nature and duration, President’s Powers, Ministers’ Functions); and Section III, “Judicial Power” (Nature, duration, and powers of the Judiciary). Finally, Title II: “Provincial Governments”.

Except for between 1949 and 1955, when a new and different Constitution was effective, the original text—with a few insubstantial modifications made in 1860, 1866, 1898 and 1957—was the “constitutional text” of the land. It shaped the development of Argentine political institutions, not only at the federal level but also in the Provinces and in the relationship between them with the Federal Government. Nevertheless, the country’s democratic performance has been far less than impressive: in the nineteenth century there were many important conflicts (some of them violent) amongst different provinces and between some provinces with the federal government; and in the twentieth century there were six military coups d’Etat: in 1930, 1943, 1955, 1962, 1966 and 1976.

The original Constitution was enacted in 1853 at the end of a long period of civil wars and conflicts between “unitarios” and “federales”, the parties which represented the deeply divided society of the time. The winning coalition established the rules for the national organization not upon consensus but upon victory; the new political order was not agreed to by all the relevant parties and sectors at the time, but decided by the winners. Because of the historical

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1 There were many. Juan Bautista Alberdi for his previous writings (especially “Bases”) and José Benjamin Gorostiaga for his contributions during the Convention, probably have been the most important.

2 The “Constitution of 1949” established during President Peron’s first administration, was an outstanding example of the “Social Constitutionalism”.

3 The “unitarios” supported a centralized government, based in Buenos Aires; the “federales”, a federation similar to that of the USA.
conditions, the Argentine original Constitution resulted in a system of American legal institutions built over Bourbonic legal traditions; for instance: the Executive power was (and still is) unipersonal; the Ministers were (and still are) appointed by the President “by himself alone” (different from the case of the US Secretaries, which are appointed by the President with the Senate agreement); and the Congress and the Judiciary were not powerful enough to play their role as “checks and balances”\(^4\).

These historical characteristics of the Constitution have been pointed to as an explanation for the poor institutional performance of the Argentine political system over time; they have undoubtedly been a factor in that underperformance, but not the determinant one. To consider the Constitution among “the causes” of the authoritarian regimes suffered by Argentina, ignores the fact that the Constitution itself was always the object of the authoritarian abuse: in 1930, a Supreme Court rule legitimated the usurpation of the constitutional government; in 1955, a “Proclamation” of the military government repealed the Constitution of 1949; in 1966, the Constitution was submitted to the “Argentine Revolution Act” enacted by the military; in 1972, the military government imposed a constitutional reform by Decree; and in 1976, the Constitution was subordinated to the “National Reorganization Process Objectives” imposed by the Military Junta.

\(^4\) This role was (and is) played by other actors. Mariano GRONDONA considers that the counterbalances were the command of the Army and the governorship of Buenos Aires (Dos Poderes, Emecé Editores, Buenos Aires (1973). Instead, I think that the main ”checks and balances” in Argentine democracy are between the Provinces and the Federal Government; elsewhere I developed this hypothesis.
In the eighties, democratic recovery after decades of authoritarianism had put the organization of the political institutions atop the national agenda; as the issue gained saliency, most political parties included constitutional reform in their programs. The abuses by the military had eroded the “majesty” of the original text, creating a sense of acceptability for constitutional reform.

The traumatic end of Alfonsin’s administration put the Argentine democracy in a very difficult situation, which made it apparent that the Constitution did not provide specific mechanisms to solve it; this in turn made it apparent that there were necessary amendments to be made to the Constitution.

When Menem’s administration launched the process of structural reforms, the economy, the society and the state were being changed; within that “epochal climate”, it became a general opinion that the Constitution had to be reformed to make it consistent with all the other changes. By the time of the parliamentary elections of 1993, 58% of the people were in favor of the constitutional reform.5

2. The Path to the Constitutional Reform

The collapse of assisted capitalism and the subsequent political crisis6 made society and political parties prone to accept a wide discussion about the main national agenda. It matured them enough to afford constitutional amendments oriented to modernize institutions to reinforce democratic stability; and convinced them that constitutional reform had to be based on a general consensus. Neither the government Jus-

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5 Gallup Argentina, August 1993
ticialista Party nor the opposition Radical Party wanted to re-edit the political contradictions of the 1949 Constitutional Convention\(^7\) that undermined its legitimacy and paved the way for political destabilization.

The Radical Party had an old “pro-reform” position: its Electoral Platform of 1983 proposed a constitutional reform. In the mid-eighties, seeking President Alfonsin’s reelection, they reactivated the idea: the radical government created the “Council for Consolidation of Democracy” as a cabinet Secretariat financed by the National budget, which produced two Reports of good technical level that encouraged an ambitious reform of the Constitution, which included the creation of a Prime Minister and the provision for presidential reelection, among many other institutional changes.

At that time, Dr. Menem—then Governor of La Rioja—supported the initiative of President Alfonsin. In an article published in 1986\(^8\) he wrote: “Constitutional reform is a real, urgent and impossible to postpone need for Argentina...As a Justicialista, I can not less than celebrate such an initiative...Our proposal has to be clear...Without second thoughts...This attitude shall be probed, for instance, as regards presidential reelection. I do believe that no coherent motive exists for us to oppose that type of a measure. It is a norm that I support because it does not affect any essential element of democracy. Even more: it would be an honor for me to compete loyally with President Alfonsín for the Nation’s first magistracy. And to win, of course.”

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\(^6\) See Introduction, Section IV

\(^7\) It was argued that the “necessity of the reform” was declared by Congress without the required special voting majorities. Regardless of political assessments, that objection is now widely accepted.
The Justicialista Party had a long reformist tradition too. Its 1989 Electoral Platform stated: “To complete the process of political reconstruction…Justicialism proposes to agree on three ample, consensual and democratic re-foundational pacts...”\(^8\): a Federal Pact, a Social Pact and “An Institutional Pact, expressed in the Constitutional Reform, in order to make concrete in juridical terms the new consensus of a society in the threshold of the XXI Century, returning to the Constitution all its majesty as the fundamental norm...”\(^9\).

The reforms proposed in the 1989 Justicialist Platform were, among others, the following: i) the principle that the Constitution never loses effectiveness, despite any act of force; ii) new guarantees for personal freedom; iii) new definition of social rights; iv) inclusion of forms of semi-direct democracy: referendum, popular initiative and social participation; v) federal reform; vi) Congressional empowerment.\(^11\)

As early as 1991, President Menem conceded that he intended to be president for four more years, and that he favored discussions with the opposition on constitutional reform and presidential reelection.\(^12\) This opened the debate and generated an atmosphere conducive to introducing the analysis of a set of significant constitutional amendments.

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\(^8\) MENEM, Carlos: No se puede vivir con una Carta Magna anacrónica; La Razón, Buenos Aires, 9/19/86
\(^12\) La Nación, Buenos Aires, 8/13/91
From 1991 onwards, structural reforms in the economy and in the state began to deliver positive effects and electoral results showed visible support for the Peronist government; the Justicialista Party won both the 1991 and 1993 legislative elections by a difference of more than 10%.

Table III.II.1 presents the figures.

Table III.II.1
Legislative Elections Results
(1991 and 1993, % of valid votes)

<table>
<thead>
<tr>
<th>Party</th>
<th>1991</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>PJ</td>
<td>40.7</td>
<td>42.5</td>
</tr>
<tr>
<td>UCR</td>
<td>29</td>
<td>30.2</td>
</tr>
</tbody>
</table>

By 1993, inflation had already been defeated, the economy had grown for the first time in more than fifteen years and the Justicialista Party had won its fourth election in a row. Public support for constitutional reform and presidential reelection grew significantly from 1992 to 1993.

Tables III.II.2 and III.II.3 show the numbers.

Table III.II.2
Constitutional Reform and Presidential Reelection
Public Opinion Attitude
(1992-Capital and Greater Buenos Aires)

<table>
<thead>
<tr>
<th></th>
<th>Reform</th>
<th>Reelection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>45.2</td>
<td>31.3</td>
</tr>
<tr>
<td>Negative</td>
<td>21.3</td>
<td>43.8</td>
</tr>
</tbody>
</table>

13 See economic data in Chapter I, Section I, and unemployment rate in Chapter II Section II.
14 Centro de Estudios para la Nueva Mayoría; Capital Federal and Great Buenos Aires; La Nación, 25/5/92
15 HAIME, Hugo y Asoc. Números para una decisión; Clarín, 5/30/93
But the simple arithmetic of votes, polls and political will was not enough, since the game had an institutional constraint: It required the affirmative vote of two-thirds of the members of each chamber of Congress to begin the procedure of constitutional reform. At that time, there were a total of 300 legislators (254 Deputies and 46 Senators); so, 200 legislators were needed to build the required two-thirds majority. The Justicialista Party, even though adding all its possible allies, was always at least thirteen votes short of the required number; so, any attempt at constitutional reform required agreement between the party of the government, the Justicialista Party (PJ), and the major party of the opposition, the Radical Party (UCR).¹⁶

For the Peronists, the situation was a clear opportunity to accomplish the political objective of constitutional reform as well as the possibility of reelecting President Menem; for the radicals, on the other hand, there was a risk of party hegemony that in their view could undermine the process of democratic transition. The actors took positions along the

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¹⁶ Centro de Estudios para la Nueva Mayoría; La Nación, 12/22/91
line of these two perceptions; and within both parties there were different positions.

In the Radical Party there were two groups: one led by then Senator and now President Fernando De la Rya that opposed the reform as a matter of principle, whatever the content of the reform might be; the other, of which former President Raul Alfonsín was the more representative advocate, was prone to accepting a reform of certain contents under certain conditions.

By 1993, the Justicialista Party had finished its internal debate and had defined a very strong internal majority for constitutional reform and presidential reelection. The remaining differences were on how to get the required two-thirds to pass the reform through Congress: one group, politically led by Senator Eduardo Menem and then Cabinet General Secretary Eduardo Bauzá, favored negotiations with the Radical Party in order to reach a parliamentary agreement; another group, related to former Cabinet Secretary General Alberto Kohan, favored a “non-binding plebiscite” in order to get a definitive political signal from the electorate to the opposition in Congress.17

The process through which Radicals and Peronists reached the agreement that made constitutional reform possible was a classic political battle of negotiation under pressure.

After its electoral victory in October 1993, the PJ made two moves: first, the Senate approved a bill “declaring the necessity of the reform”18, with the constitutionally required majority of two-thirds; second, looking at approval in the other chamber of Congress, the government convened for a “n---

17 See Diálogo y Consulta Popular, in El Cronista, 10/14/93, pg. 15
tional non-binding plebiscite” about whether the Constitution had to be reformed or not, on November 21, 1993\(^{19}\).

On the other hand, electoral defeat and deep internal party conflicts enervated UCR strength at the negotiation table.\(^{20}\) The party leadership was at the end of its tenure so it did not have enough legitimacy to accept or reject agreements or compromises; the Radical National Convention was to elect a new party president on November 12, 1993, and it was certain that former president Raul Alfonsín would be appointed.

Notwithstanding the lack of advance in negotiations, the Peronists were still looking for an agreement. The president of the Justicialista block in the House, Deputy Jorge Matzkin declared: “We do not have any problem opening our project, to discuss it, because we want to privilege consensus”, adding that “presidential reelection is not negotiable… the rest could be talked about.”\(^{21}\)

Despite their concerns and weak political situation, the Radicals were moving towards the consensual track as well. Dr. Alfonsín, shortly before his inauguration as new president of the UCR, declared that it could be a ‘utopia’ to think Menem would agree with the Radicals on “a change of political scenery” which would result in a constitutional reform that contemplated certain elements as strengthening rule of law, separation of powers and judiciary independence, as well as advances towards ‘semi-parliamentary’ regime. Asked if in those conditions he would accept presidential reelec-
tion, his reported answer was, “Who cares about reelection if that utopian scenery were possible”.\(^{22}\)

The above quoted statements of Matzkin and Alfonsín show that up to that moment the parties’ positions had evolved toward a common terrain: both wanted constitutional reform, coinciding in many of the proposed institutional innovations; the stress of the Radicals was on limiting presidential powers through semi-parliamentary mechanisms; the stress of the Peronists was on presidential reelection and empowerment of the provinces. The Peronists wanted to legitimate both reforms and reelection, so they preferred to reach a political agreement in order to make it possible for the Radicals to give the required two-thirds in Congress, instead of resorting to the plebiscite. The Radicals wanted to avoid the situation of opposing in Congress a reform that had been strongly supported by the electorate in a plebiscite, so they too preferred to reach an agreement, which, because of the conditions and the contents, allowed them not only to give the two-thirds in Congress but also to defend the proposed reform before their constituency. Despite differences, all the necessary conditions for a successful agreement were already in place.

The process culminated with an impressive denouement: a secret meeting between Menem and Alfonsín, on November 4, 1993\(^{23}\). Each was accompanied by important leaders of their parties\(^{24}\); the points were presidential reelection, inclusion of a “coordinator minister,” not a “prime minister’, and re-

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22 See Alfonsin pone condiciones para dialogar con Menem, in Clarín, 11/5/93, pg.7
23 An exclusive report by Carlos Pagni was published by Ambito Financiero on 11/8/93.
24 On Menem’s side, Eduardo Duhalde, Eduardo Bauzá and Luis Barrionuevo; on Alfonsín’s side, Mario Losada and Enrique Nosiglia.
peal of the plebiscite convocation. It was reported that "The way in which Menem and Alfonsín presented their positions made former Vice-president Eduardo Duhalde say that 'One always has something to learn in politics'".\textsuperscript{25}

There have been several conjectures about why both political leaders decided to pact. A very persuasive hypothesis is that "the reform occurred when Menem was in position to maximize his gains and Alfonsín wanted to minimize his loses".\textsuperscript{26} This explanation—based upon the "rational choice theory"—is that "the reform was produced only at the point in which it was the optimal outcome for Menem (reelection with legitimacy) and for Alfonsín (saving the party, projecting his leadership and reforming the Constitution his way). It is very important to note that optimality depends on how Menem and Alfonsín preferences are defined. In other words, what broke the historic antinomy and led the actors to the table was rational, in the sense that it was optimal for both, but this rationality was a function of how preferences were constructed".\textsuperscript{27}

The initial political bases had then been established and the technical developments were commended to a group of legal experts of both parties. At that time, a remarkable democratic achievement was under way: a constitutional reform based on political consensus.

3. The "Pacto de Olivos"

\textsuperscript{25} CADORIN, Atilio: La reunión Menem-Alfonsín, in La Nación, 11/9/93
\textsuperscript{27} POPIK, Sebastián: Op. Cit., pg. 50
The “Pacto de Olivos” is the continuation of an early Argentine constitutional institution: the “pre-existing pacts” mentioned in the Preamble of the Constitution. Before the Constitution of 1853, there were four pre-existing ‘pacts of constitutionalization’\(^\text{28}\): Treaty of Cuadrilátero, Treaty of Pilar, Federal Pact, and Agreement of San Nicolas; before the Constitutional Reform of 1860, there was one: the Pact of San Jose de Flores. It has been pointed out that the “political entity” of those pacts made viable the National constitution\(^\text{29}\); therefore, they are considered “a valuable and important source of all Argentine constitutional law”\(^\text{30}\). The principal role of these pacts has been to provide political legitimacy to the constitutional endeavors.\(^\text{31}\)

What is generally referred as “Pacto de Olivos” consists of three separate and subsequent documents: the Declaration of Olivos, the Document of the Advisory Commissions and the Agreement of “La Rosada.” Each will be analyzed below.

a) Declaration of Olivos

On November 14, 1993 the pre-constitutional process made a major institutional step: President Carlos Menem and former President Raul Alfonsin signed the Declaration of Olivos\(^\text{32}\). It was the first official document elaborated under a basic consensus between Argentina’s major historic political parties in the way of amending the 1853 Constitution. This characteristic—consensus—must be highlighted: it marked the features

\(^{28}\) SAN MARTINO de DROMI, Maria Laura: Formación Constitucional Argentina; Ed. Ciudad Argentina, Buenos Aires (1995), pg. 15

\(^{29}\) ibid

\(^{30}\) SAN MARTINO de DROMI, Maria Laura: Op.Cit. pg.79


\(^{32}\) Named after the presidential residence (Quinta de Olivos) where this declaration was signed.
of the process of reforming the Constitution, as well as the method, the track, and the scope of the upcoming reform.

Menem (in his capacity of President of the Nation and President of the Justicialista Party) and Alfonsín (in his capacity as President of the UCR National Committee), agreed to impel a constitutional reform “without introducing any amendment in the declarations, rights, and guarantees of the first part of the National Constitution”\(^{33}\), but by pursuing the following main goals: i) To consolidate democracy and improve the system of checks and balances among the branches of Government; ii) To enhance the independence of the Judiciary Branch and strengthen the Agencies of Control; iii) To redesign the Federal system with the purpose of fostering the economic progress and development of the Provinces and regions; iv) To promote Latin American and continental integration.

The final paragraph of this Declaration referred to three significant provisions: i) that proposals from other parties would be accepted; ii) that all the accepted proposals “once approved by the parties authorities, will constitute a base of coincidences, some definitive and others subject to electoral controversy”\(^{34}\) and iii) that procedures to guarantee the fulfillment of the agreement would be established.

b) Document of the Advisory Commissions

Immediately after the Declaration of Olivos was signed, a group of legal technicians and constitutionalists from both the Justicialista and the Radical parties were commended to

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\(^{34}\) Ibid
discuss a set of proposals of reform in order to consider the 
specific contents of the future reform.\textsuperscript{35}

Having the four goals declared by the Declaration of 
Olivos as a guideline, the Commissions reached an agreement 
where the mentioned goals were rephrased through the defini-
tion of specific, detailed legal institutions that would be 
incorporated into the Constitution, modifying previous ones 
or introducing new figures. This agreement, made public on 
December 1, 1993, set the critical points of agreement, 
termed “coincidences,” between both parties which, at the end 
of the day, constituted the basic content of the pre-
constitutional documents: the Pact and the law that initiated 
the procedures of constitutional reform.

The role of these Commissions was important; as a lead-
ing American political science scholar has pointed out: 
“Electoral calculations are important in explaining this 
.case, but they do not fully explain the range of the reforms 
introduced...the design team played a central role in shaping 
the content of the reform...all issues were approached not only 
from the perspective of political advantage but also from the 
perspective of good governance...The agreement was a negotiated 
one, but behind it there was a good deal of work of institu-
tional design.”\textsuperscript{36}

\textsuperscript{35} According to GARCÍA LEMA (Op. Cit., pgs. 119, 121, 127, 136, 137) the Commission 
of the Justicialista Party was overseen by Senator Eduardo Menem and Cabinet Gen-
eral Secretary Eduardo Bauzá; its members were Carlos Corach, Alberto García 
Lema, Augusto Alasino, Jorge Yoma, Carlos Juárez, Jorge Matzkin, Juan Carlos 
Maqueda and Alberto Piotti. The Commission of the Radical Party was coordinated 
by Dr. Alfonsin and Antonio Berhongaray; its members were Ricardo Gil Lavedra, 
Enrique Paixao, Arnaldo Kleiner, Alfredo Orgaz, Alberto Seguí, Raúl Baglini, Raúl 
Galván, and Jose Genoud.

\textsuperscript{36} GRINDLE, Merilee: Op. Cit., pg. 180
The contents of the document presented under the title "Principal Coincidences" were the following:

i) Attenuation of the presidential system: Creation of the Chief of Cabinet, appointed and dismissed by the President, with political accountability to the Congress; and description of its attributes and responsibilities.

ii) Reduction of the presidential and vice-presidential terms from six to four years and the possibility of one consecutive reelection.

iii) Elimination of the requirement that the President has to be Catholic, in accordance with the freedom of worship.

iv) Increase in the number of senators elected in representation of the Provinces and the Buenos Aires City from two to three, with two going to the majority and one to the minority, and the reduction of their tenures.

v) Elimination of the Electoral College system to elect the President and its replacement with a direct election system with a second round in specific cases.

vi) New legal status for the City of Buenos Aires and direct election of its Mayor.

vii) Unification of the beginning date for all elective tenures.

viii) Regulation of presidential power to enact Necessity and Urgency Decrees (NUDs).

ix) Re-affirmation that Federal Intervention is a Congressional attribution.

x) Institutionalization of the Council of the Magistracy to choose the candidates for judgeships.

xi) Modification of the procedure to appoint federal judges, except the Justices of the Federal Supreme Court.

xii) Change of the procedure to remove Federal judges.

xiii) Creation of a specific Agency for external control of the Administration, and institutionalization of the Ombudsman.

xiv) Redesign of the Federal regime in order to foster progress and economic development of the Provinces and regions.

xv) Promotion of Latin American and continental integration.

xvi) Guarantees for political rights and safeguards for constitutional order.

In addition to those principal coincidences reached by the Commissions, procedures about how to consider them by Congress and National Constitutional Convention and how to assure the political consensus were provided. Regarding this point, suggestion was made that a set of reforms could be considered mandatory and voted as a “whole”.

The “Document of the Advisory Commissions” was an important step towards a substantial covenant on constitutional reform between the major political players. It provided both Carlos Menen and Raul Alfonsin with a detailed presentation negotiated by their own legal experts on what the proposed reforms to the Constitution were. In addition, both the Justicialista and Radical parties received information to discuss what the contents of the agreement were to be. Furthermore, the media, academia and Argentine society at large had a clear picture of what the proposed constitutional reform
was about, in order to take their respective stances on the debate—and they certainly did so.

c) Agreement of "La Rosada"

On December 13, 1993 Menem and Alfonsín signed the third and final document of the Pact of Olivos: the "Agreement of La Rosada," which was the bedrock of the Constitutional Reform of 1994. The contents of this document had to be included by the Congress in the law that would initiate the procedures for the constitutional reform.

The Agreement of La Rosada had three parts:

i) The first was the "Nucleus of Basic Coincidence", which listed a number of specific reforms to be introduced in the Constitution. It followed in broad measure the recommendations contained in the Document of the Advisory Commissions analyzed above; nevertheless, some modifications were made.

The Nucleus had to be considered and voted as a whole, following the rules established in the third part of this document.

ii) The second part was the "Themes Congress should authorize the Constitutional Convention to debate over", which enumerated some issues to be considered during the Reform depending on the proposals that political parties would make in relation to them.

iii) Finally, the last part set a series of legal and political mechanisms to ensure the fulfillment of the Pact; in particular, to guarantee that the interests of both parties (reelection for the Justicialists and attenuation of the presidential system for the Radicals) would be both included.

38 Named after Argentine Presidential Executive Offices Building: "Casa Rosada".
In this regard, three rules were established: i) First, the Nucleus of Basic Coincidences had to be included in the law that declared the necessity of the reform in a single article or Annex; and it had to be considered and voted by the Constitutional Convention as a whole. If the Convention voted affirmatively the Nucleus, all the amendments there encompassed would be introduced in the Constitution; if the Convention rejected approval of the Nucleus, it would mean the refusal of the entirety of those amendments and the subsistence of the existing constitutional texts. ii) Second, the Constitutional Convention would meet with the unique objective of introducing the amendments contained in the Nucleus of Basic Coincidences and the issues that were authorized by the Congress to be discussed and included in the Constitution. iii) Third, the nullification of whatever amendments the Convention would introduce in contradiction to the consensus reached by both main parties.

The reform agenda was thus completed. The next step was to reach the required two-thirds vote in the Congress to pass the law by which Constitutional Reform would be possible.

4. The “Declarative Law”

The procedure to reform the Constitution is provided in its Article 30: “The Constitution may be totally or partially amended. The necessity of reform must be declared by Congress with the vote of at least two-thirds of its members; but shall not be carried out except by a Convention summoned to that effect.” The act by which Congress declares the “necessity of reform” must be a law, not a simple declaration, and
that law is called “Declarative Law of the Necessity of the Constitutional Reform”.

The technical role of this law has two dimensions: one, to declare which specific articles of the Constitution would be reformed; the other, to establish specific limits to the reforming powers of the Constitutional Convention.

On December 29, 1993, Congress passed Law 24,309 enacting the declaration of the necessity of the Constitutional Reform. In the Senate sessions of that day and the day before, there were 24 interventions: 11 by government PJ Senators, 5 by opposition UCR Senators and 8 by Senators of Provincial Parties. The general presentation supporting the bill was made by Senator Carlos Juárez (PJ-Santiago del Estero). The UCR were split: Senator Jorge J. Cendoya (UCR-Cordoba) argued against the law, while Senator Hipólito Solari Irigoyen (UCR-Santa Cruz) strongly made the case in its favor. Senator Eduardo Menem (PJ-La Rioja), made substantial contributions sustaining the initiative, both from the legal perspective as well as from the political one.

During the parliamentary debate not only the pros and cons of the reform were discussed, but also criticisms and resistances that some legislators had against voting for the Nucleus of Basic Coincidences as a whole. Afterwards, this issue would gain saliency during the imminent electoral campaign and would therefore be extensively discussed in the first sessions of the Constitutional Convention in Santa Fe. However, the Senate with 38 affirmative votes concluded with the procedure to convocate the National Constitutional Convention, fulfilling the requirement of Article 30 of the Constitution, that more than the two-thirds of its members vote
affirmatively. The bill was voted in favor by the PJ Senators, a majority of the UCR Senators and some Provincial Parties’ Senators. Seven Senators voted against the Constitutional Reform: three from Provincial Parties and four from the UCR (one of them, Senator Fernando De la Rúa, became President in 1999 under the new Constitution).

Congress lived up to the Pacto de Olivos as “pact of constitutionalization”\(^{39}\): the Nucleus and its safeguards were incorporated into the Declarative Law as expected, and the previous consensus was enhanced. This provided strong political legitimacy to the constitutional reform.

Additionally—as it was provided in the third part of the Agreement of La Rosada\(^{40}\)—Congress allowed the Constitutional Convention to consider several matters, some already included in the Document of the Advisory Commissions\(^{41}\) and some new: i) Expansion of municipal autonomy; ii) Institutionalization of the international treaties’ hierarchy above general laws; iii) Preservation of the natural environment; iv) Guarantees for Indigenous peoples’ ethnic and cultural identity; v) Consumers’ rights and guarantees for free competence; vi) Habeas Corpus and Amparo (prompt summary writ of constitutional rights).

5. The 1994 Elections for Conventionalists

Elections for Constitutional Conventionalists took place on May 10, 1994. The Justicialista and Radical Parties campaigned in favor of the reform, especially in favor of keeping the consensus of the Pacto de Olivos unalterable; consid-
erred together, the “Parties of the Pact” received 58% of votes cast. This result showed that Argentineans widely supported Constitutional Reform. Therefore, the process was strongly legitimized by popular vote.

Table III.II.42 presents the figures.

\[\text{Table III.II.42}\]

### Table III.II.4
Elections For Constitutional Conventionalists  
(1994)

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6. The "wrap"

In the parliamentary debate, during the electoral campaign, and at the beginning of the Convention, the most controversial issue was the provision that the Nucleus of Basic Coincidences had to be voted as a whole. By the time of the elections of 1994, constitutional reform and presidential re-election had a very strong support in public opinion\(^{43}\), thus there was not much political room for arguing against them. Nevertheless, to argue "Why not analyze and vote on each reform one by one?" sounded quite rational and made a pretty good headway. Therefore, "the wrap," as the Nucleus was named in the press, became the "piece de resistance" of those opposed to the constitutional reform.

The Nucleus was the core of the Pact of Olivos. The Declaration of Olivos contemplated that "procedures to guarantee the fulfillment of the agreement would be established"\(^{44}\); the Document of the Advisory Commissions "presented the suggestion that a set of reforms could be considered mandatory and voted as 'whole'"\(^{45}\); the Agreement of "La Rosada" stated that "the Nucleus of Basic Coincidences had to be included in the law that declared the necessity of the reform in a single article or annex and be considered and voted by the Constitutional Convention as a whole"\(^{46}\); and finally, Declarative Law 24,309 established in its Article 5: "The Convention could consider in different sessions the contents of the reform, but the themes included in article 2 of this law of declaration must be voted conjointly, being understood that the affirmative voting will mean the constitutional inclusion of

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\(^{43}\) See this Section, # 2, Table III.II.3
\(^{44}\) See this Section, # 3.a
\(^{45}\) See this Section, # 3.b
all of them, but that the negative voting will mean the re-
jection as a whole of those norms and the subsistence of the
constitutional texts currently effective”.

It was in the Preparatory Session of the Convention
where the issue was ultimately technically argued. Those who
opposed voting the Nucleus conjointly argued that it was a
mere aggregation of different norms and the rule that imposed
voting all together would be illegitimate, because it would
prevent the right to vote in different ways on different is-
sues. They conceded that if the nucleus were a system, con-
joint voting would be rational and legitimate; but they de-
nied such a property to the Nucleus. Eugenio Zaffaroni, legal
expert and Conventionalist of the Frente Grande concluded:
“If it were systematic, it would be rational...but a system is
an ‘ontic’ reality...it is not something invented ‘piling’
pieces of materials of the world...There are no rational sys-
tematic reasons; there is no system; there is an agreement.”47
So, the point was whether the Nucleus was a system or not.

There were several interventions defending the Nucleus’
systemic nature; the ones by Enrique Paixao48 (UCR-Capital)
and Alberto Masnatta49 (PJ-Buenos Aires) should be under-
scored. My contribution to this debate was in my first inter-
vention50; a summarized version of my argument follows.

Within the logic of Olivos, the Nucleus had two dimen-
sions: i) the contents, which described the specific reforms

46 See this Section, # 3.c
47 Convención Nacional Constituyente: Diario de Sesiones; Ministerio de Justicia,
Buenos Aires (1996); Versión Digital; Sesión Preparatoria.
48 Convención Nacional Constituyente: Diario de Sesiones; Versión Digital; Sesión
Preparatoria.
49 Convención Nacional Constituyente: Diario de Sesiones; Versión Digital; Sesión
Preparatoria.
50 Intervención in the 9th meeting of the 1st Session of the National Constitu-
tional Convention; Santa Fe, 9 June 1994.
that were the substance of the political agreement institutionalized through the pact; and ii) the conditionality that had to be voted as a whole, which was the method chosen as a safeguard to ensure that the interests of the subscribers would be preserved. As regards the contents, the Nucleus was more than a simple agreement: it was a Common Program of Reforms. As regards the conditionality, the Nucleus was also more than an agreement: it was a system.

a) The Nucleus as a Common Program of Reforms

As a political agreement, the Nucleus obligated the subscribers—the Justicialista Party and the Radical Party—only to each other. But this agreement was submitted to voters’ consideration in the 1994 national elections; both parties campaigned in favor of the reforms contained in the Nucleus presented as a program. This was the first time that a national election was about a specific program rather than general ideas and personalities. Voters endorsed the proposed reforms by a clear majority (58%)\(^{51}\); as a result, the Nucleus understood as a common program obligated the subscribers not only between themselves but also to the electorate. This has been an interesting improvement in Argentine political practices.

b) The Nucleus as a System

A system is a conjunct of “elements” interlinked by a certain “combination rule”\(^{52}\). The property of being “a system” is determined not by the elements, but by the “combination rule”. For instance, the universe is a system: a conjunct of planets interlinked by the laws of “heavenly mechanics”; its

\(^{51}\) See below, Table III.II.4

\(^{52}\) See GODELIER, Maurice: Rationality and Irrationality in Economics; Monthly Review Press, New York (1996); pg. 258
systemic nature does not come from any property or characteristic of the different planets, but from the laws of astrophysics. The Polynesian family is also a system: a conjunct of individuals interlinked by relations of cognition; its systemic nature does not come from any personal characteristic of the individual members, but from the "rules of kinship" proper to the Polynesian culture.

The Nucleus of Basic Coincidences—established in article 2 of Law 24,309—was, as well, a system: a conjunct of juridical-institutional elements, interlinked by a certain "rule of combination". The elements encompassed within the Nucleus were a specific type of object: "juridical objects"; as such, they did not have a sense or a meaning by themselves\(^53\); the only meaning or sense that they had was that which a legal norm attributed to them\(^54\). And article 5 of the Declarative Law established the only possible meaning: Voted conjointly affirmatively, means constitutional reform; voted conjointly negatively, means no constitutional reform; voted not conjointly, means nothing. So, the systemic nature of the Nucleus was determined by the juridical norm of article 5 of Law 24,309—the "rule of combination"—which established only one way for it to exist as a meaningful legal norm: to be voted conjointly.\(^55\)

\(^{53}\) See Chapter IV, Section I,\# 3.b
7. The National Constitutional Convention

The Pact of Olivos and the Declarative Law 24,309 established in a very detailed form the Common Program of Reforms\textsuperscript{56} agreed between the two major political parties. Some therefore considered the Convention’s role a mere formality to institutionalize the contents of that program; however, this position does not accurately reflects the contributions made by the National Constitutional Convention. Others considered that though “The debates at the convention were not negligible...they were concerned with the fine print of the reforms”\textsuperscript{57}. The debates were indeed not negligible, and some data presented below could help to illustrate that the Convention’s reforming activity went far beyond fine print.

The National Constitutional Convention functioned from May 25 to August 24, 1994\textsuperscript{58}. It was integrated by 305 conventionalists: 138 of the Justicialista Party, 75 of the Radical Party, 32 of the Frente Grande Party, 18 of the MODIN Party and 42 of several smaller parties.\textsuperscript{59}

The first indicator of the conventionalists’ understanding of their own role and responsibilities is that they presented a total of 1,593 bills proposing constitutional amendments.\textsuperscript{60}

The Convention had eleven Committees\textsuperscript{61}: i) Redaction; ii) Basic Coincidences; iii) Federal Competencies; iv) Federal Regime and Municipal Autonomy; v) New Rights and Guarantees; vi) Control Systems; vii) Democratic Participation; viii) In-
tegration and International Treaties; ix) Ways and Means; x) Financing and Administration; and xi) Parliamentary Agenda. The supporting committees produced 34 Committee Reports; the Thematic Committees held 51 regular sessions and produced 29 Committee Reports; and the Redaction Committee held 25 regular sessions and produced 17 “Orders of the Day”, the specific instrument to send the bill to the Plenary to be considered on the floor. The Convention held 38 plenary sessions on the floor, many of which lasted several days.\(^6^2\)

The Pact of Olivos and the Declarative Law established that the Nucleus of Basic Coincidences had to be “considered” and “voted” as a whole; but those pre-constitutional instruments did not prevent the Convention from discussing the items there encompassed. The Convention discussed intensively each of those items and several of them were not accepted as proposed by the Pact and by Law 24,309; juridical analysis showed visible differences decided by the convention\(^6^3\).

The modifications introduced to the Constitution by the Convention consisted of: i) addition of a new Chapter; ii) modification of 17 Articles; iii) addition of 19 new Articles; iv) modification of 29 subparagraphs; v) addition of 8 new subparagraphs; and vi) inclusion of 17 Transitory Clauses.

All these changes required extensive research, technical advice, sectorial feedback, political discussion, consensus building and institutional design. To approve each amendment, parliamentary majority had to be negotiated each time upon a

specific basis. The way in which each reform was voted shows that there were no automatic alignments or results taken for granted.

Chart III.II.1 presents the data.

Chart III.II.1
Voting in the National Constitutional Convention
Selected “Orders of the Day”

8. The Reformed Constitution

Neither the Preamble nor Chapter I “Declarations, Rights and Guarantees” of the First Part of the historic Constitution were modified; instead, a new Chapter II, “New Rights and Guarantees,” was included. This Chapter refers to: i) political rights; ii) defense of democratic order; iii) politi-

63 See BIDART CAMPOS, Germán: Manual de la Constitución Reformada; Ed. Ediar, Bue-
cal parties as basic institutions of democracy; iv) mechanisms of semi-direct democracy; v) environmental protection; vi) users’ and consumers’ rights; vii) habeas corpus and “amparo” (prompt summary writ of constitutional rights); viii) equal opportunities for men and women in electoral politics; ix) public ethics; and x) universal, equal, secret and compulsory nature of the suffrage.

It was in the Constitution’s second part, “Authorities of the Nation”, where most of the reforms were made. The reforms introduced to this part refer to: i) Presidential election: form, time and procedures; ii) President’s tenure and reelection; iii) Prerequisites for being President and the swearing-in formula; iv) President’s attributions; v) Presidential Decrees; vi) Chief of Cabinet: attributes and responsibilities; vii) Senate: composition and tenure; viii) Congress’ attributions; ix) Lawmaking procedures; x) Council of the Magistracy; xi) Justices: appointment and dismissal procedure; xii) Judges: appointment and dismissal procedure; xiii) National General Controller; xiv) Ombudsman; xv) Public Ministry; xvi) Federal Regime: regions and international agreements; xvii) Federal regime: reserved, delegated and concurrent powers; xviii) Provincial Governments and Municipal Autonomy; xix) City of Buenos Aires’ autonomous government regime.

In the last Ordinary Session, on August 24, the full text of the reformed Constitution was considered: it was approved unanimously. This circumstance reinforced the most frequently cited value of the 1994 Constitutional Reform: political consensus.
Assessments of this reform, as expected, vary. The President of the Constitutional Convention, in his final remarks in the Closing Session, anticipated that, being history, it was going to be told in different ways. For the record, he pointed out the following characteristics of the Convention: political representativeness, clear rules of the game, freedom of expression, hard work and dedication, consensus orientation, openness to society’s feedback. And he concluded: “Because of how it was integrated, how the work was done in the committees as well as in the plenary, and in definitive because the grade of consensus attained in the redaction of many articles, I dare to affirm that this is not the Convention of one party or of one sector, but the Convention of all, made with and for all Argentineans.”  

From the point of view of a constitutional historian, it has otherwise been considered that “as a work of men it can be perfected, but it has the merit of having united without making uniform the different political wills that coexist in our country. It was the consensual fruit of an ample political spectrum. As any political agreement, it has parts that satisfy some but not everyone. But that is precisely the art of politics, and that is what our constitutionalists did: to constitutionalize the possible, not the ideal”.  

9. Constitutional Laws

Several of the most important institutions established by the reform required implementation through specific laws. Some of those institutions already existed before its consti-
tutionalization; for instance: the Habeas Corpus, the “Am-
paro”, the Ombudsman, the General Controller, and others. All
of these were already regulated by specific laws. Other in-
stitutions included by the reform were totally new; for in-
stance: the Council of the Magistracy, the Chief of Cabinet,
the Buenos Aires City’s Autonomous Government and others.
These required definite congressional decisions.

In order to fulfill that requirement, on August 30,
1994, just a week after the reformed Constitution was sworn,
the government issued Decree 1541/94, creating the “Commis-
sion for Elaboration of Legislative and Regulatory Bills Com-
plementary to the Constitutional Reform”. It was chaired by
the Cabinet General Secretary; and composed of the Minister
of Interior, the Minister of Justice, the Secretary of Jus-
tice, the Legal and Technical Secretary, the Legal, Adminis-
trative and Technical Secretary of the Ministry of Economy,
the Attorney General, the Deputy Cabinet General Secretary,
and the Deputy Public Function Secretary. Its mission was
defined as “the study and elaboration of those projects of
legal and regulatory norms which are needed due to the re-
forms included in the National Constitution, especially those
related to articles 36, 37, 39, 40, 41, 42, 43, 75 (several
items), 85, 86, 99, 100, 114, 120 and 129, and also to the
National Constitution’s transitory clauses; all, according to
the priorities order to be established”.67

The Executive Branch, the Commission and the Congress
collaborated and worked together both in formal and in infor-
mal ways in order to design, to propose and to pass the re-

65 RAMELLA, Susana: La Constitución Nacional de 1994; in “Los Andes”, Mendoza
(9/94)
66 Decree 1541/94, article 3
quired legislation: ten new laws were passed besides six that were maintained or updated.

Table III.II.5 presents the information.

Table III.II.5
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67 Decree 1541/94, article 2.
The 1994 Constitutional Reform was defined as “the Reform for the XXI Century”. When the new century began, the Reformed Constitution was fully implemented and enforced.
The Reforms of the Nineties in Argentina
By Rodolfo Diaz
WCFIA Fellow - Harvard University
Civil Service enlargement and distortion was a characteristic of the Bureaucratic Authoritarian State; thus, downsizing and professionalization were the aims pursued by the reform, through four main instruments: Administrative Career (SINAPA), New Legal Regulation of Public Employment, Collective Bargaining in Public Sector and Collective Agreement for Public Employees. Positive effects have been reached at the national level: personnel is selected and promoted by contests; and systematic qualification is required for career improvement. But not all the national public employees are encompassed in the SINAPA, and at the provincial level, the reform has yet to be implemented.

1. Enlargement and Deterioration

Argentineans have historically viewed the government as a significant source of employment, particularly for those living in the less developed provinces. Government jobs had traditionally rewarded individuals with higher education by way of secure jobs and good salaries, making public employment positions particularly appealing. By 1989, however, the "status" associated with government jobs had dwindled. Employment by the government could no longer be equated with financial security. A cursory look at presidential salaries illustrates this change: In July of 1985, Alfonsin's monthly salary was $1,270; in July of 1989, Menem's salary corresponded to $152 a month.¹

A visible characteristic of the Bureaucratic-Authoritarian State that remained untouched after the democratic restoration in 1983 was the enlargement and distortion

¹ Uno de cada cuatro trabajadores es empleado público; "La Nación", Buenos Aires (1989)
of the Civil Service. In the eighties, the total number of public employees grew from 786,931 in 1981, to 878,259 in 1983 and 928,034 in 1990. After the restoration of democracy, the civil servants (without the State Owned Firms employees) grew from 529,350 in 1983 to 591,755 in 1990.

Table III.III.1 presents more encompassing data:

<table>
<thead>
<tr>
<th>Sector</th>
<th>1983</th>
<th>1990</th>
<th>Variation</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Administration</td>
<td>529,350</td>
<td>591,755</td>
<td>62,405</td>
<td>10.1</td>
</tr>
<tr>
<td>State Owned Banks</td>
<td>36,648</td>
<td>33,400</td>
<td>-3,248</td>
<td>-10.4</td>
</tr>
<tr>
<td>State Owned Firms</td>
<td>312,261</td>
<td>302,879</td>
<td>-9,382</td>
<td>-3.1</td>
</tr>
<tr>
<td>Total</td>
<td>878,259</td>
<td>928,034</td>
<td>49,775</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Along with this increment in personnel, public salaries in terms of GDP fell from 5.8% in 1974, to 3.1% in 1990, which implies a significant deterioration of public real wages. Hierarchical levels tended to disappear, taking with them career rights and expectations. The relationship between maximum and minimum salaries fell from 10:1 in 1970 to 4:1 in 1990; the relationship between operational and support personnel was 1:1; 35% of employees were in categories 10 to 13 and 39% were in categories 21 to 24. The structure was “a

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2 “Civil Service” will be used in a broad sense, meaning all employees of the State in general.
4 Ibid
5 Ibid
6 Ibid
sort of rhomboid with narrow extremes and the ‘belly’ too wide, which impeded a career of promotions as it should be.”

2. The Proposal

A major reform of the Argentine Public Administration was in evident need: political parties, business, academia, media—and even labor—agreed on that. In 1990, the government made its first systematic proposal: “Hacia un Estado Moderno: Un Programa para la Reforma Administrativa”, a white paper elaborated by the Administrative and Technical Coordination Undersecretariat. Its objectives were the following: i) to reduce public expenditures and to improve the administration’s efficiency; ii) to organize the higher posts of the civil service in a hierarchy; iii) to re-establish a relationship between the maximum and minimum remuneration, compatible with career logic; iv) to step up a system of incentives to gain the effective commitment of the public servants with the process of reforms; and v) to professionalize the Civil Service career.

The Civil Service reform was commended to the Secretariat of the Public Function, which—with the active participation of the most representative union of public employees—developed a process of reforms at three levels: downsizing, professionalization, and qualification.

3. Downsizing

After the high inflation episode of January 1990, an aggressive program of Administrative Reform was launched. De-

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Decree 435/90\textsuperscript{10} set up several measures related to public employment: prohibition of overtime hours and double employment; freezing of vacancies and promotions; limits to the higher remunerations; anticipated retirements; and a deep restructuring of the Ministries, reducing the number of Secretariats and Undersecretarats. And Decree 1757/90\textsuperscript{11} set up two high-level committees to enforce these measures.

Decree 495/90 was issued in March 1990, but there were some doubts about the commitment of the Government to enforce this reform; in April, an economist from a conservative think tank\textsuperscript{12} declared that it had failed. But officials\textsuperscript{13} considered that the recent and complex nature of the decree required more time to envision its results.

It was at the beginning of the new administration, in times of "emergency", when inflation was still to be defeated. Within the Government, there was a deep persuasion that the public deficit was still too high, despite certain progress achieved through transitional measures, which should be deepened with the structural and permanent ones; that the state should reduce its dimensions through a coherent program; and that if not, inflation would provoke a collapse and the same effects but through an irrational and costly way.\textsuperscript{14}

Despite the skepticism of some, the objectives were attained. In the first year (1991), public personnel was re-

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{9} UPCN: Unión del Personal Civil de la Nación
\item \textsuperscript{10} See Chapter I, Section I.6
\item \textsuperscript{11} See Chapter I, Section I.6
\item \textsuperscript{12} BOUR, Juan Luis, of FIEL (El Cronista Comercial, 4/23/90).
\item \textsuperscript{13} PROL, Luis; Undersecretary of Administrative and Technical Coordination (El Cronista Comercial, 4/23/90).
\item \textsuperscript{14} MINISTRY OF ECONOMY: Op. Cit., pg. 4.
\end{itemize}
\end{footnotesize}
duced to 63,257 agents;\textsuperscript{15} by 1997, the downsizing had reached 455,935 agents (48.6%).

Table III.III.2\textsuperscript{16} presents the numbers.

<table>
<thead>
<tr>
<th>Sector</th>
<th>1990</th>
<th>1997</th>
<th>Variation</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Administration</td>
<td>591,755</td>
<td>431,540</td>
<td>160,215</td>
<td>-27.07</td>
</tr>
<tr>
<td>State Owned Banks</td>
<td>33,400</td>
<td>19,232</td>
<td>14,168</td>
<td>-42.42</td>
</tr>
<tr>
<td>State Owned Firms</td>
<td>302,879</td>
<td>31,327</td>
<td>281,552</td>
<td>-92.95</td>
</tr>
<tr>
<td>Total</td>
<td>938,034</td>
<td>482,099</td>
<td>-455,935</td>
<td>-48.60</td>
</tr>
</tbody>
</table>

Public employment at the sub-national level (provincial, municipal, and Buenos Aires City) is not a subject of this analysis. Nevertheless, it has to be noted that public personnel at sub-national level increased from 956,200 in 1990 to 1,575,500 in 1997; 35% of that increment (222,198 agents) was due to the transfer of educational and health services from the federal government.

The Civil Service “strictu sensu” excludes the State Owned Firms, the State Owned Banks, the Military, the Police, the Legislative and Judiciary branches, the school teachers, the doctors of public health services, and the Public Ministry. Considered in these terms, the members of “Civil Service Agents” at the national level steadily decreased: 144,009 in 1995,\textsuperscript{17} 120,029 in 1996, and 107,862 in 1997.\textsuperscript{18}

\begin{flushleft}
\textsuperscript{16} Sources: SIGEP, INDEC, Ministry of Economy (IRIBARREN, E., Memo to the author)
\textsuperscript{17} INAP, “Temas” N.2, pg. 10.
\end{flushleft}
4. Professionalization

Decree 993/91 created the National System of the Administrative Profession, SINAPA (Sistema Nacional de la Profesión Administrativa). Its purpose was to ensure the proper administration of human resources for the National Public Administration, the reinforcement of institutional and labor-related functions, and the adequate application of the norms regulating administrative positions. But its overall objective was “the professionalization of the career.”

The SINAPA (1991) was the first link in a series of changes regarding the civil service that also includes the Law of Collective Bargaining for Public Employees (1992), the Regulatory Framework Law of Public Employment (1999) and the first Collective Agreement for Central Administration’s Employees (1999). These changes did not happen in a void or solely because of the will of the actors. On the contrary, these changes were carried out within the context of the Reform of the State, and their starting points were Law 23,696, and particularly the chapter on public employment of the Economic Emergency Law.

On May 27, 1991, President Menem issued Decree 993/91, which created the National System of the Administrative Profession (Sistema Nacional de la Profesión Administrativa, SINAPA), encompassing 160,000 government employees. Menem declared that from that day forward, talent, capacity, prepara-

18 IRIBARREN, Néstor Enrique; memo to the author. (Source: INDEC, Ministry of Economy).
19 RODRÍGUEZ, Andrés (UPCN General Secretary); Interview conducted by E.IRIBARREN.
20 See this Chapter, Section I.
21 See Chapter I, Section I.
tion, and ethics would reign in the National Public Administration.22

SINAPA eliminated the old 24 category system and replaced it with a system composed of 6 levels, each associated with different salaries and requirements. It created the "Career Permanent Commission", presided by the Secretary of the Public Function, and comprised of one member of the Ministry of Economy, two by the Secretary of the Public Function, and three representatives of Union del Personal Civil de la Nación (UPCN); this commission would set the stage for future collective negotiations23. Most significantly, SINAPA eliminated seniority as a requisite for promotion and rewarded capacity and ability. After signing the decree, Menem assured that the revised governmental structure would eradicate the problems plaguing the administration at this point, including corruption.

Secretary of Public Function Gustavo Béliz expressed his belief that this reform would be successful because it had union support, and, moreover, general support by the public. According to him, the previous administration had not enjoyed the same support because of two factors: the lack of labor union support, and the distortion of the rank and file as a means to cover up salary increases; the union's support and the professional career based on merits instead of seniority set by SINAPA, was gaining support by the general public.24

Andrés Rodriguez, Secretary General of the UPCN, concurred with the belief that the general public supported the creation of SINAPA. Rodriguez cited the re-establishment of a

22 "Ámbito Financiero", 5/28/91
23 GONZALEZ, Manuel, GUIBERT, Armando and LEMOINE, Graciela: El Desarrollo de la Alta Gerencia; in "Boletin Informativo Techint".
hierarchical system in public administration as the fundamental aspect that ensured the success of SINAPA. As he indicated, a hierarchical system redefined the roles and responsibilities public employees were held accountable for in a logical, "pyramid-like" system. This change to a system of promotions according to qualifications was also accompanied by a corresponding increase in salary.²⁵

5. Description of the SINAPA

The leading specialist on the system of UPCN, defines SINAPA as follows: “SINAPA has a structure of six vertical levels—from the superior A to the inferior F—which categorizes the agents according to the basic functions of direction, coordination, technical or operatives; these comprise the ‘vertical career.’ Each level has different grades, which comprise the ‘horizontal career.’ The vertical career implies certain requirements of formal education, qualification, age, etc. The horizontal career development supposes the attainment of requirements of performance and qualification, evaluated on an annual basis.”²⁶

SINAPA was considered particularly noteworthy because of its creation and impact on four systems: the system of Personnel Selection, the system of Evaluation of Effort and Productivity, the national system of Qualification, and the permanent program of Public Management.

The Decree is organized in seven titles: I. Structure of the System; II. Groupings (General, Scientific-Technical, Specialized); III. Systems of Selection (General, Vacancies

²⁴ El Cronista Comercial, 11/23/90.
²⁵ RODRÍGUEZ, Andrés (UPCN General Secretary); Interview conducted by E.IRIBARREN.
²⁶ IRIBARREN, Néstor Enrique; Memo to the author.
Covering, Executive Functions); IV. Performance Evaluation; V. Qualification; VI. Remunerations and Incentives; VII. Working Hours.

a) Title I: Structure of the System

The system consists of three groupings: General, Scientific-Technical, and Specialized. The groupings consist of six levels with corresponding grades arranged in order of complexity and responsibility. The Functional Nomenclature would establish the functions to which each level of rank and file would correspond. A special category of "Executive Functions" was created, which would be those overlooking sectors with a high incidence of public policy, essential public services, budgetary issues, and reforms of the state. Agents, independently of their rank and file, would be given equal opportunity to obtain an executive function by means of the system of selection established in Title III and prior completion of the general prerequisites associated with the respective function. The career of the agent would be determined by his progress in his corresponding placement within the rank and file, by means of promotion. Moreover, promotions to higher rank within each level would be carried out according to the norms set by SINAPA.27

This was the major change introduced by this system: promotions would no longer be a "lineal function" of seniority, but a "complex function" of several elements, particularly qualifications and performance.

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27 SINAPA (Decreto 993/91)
b) Title II: Groupings

Chapter 1: General Grouping

This Grouping comprises administrative, technical, professional, and services functions. Six levels, A-F, are created in descending order. Each level corresponds to particular functions and is further subdivided into various grades. Minimum prerequisites for reaching each level of rank and file are set, from Level A—requiring candidates who are at least thirty years of age, university educated, and having work experience—to Level F, which required candidates to be of at least sixteen years of age and have completed an elementary education.

Chapter 2: Scientific-Technical Grouping

This category corresponds to those functions aimed at generating, improving, and diffusing scientific knowledge, investigation and development of technology; formation of specialized human resources; and activities in the scientific field. This category would consist of six levels, also A-F, in descending order. Each level corresponded to particular functions, and was also subdivided into various grades within each level. A description of these functions, as well as the prerequisites needed to advance into each level, were denoted.

Chapter 3: Specialized Grouping

This category is comprised of professional functions involving consulting and formulation of highly specialized areas of the State’s management. It would consist of two levels, denoted A-B, in descending order, with specialized functions associated with each, as well as the subdivision of

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28 SINAPA (Decreto 993/91)
each level into various grades. The prerequisites stated for Level A asked that candidates be at least thirty years of age, bilingual, university educated with degrees recognized by the Ministry of Culture and Education, in careers requiring at least two additional years of graduate study, and having obtained exceptional intellectual recognition for their work. Level B required candidates to be at least twenty-five years of age, with requirements similar to those of Level A, but not required to have obtained the same intellectual recognition30.

c) Title III: Systems of Selection

For Personnel Selection, all open positions would be filled following the new system of selection approved by Resolution 30/92 of the Secretary of The Public Function. This system, unlike previous ones, established objective and transparent mechanisms for selecting new personnel, eliminating biases, “connections,” and other unfair selection processes. Throughout this selection process, candidates would be chosen by way of various interviews, tests, and evaluations, in search of the most qualified individuals31.

d) Title IV: Performance Evaluation

With respect to the system of Evaluation of Effort and Productivity, superiors would evaluate agents in SINAPA on a yearly basis. Up to ten percent of agents who demonstrated outstanding effort and productivity would be rewarded with an extra monthly salary. Furthermore, the evaluation would serve to facilitate proper administration, to improve individual and collective productivity of its employees. Employees would

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30 SINAPA (Decreto 993/91)
31 SINAPA (Decreto 993/91)
be evaluated on ten factors: competency, initiative, autonomy, productivity, capacity to analyze and act, knowledge, cooperation, diligence, interpersonal skills, and adherence to dress code.

e) Title V: Qualification

SINAPA establishes Qualification as mandatory for public agents. Each year, all national public administration employ-
ees in Levels D and E must pass at least one qualification credit, equivalent to thirty hours of course credit. Those occupying Level C must approve a course, "Superior Qualification Course". Fulfillment of these prerequisites would permit the employee's promotion and the ability to apply for vacant positions.

6. Institutionalization of the Changes

The reform of the Civil Service was a progressive process of institutional re-building: it began with SINAPA and several other measures adopted to enforce it. It was institutionalized by Law 24,185, which established the mechanisms for collective bargaining for public employees; by Law 25,164, which redesigned the legal framework of public employment; and by the signature of the first collective agreement for the National Public Administration.

a) Law 24,185: Collective Agreements for Public Employees:

The right of collective bargaining for public workers developed relatively late: it was not until 1981 that the ILO approved Agreement No 154, which encourages collective bargain-
gaining for all sectors, including public employees. The Arg-
entine Congress approved this agreement in 1988, and in 1991
Law 24,185 of Collective Bargaining for State Employees was passed.

It was the result of an intense and productive process of negotiation between the Ministry of Labor and all the Unions representing public workers: UPCN (Union del Personal Civil de la Nación), ATE (Asociación Trabajadores del Estado), CTERA (Confederación de Trabajadores de la Educación de la República Argentina), and several other sectorial unions. Upon a strong consensus, the project was sent to the Senate in 1991. It was finally approved in November 1992.

In essence, the law ended the period of “unilateralism” in which the state as employer established by itself all the conditions of public employment, and it opened a new stage of “participationism” in which the workers, through their unions, are allowed to negotiate a wide range of issues, from mechanisms of selection to salary structures.

The main features of this law are the following: i) To be applied at the National Public Administration; provinces and municipalities could also adhere to it. ii) Personnel not included were the following: politically appointed officers, military, diplomats, others encompassed in special regimes. iii) Workers will be represented by recognized unions. iv) The state as employer will be represented by the Ministry of Economy and the Secretariat for the Public Function. v) All matters related to the labor relationship are subject to negotiation: labor conditions (not the structure of the state) as well as salaries (within the provisions of the Budget Law). vi) The Agreement will be “ultra-active”: it would will

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32 I was Minister of Labor and Social Security, and Enrique RODRÍGUEZ was Secretary of Labor.
be effective until a new one is signed. vii) The Agreement should be homologated by the Ministry of Labor.

b) Law 25,164: Regulatory Framework for Public Employment:

The National Constitution in its Article 14 bis, guaranteed job “stability” for public employees; however, the labor relationship between public workers and the state had been highly unilateral and subject to political discretion. This new law implied a significant development of that constitutional guarantee in order to limit both unilateralism and discretion through professionalization and participation.

The main features of this law are the following: i) Encompasses the personnel of the Executive Branch (personnel of Legislative and Judicial Branches are excluded); also excludes politically appointed officers, military, diplomats, and others encompassed in special regimes. ii) Establishes the requirements and impediments to be accepted as public employee. iii) Defines different labor regimes: of stability, by contract, of cabinet staff and transitory. iv) Establishes a specific set of enforceable rights, duties, and prohibitions for public employees. v) SINAPA\(^3\) is subject to collective negotiation in order to be modified. vi) Establishes a Disciplinary Regime, and its decisions subject to Judicial review.

c) General Collective Agreement for the National Public Administration:

The process of Civil Service Reform analyzed in this section culminated with the signing of the First Collective Agreement for the National Public Administration. It has been described as “the crowning of a series of positive results”

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\(^{33}\) See this Section, #6
and a "turning point" towards democratization of labor relations within the State.\textsuperscript{34}

The Agreement was signed on December 15, 1998 by representatives of UPCN, ATE, and the state, and it was homologated by Decree 66/99 on January 29, 1999.

The main features of this Collective Agreement are the following: i) Personnel are encompassed into the agreement with a very ample criterion; exclusions are the same as those of Law 24,185. ii) On conditions and impediments of acceptance as well as the nature of the labor relationship, it follows the criteria of Law 25,164. iii) With respect to career, it follows the criteria of SINAPA, with more technical precision. iv) It sets up participative mechanisms between unions and the state, as well as regards union representation and conflict resolution. v) Right to information, and equality of opportunities and treatment are also addressed.

7. Qualification

SINAPA made public agents' qualification mandatory, so they should participate in courses and training activities that are programmed by INAP (National Institute for Public Administration) on an annual basis. These courses and activities enable agents and officers within the civil service to be promoted through the established procedures.

Employees of levels D and E should attend at least one "qualification credit", equivalent to 30 class hours. Employees of level C should pass the "Superior Formation Course", structured in six curricular areas. And for officers of levels A and B, there is the "High Public Management Permanent

\textsuperscript{34} RODRÍGUEZ, Andrés (UPCN General Secretary); Discurso, in "1er Convenio Colecti-
Program", organized in fifteen modules. The effort made in the qualification field by the Civil Service has been enormous. More than 200,000 agents attended different courses all over the country.

Tables III.III.3, 4, and 5 present the data.

**Table III.III.3**

SINAPA: Agents Qualified

(Capital Federal)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>A</td>
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<td>527</td>
<td>479</td>
<td>491</td>
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</tr>
<tr>
<td>B</td>
<td>1651</td>
<td>1681</td>
<td>2005</td>
<td>262</td>
<td>2204</td>
<td>963</td>
</tr>
<tr>
<td>C</td>
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<td>4663</td>
<td>31359</td>
</tr>
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<td>4232</td>
<td>4088</td>
<td>4904</td>
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<td>3241</td>
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<td>285</td>
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<td>17386</td>
<td>15800</td>
<td>16900</td>
<td>12595</td>
<td>76452</td>
</tr>
</tbody>
</table>

**Table III.III.4**

SINAPA: Agents Qualified

(Overall Country)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Federal</td>
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<td>15800</td>
<td>16900</td>
<td>12595</td>
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<td>6628</td>
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<td>5892</td>
<td>10918</td>
</tr>
<tr>
<td>Total</td>
<td>13772</td>
<td>24014</td>
<td>20015</td>
<td>22792</td>
<td>23513</td>
</tr>
</tbody>
</table>

35 Secretariat of the Public Function; Infoad
Table III.III.5
SINAPA: Agents Attended Specific Qualification

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
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<td>B</td>
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<td>18</td>
<td>17</td>
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<td>C</td>
<td>2139</td>
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<td>3796</td>
</tr>
<tr>
<td>D</td>
<td>1830</td>
<td>2124</td>
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<td>4135</td>
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<td>F</td>
<td>121</td>
<td>118</td>
<td>87</td>
<td>238</td>
</tr>
<tr>
<td>Total</td>
<td>5229</td>
<td>5538</td>
<td>5141</td>
<td>10826</td>
</tr>
</tbody>
</table>

8. Follow up

There is a systematic follow up of the Civil Service Reform. The Secretariat of the Public Function conducts an annual survey\textsuperscript{37} amongst the State’s personnel to monitor the process. The following are the results of the first of these surveys (1996) which reflects the evaluation of the Civil Service Reform process five years after it had been introduced.\textsuperscript{38}

To over 60\% of government employees surveyed by EPAOYE, the impact of the administrative reforms were considered positive or very positive. However, approximately eighty percent of these employees perceived public opinion in Argentina to have a neutral (42\%), bad (33\%), or very bad (5\%) image of public employees. Yet when asked how this image had changed in the past five years, 52\% of agents reported that they perceived public opinion to have significantly improved.

\textsuperscript{37} EPAOYE: Encuesta Permanente de Actitudes, Opiniones y Expectativas del Personal del SINAPA.
\textsuperscript{38} Secretaria de la Funcion Publica: EPAOYE 1996; Coleccion Modernizacion del Estado N. 12.
Agents were also asked to identify the most important problems affecting government employment at the time. Salaries, lack of motivation, lack of resources and too frequent changes in the structure were identified.

Graph III.III.1\textsuperscript{39}, presents the data.

Graph III.III.1
Most important problems of the Civil Service

As asked to propose necessary measures to improve the labor situation, technology, participation and workplace environment were mentioned.

Graph III.III.2\textsuperscript{40} presents these results.

\textsuperscript{39} EPAOE: Op. Cit.
\textsuperscript{40} Ibid
9. Effects

The foremost changes introduced by SINAPA have been: i) Reduction of the rank and file from 24 categories to 6 levels. ii) Selection of personnel through contests. iii) Elimination of seniority as a prerequisite for promotion. iv) Creation of the “Executive Function” category. v) Creation of the “Career Permanent Commission.”

Throughout this chapter, the impact of the reforms at different levels of the Civil Service have been pointed out. But the indicator that best shows those effects at a more comprehensive level is that of the processes of selection and promotion of agents within the SINAPA system.

Between January 1, 1993 and June 30, 1999, the processes of selection sought to fill 8,052 positions within SINAPA,
which are approximately one-fourth of the personnel encompassed by the System.\textsuperscript{41}

Graph III.III.3, presents the percentage by level.

Graph III.III.3
Selection Contests by Level
(1993/1999)

Out of those, 6,542 were for "simple posts" of different groupings, and 1,510 for "Executive Functions"\textsuperscript{42}.

Graph III.III.4, shows the proportions.

\textsuperscript{41} SALAS, Eduardo and GARCÍA, Isabel: Los Procesos de Seleccion de Personal en el Sistema Nacional de la Profesión Administrativa; Buenos Aires (1999), pg. 5.

\textsuperscript{42} SALAS, E. and GARCIA, I.; Op. Cit., pg. 6.
Looking at the type of contest, almost two-thirds were closed to existing public agents. This represented a real incentive to the current personnel to improve, and a clear intention to structure the administrative career in a definite hierarchy.\footnote{SALAS, E. and GARCÍA, I.; Op. Cit., pg. 7.}

Looking at the level of the posts selected through these contests, 4,361 (54\%) were posts of the higher levels of the rank and file (A, B, and C)\footnote{Ibid}. Looking at the type of function covered by the contest, 61\% of them were of a managerial, professional, or technical nature. This asymmetry towards the upper levels of the personnel pyramid shows a clear effort to professionalize the civil service.
Table III.III.6 presents the profile of all the contests over the studied period.45

Table III.III.6
Selection Contests, by Type of Function

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial</td>
<td>39.3</td>
<td>25.9</td>
<td>25.2</td>
<td>12.8</td>
<td>42.5</td>
<td>28.5</td>
<td>19.7</td>
</tr>
<tr>
<td>Professional</td>
<td>17.0</td>
<td>23.3</td>
<td>25.4</td>
<td>18.4</td>
<td>23.8</td>
<td>16.2</td>
<td>16.2</td>
</tr>
<tr>
<td>Technical Personnel</td>
<td>19.5</td>
<td>7.4</td>
<td>7.6</td>
<td>6.7</td>
<td>11.6</td>
<td>16.9</td>
<td>15.7</td>
</tr>
<tr>
<td>Administrative</td>
<td>20.1</td>
<td>28.8</td>
<td>26.5</td>
<td>57.1</td>
<td>17.7</td>
<td>34.6</td>
<td>45.7</td>
</tr>
<tr>
<td>Operatives</td>
<td>4.1</td>
<td>4.5</td>
<td>5.3</td>
<td>5.0</td>
<td>4.4</td>
<td>3.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

For the first time in the Public Administration, an effective system was designed which recruited more than 1500 executives based on their capacity and talent. Moreover, the process of recruiting capable candidates has continued, and employees have the opportunity to climb the career ladder and ascend to higher levels, or to rotate between various positions available within a level in SINAPA. Furthermore, since certain contests were open to any interested public, there were incentives for new talented people to join the public administration. Moreover, SINAPA enhanced effectiveness, transparency and equality of opportunity in civil servants careers.46

But two important shortcomings have to be mentioned and stressed in reference to the Civil Service Reform: i) First, the augmenting of the number of public employees at the Provincial and Local levels. While the National Public Administration reduced its personnel by a significant rate of 48%,

the Provincial and Local Administrations enlarged their payrolls by a rate significant as well: 65%. ii) Second is the limited number of national public agents actually included within SINAPA. Out of 107,862 agents of the National Public Administration, only 29,702 (27.6%) have been encompassed by the system.

Aside from these accomplishments and shortcomings, the most important value of SINAPA was—according to one of its main enforcers\textsuperscript{47}—"that it stands as a powerful example that it is possible to put the Public Administration in order, with general rules that privilege hierarchical structure and permanent qualification."

\textsuperscript{46} SALAS, E., and GARCÍA, I.; Op. Cit., pg. 10.
\textsuperscript{47} IRIBARREN, Néstor Enrique: Memorandum to the author (2000).
Chapter IV: CRITICISMS

I. On Presidential Decrees
II. On Political Corruption
III. On Public Debate
ON PRESIDENTIAL DECREES

The idea that the reforms of the nineties in Argentina have been carried out by Presidential Decree (or NUD: Necessity and Urgency Decree) is a mistake challenged by available evidence. A systematic analysis of all NUDs issued from 1989 to 1999, shows that there were less than some authors account, that most of them were related to emergency circumstances, and that only a few referred to complementary aspects of the reforms.

1. Delegative Democracy

Mainstream American political science has characterized the Argentine political regime in the nineties as "Delegative Democracy". To discuss this characterization is beyond the boundaries of this work; instead, a few elements that have to do with the core of the subject of this book, the reforms of the nineties, will be referred to.

a) The analytical usage of the concept of delegative democracy—which is often used normatively as well—refers to a type of political regime that is "democratic" but not "representative" according to the standards of western developed countries. Such regimes have been labeled "delegative" to "point to a conception and practice of executive authority as having been electorally delegated the right to do whatever it

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sees fit for the country”\(^2\); and although they may endure, they are not "consolidated" democracies\(^3\).

b) The most often mentioned indicator of this phenomenon as regards Argentina are the "Presidential Decrees" or "Necessity and Urgency Decrees" (NUDs) issued over the decade\(^4\).

Following the doctrine of the highest legal office of the executive branch of Argentine government\(^5\), a Necessity and Urgency Decree is an act of the Executive Power that assumes, exceptionally and transitorily, a legislative competence that belongs to the Congress. It is not a "de facto" decision but a "de jure" one; it is not a law because the Executive doesn't dictate laws: it is a mere administrative act of legislative content, that has to be limited to a restrictive interpretation of the "state of necessity".

2. Democracy at Risk

In 1989, Argentine democracy was far away from being a consolidated political regime; on the contrary, it was a regime in deep crisis.

a) While in 1983-84 the armed forces had accepted the trying of the Juntas, they would not accept prosecution at all levels of the services. Due to military pressures, Dr. Alfonsín's Government proposed—and Congress passed—the "Final

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\(^2\) O'DONNELL, Guillermo: On the State, democratization and Some Conceptual Problems; Note 3; in "World Development", 21-8, pg. 1367

\(^3\) O'DONNELL, Guillermo: Delegative Democracy; "Journal of Democracy", 5-1, pg. 56


\(^5\) PROCURACIÓN DEL TESORO DE LA NACIÓN: Dictámenes 195:69, 207:272, amongst many others.
Point Law" (Ley de Punto Final), that established a fixed final term for denouncements against the military. Subsequently, several conflicts with officers cited by the judges culminated in the rebellion of the "carapintadas" during Easter Week of 1987. Pressed, the radical government proposed—and Congress passed—the "Due Obedience Law" (Ley de Obediencia Debida), which exonerated lower rank officers from any indictment. But there were new rebellions in January and December 1988 (Montecaseros and Villa Martelli).\(^6\)

b) It is well known that in 1989 the Argentine economy collapsed: hyperinflation, a huge fiscal deficit, a large, inefficient and self oriented state machinery, currency loss of value, a non-responsive institutional framework, lack of international reserves; those were the features of the situation. That process has been treated above\(^7\).

c) The crisis exploded all along the social spectrum: capital flight at the top, riots and looting at the bottom. The political institutions were there—the President, the Congress, the Central Bank—but none reacted. The private institutions were there, too—Business Associations, Labor, the Church, the Media—but none of these reacted either.

d) In May 1989 there were elections: the Justicialista Party won both the Presidency and the majority in Congress. The due date for transition was December 10, 1989. Because of the already described situation, President Alfonsín decided to resign six months before the end of his tenure. This mutated the institutional paralysis into institutional crisis.


\(^7\) See Chapter I, Sections 1.1 and 11.1
To resolve it, the major political parties—UCR (incumbent) and PJ (incoming)—made a non-written agreement: President Menem would take office six months in advance. In the midst of the crisis, it was the Presidential Institution that was trusted; not the Congress or the Courts. Looking for "delegative" signals, this was the first and foremost.

Since the new Congress—with a PJ majority—was not going to be installed until December 10, the UCR agreed to the compromise of not blocking President Menem's initiatives. As regards "delegative" signals, this was the second.

3. Necessity and Urgency Decrees

a) As a "harmonic" of the supposed "delegative" character of Argentine democracy, it has been said that "the government made repeated use of ambiguous constitutional prerogatives, such as executive decree authority", adding that "fewer than 20 NUDs were issued by constitutional presidents between 1853 and 1983. Between 1983 and 1989, President Alfonsin issued just 10 of them. By contrast—proceeds the argument, citing figures reported by two Argentine writers—"President Menem issued 335 NUDs between July 1989 and the August 1994 constitutional reform, and he issued a total of 545 during his ten years in office".

b) The figures mentioned above are different from those registered in the official records. The reason for the dis-

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8 This solution was not previewed in the Constitution. Nevertheless it was widely supported by society and none act of President Menem was objected upon this base.  
9 LEVITSKY, Steven: Argentina, From Chaos to Consolidation, in "Constructing Democratic Governance", DOMINGUEZ, Jorge and SCHIFFER, Michel editors; John Hopkins University, Baltimore, (forthcoming); pg. 7  
10 FERREIRA RUBIO, Delia and GORETTI, Matteo: Executive-Legislative relationship in Argentina. (Unpublished paper)  
11 LEVITSKY, S.: Op. Cit., pg. 8  
12 See below, #5
crepancy is because the writers include in their numbers two different legal objects in their numbers: not only NUDs, but also what they call "not recognized NUDs".

These authors argue that in some cases "the preambles of the decrees explicitly recognized them as NUDs"\(^{13}\); they add that in other cases "the Executive did not acknowledge that they were NUDs, although careful analysis indicates that they effectively were"\(^{14}\).

Their argument concludes that if a decree is intended to exercise lawmaking power, modifying or repealing a law or a NUD, that decree is a "not recognized NUD". The fundamental point of this argument is that since a "rule shall only be modified or repelled by another rule of the same or of superior status"\(^{15}\), the intention to modify or to repeal a law implies that it has to be of at least the same status: that Decree has to be a NUD, although "not recognized".

c) From the point of view of juridical science, the above reasoning ignores "essential features of legal systems"\(^{16}\); the conclusion is therefore misleading.

Proper knowledge of legal objects depends on "two essential features of legal systems. First, the interdependence of legal rules and concepts that comprise a legal system, and second, the fact that law is a cognitive institution"\(^{17}\). i) "Interdependence" means that most rules "require further explanation in the form of explicit or implicit references to

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\(^{14}\) ibid

\(^{15}\) FERREIRA RUBIO-GORETTI: Executive-Legislative Relations in Argentina, pg. 7

\(^{16}\) PISTOR, Katharina: The Standardization of Law and its Effect on Developing Economies. G-24 Discussion Paper No.4; UNCTAD/CID-Harvard University; June 2000, pg.1

\(^{17}\) ibid
other rules, terms or concepts"\textsuperscript{18}. ii) Related to that, "cognitiveness" implies that the "meaning" of a rule depends on its cross reference to a "given legal order"\textsuperscript{19}

The cited authors' reasoning mistakes the role of two elements of the analyzed decrees: the "object" ("The matter or content on which the act decides, certifies, appraises or opines"\textsuperscript{20}) and the "cause" ("The factual and legal fundamentals that motivated it"\textsuperscript{21}). The logic of their reasoning is that from the "object" of the act (the exercise of lawmaking power) it is possible to conclude the "nature" of the decree (that it is a NUD). Technically, it is not so. What differentiates a NUD from a simple decree is not the "object", but the "cause": the factual and legal fundamentals that motivated it (precisely, the "necessity and urgency circumstances")\textsuperscript{22}. It is the "cause" which expands—exceptionally—the competence of the Executive; without that expansion, the exceptional exercise of lawmaking powers is impossible.

The conclusion is misleading because, lacking the "cause" expressly invoked and properly sustained, the act lacks the only element which can change its nature; therefore, it remains a simple decree. Moreover, within the context of the actual Argentine legal order, a simple decree which has as its "object" the exercise of lawmaking powers, is nothing but a null and void simple decree.

In "Verrocchi, Daniel vs. Administración Nacional de Aduanas", Argentina’s Supreme Court accepted this idea argu-
ing that “The National Constitution defines the state of necessity and urgency that justifies the exception to the general rule and thus the admission of NUDs...The NUDs that have been dictated without the requisites required by the Constitution are null...When there is no urgency or necessity, the so called necessity and urgency decrees are null for they violate the National Constitution”\textsuperscript{23}.

The legal objects that the cited authors call "not recognized NUDs" are, therefore, simple decrees. Hypothetically speaking, it is possible that one—or many—amongst them were null and void simple decrees; but not NUDs.

4. NUDs Over Time

NUDs have often been used in Argentina as a means for regulating different situations for more than 100 years. In the Argentine doctrine, NUDs are decrees signed by the President, using attributions that constitutionally belong to Congress. Their cause is an “emergency” that requires an immediate legal solution, thus making it impossible to wait for the normal timing of the lawmaking process by Congress. Different kinds of “emergencies” have been invoked as immediate causes of NUDs: natural catastrophes, national security matters (state of siege declarations), social emergencies, economic emergencies, political chaos in different provinces, among others.

Until the Constitutional Reform of 1994, this kind of decree was not regulated by the Constitution. Nevertheless, constitutional praxis and several pronouncements of Argentina’s Supreme Court since 1865 had accepted their constitu-

\textsuperscript{23} Fallos 322:1726
tionality. The Supreme Court has had two different periods regarding this subject: i) At first—more than a century ago—it declared some NUDs were constitutional, mainly because it took into account that those decrees had—by the time the Court made its pronouncement—been approved by Congress. ii) Lately, the constitutionality of NUDs was declared on the basis of the actual facts that had taken place in the country by the time they were signed: thus, social and economic emergencies, among others, have been considered by the Court as a justification for these decrees. During the period immediately before the Constitutional Reform of 1994, Congress’ silence was considered an approval of the President’s acts.

In 1994, one of the reforms of the Constitution was the incorporation of the Presidential attribution to dictate this kind of decree, according to rules that were included in Article 99, referring to the President’s competencies. Since then, the President is expressly allowed to sign NUDs if matters of necessity and urgency so require it. To do so, certain rules have to be followed: i) First, this kind of decree cannot refer to regulation of political parties, electoral subject, criminal law or taxes. ii) Second, it must be signed by the President and all of his cabinet ministers and the Chief of Cabinet. iii) Third, the Chief of Cabinet must take the decree to a special Commission of both Chambers of the Congress.

5. NUDs in the Nineties

This section will analyze the NUDs issued by President Menem during both his periods of government: i) There were

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24 Fallos 2:88; 11:405; 14:257; 23:257
25 Fallo "Peralta": LL. 1991-C-141
26 Developed with the assistance of Dr. María Cecilia Recalde
262 registered NUDs issued from July 9, 1989 to December 9, 1999, on the list provided by the Presidency's Legal and Technical Secretariat. That will be the "universe". ii) The method will be a sequence of distinctions amongst them, as a function of their respective "objects"\(^{27}\). iii) Above, in Subsection 3.c, the "cause"\(^{28}\) was the "distinction criterion" used to distinguish two different legal objects: NUDs and simple decrees. In this section, the "object" will be the criterion to distinguish different "classes" of the same legal object: NUDs.

a) Out of the total of 262 registered NUDs, there were 60 that made only insubstantial amendments to previous NUDs (mostly, extending terms); these are typified as "modifiers". And there are 202 which made substantial decisions; these are typified as "normative".

b) Out of those 202 "normative" NUDs, only 183 implied the exercise of lawmaking power as Congressional attribution; these are typified as "legislative". The remaining 19 were "formally" NUDs, because their invoked "cause" were necessity and urgency considerations; but "substantially" they were regular administrative acts, because their "objects" were not matters that involved the exercise of lawmaking power as Congressional attribution; so, these are typified as "administrative".

c) Thirdly, not all of these 183 NUDs of legislative content were related to the process of reforms. Actually, most of them (116) were decisions on other governmental matters.

Table IV.I.1 presents the figures.

\(^{27}\) See above, 3
Table IV.I.1  
Necessity and Urgency Decrees (NUDs)  
(1989-1999)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL</th>
<th>MODIFY A NUD</th>
<th>NORMATIVE</th>
<th>ADMINISTRATIVE</th>
<th>LEGISLATIVE</th>
<th>NOT REFORMING</th>
<th>REFORMING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>6</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>1990</td>
<td>29</td>
<td>8</td>
<td>21</td>
<td>1</td>
<td>20</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>1991</td>
<td>59</td>
<td>18</td>
<td>41</td>
<td>4</td>
<td>37</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>1992</td>
<td>32</td>
<td>4</td>
<td>28</td>
<td>2</td>
<td>26</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>1993</td>
<td>18</td>
<td>8</td>
<td>10</td>
<td>2</td>
<td>8</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>1994</td>
<td>9</td>
<td>-</td>
<td>9</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>1995-I</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>1995-II</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>1996</td>
<td>11</td>
<td>3</td>
<td>8</td>
<td>-</td>
<td>8</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>1997</td>
<td>26</td>
<td>5</td>
<td>21</td>
<td>2</td>
<td>19</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>1998</td>
<td>26</td>
<td>5</td>
<td>21</td>
<td>1</td>
<td>20</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>1999</td>
<td>39</td>
<td>6</td>
<td>33</td>
<td>3</td>
<td>30</td>
<td>28</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>262</td>
<td>60</td>
<td>202</td>
<td>19</td>
<td>183</td>
<td>116</td>
<td>67</td>
</tr>
</tbody>
</table>

d) The 183 "legislative" NUDs classified by the specific matter of their object, show a wide variety of contents. Table IV.I.2 presents the figures.

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28 See above, 3
Table IV.2
Necessity and Urgency Decrees (NUDs)
By Matter

<table>
<thead>
<tr>
<th>Matter</th>
<th>Legislative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reforming</td>
<td>67</td>
</tr>
<tr>
<td>Budget</td>
<td>23</td>
</tr>
<tr>
<td>Public Administration</td>
<td>7</td>
</tr>
<tr>
<td>Radio, TV, Cinema</td>
<td>5</td>
</tr>
<tr>
<td>Pensions</td>
<td>9</td>
</tr>
<tr>
<td>Industrial Promotion</td>
<td>8</td>
</tr>
<tr>
<td>Federal Interventions</td>
<td>5</td>
</tr>
<tr>
<td>Commercial Societies</td>
<td>3</td>
</tr>
<tr>
<td>Real Estate</td>
<td>3</td>
</tr>
<tr>
<td>Public Health</td>
<td>3</td>
</tr>
<tr>
<td>Central Bank-Customs</td>
<td>9</td>
</tr>
<tr>
<td>Buenos Aires City</td>
<td>3</td>
</tr>
<tr>
<td>Checks-Bonds</td>
<td>8</td>
</tr>
<tr>
<td>Natural Emergencies</td>
<td>5</td>
</tr>
<tr>
<td>Others</td>
<td>25</td>
</tr>
<tr>
<td>TOTAL</td>
<td>183</td>
</tr>
</tbody>
</table>

e) It has to be noted that of those 67 NUDs considered "reforming", 35 were related to taxation (a matter allowed before the Constitutional reform). Out of the other 32 "reforming" NUDs, 20 made express reference to the Emergency Laws 23,696 and 23,697; 6 did not made such reference but are direct consequences of the regime established by those laws; 5 have an accessory relationship with the process of reforms itself; and one approved previous simple decrees on matters
that belonged (originally or by delegation) to the Executive\textsuperscript{29}.

Table IV.I.3 summarizes those numbers.

<table>
<thead>
<tr>
<th>Contents</th>
<th>Reforming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>35</td>
</tr>
<tr>
<td>Referred to Emergency Laws</td>
<td>20</td>
</tr>
<tr>
<td>Consequent to Emergency Laws</td>
<td>6</td>
</tr>
<tr>
<td>Accessory Relation to Reforms</td>
<td>5</td>
</tr>
<tr>
<td>Approved Simple Decrees</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>67</td>
</tr>
</tbody>
</table>

6. Democratic Consolidation

Despite their sometimes strongly connotative language, it is possible to agree with mainstream American political scientists that in the Argentina of the nineties there were "delegative tendencies". The economic collapse and the institutional crisis of 1989 led to a bipartisan agreement that significantly empowered the Presidential Institution\textsuperscript{30}.

The reforms of the nineties not only solved the major economic problems, but saved the democratic transition. It has been pointed out that "democracy benefited from several fundamental strengths, including institutionalized elections and civil rights, a powerful independent media, a vibrant

\textsuperscript{29} Decree 842/97
\textsuperscript{30} See this Section, 2
civil society, and a relatively strong and effective party system"\textsuperscript{31}.

On the NUDs issue, the reasons and data presented above prevent any hasty generalization. President Menem issued an unusual number of NUDs; but that was not an illegal "usurpation" of Congress' lawmaking power\textsuperscript{32}: it was an exceptional but legal resource to face exceptional circumstances\textsuperscript{33}. Most of the NUDs were issued before the end of the emergency and their number did not increase after the Constitutional Reform that included NUDs within the President's competencies; the observable increment in the last year might be related to economic recession\textsuperscript{34}.

To conclude it can be said:

a) First, the label of "delegative democracy" could fit Argentina only in the initial periods of the reforms process\textsuperscript{35}.

b) Second, the NUDs have been used as an instrument to solve certain problems related to emergency; they were not used as an instrument to carry out the process of reforms.

c) Third, neither "delegative tendencies" nor the use of NUDs in Argentina throughout the nineties should be overstated\textsuperscript{36}: the scope of "Executive Decree Authority"\textsuperscript{37} has been much more limited than in other transitional democracies\textsuperscript{38}.

\begin{thebibliography}{99}
\bibitem{31} LEVITSKY, S.: Op. Cit., pg. 1
\bibitem{32} FERREIRA RUBIO-GORETTI: When Presidents Govern Alone; pg. 33
\bibitem{33} See PROCURACIÓN DEL TESORO DE LA NACIÓN: Dictámenes 207:272
\bibitem{34} FERREIRA RUBIO-GORETTI: Executive-Legislative Relationship in Argentina, pg.4
\bibitem{35} LEVITSKY, S.: Op. Cit., pg.12
\bibitem{36} ibid
\bibitem{37} CAREY, John M. and SHUGART, Matew S: Executive Decree Authority; Cambridge University Press, 1998.
\bibitem{38} LEVITSKY, S.: Op. Cit., pg. 1
\end{thebibliography}
Corruption matters in Argentina. It has been consistently perceived as the second most important problem; factual data assigns the phenomenon a slightly lesser importance. Changes and innovations to curb corruption were implemented; notwithstanding, perceptions remained high and the theme gained prominence in the public debate: the second problem became the first political issue. Political corruption as collective perception does not only depend on factual determinants, but on a social process of "symbolic construction" that attaches meanings to facts. The alleged intention of a second presidential reelection was perceived as objectionable; corruption and re-election were both merged into the idea of "abuse of power", to which the political meaning of "offense" to certain political values was attached.

1. Political Corruption in the Nineties

"Good governance" has been one of the main objectives of the processes of structural changes carried out in many countries during the nineties; control and reduction of corrupt practices in the public realm were therefore explicit goals to be achieved through the reforms. But while the reform process is a public policy endeavor, there is the "paradox" that the process itself is liable to be subject to the same problems that it aims to solve.¹ This is probably this one of the reasons why, along with the world wide process of market-oriented reforms during the nineties, there was an "emerging consensus within both academic and policy literatures that [there is] an epidemic of corruption", both at the national and international levels².

² See WILLIAMS, Lames and BEARE, Margaret: The business of bribery: Globalization, economic liberalization and the "problem" of corruption; in "Crime, Law and Social Change", No. 32 (1999), pg. 115. (The authors criticize that assumption)
Regarding Argentina, the phenomenon has been the subject of academic and non-academic writings, political discourses, and polls. i) In American political science, references to corruption in the process of reforms of the nineties in Argentina are numerous; for instance: “blemished by scandals”\(^3\), “corruption and institutional degradation”\(^4\), “clouded by high levels of corruption”\(^5\), “carried out hastily and under a cloud of corruption allegations”\(^6\). ii) In the domestic political debate of the nineties, corruption was a salient issue too: the political opposition of the time placed its argument within an ideological framework of “market criminality”, “macroeconomic corruption” and “a perverse fabric of institutional engineering...serving corruption”.\(^7\) iii) The Peronist government, for its part, argued that the opposition made “imputations without foundations”\(^8\), that it had found the country in a “state of moral emergency” and that, through privatization, it had eradicated “structural corruption”.\(^9\) iv) The press, it is worth pointing out, considered its own role in this debate as one of “leadership impossible to deny”\(^10\), without which most denunciations of corruption “would not have been exposed”.\(^11\) v) Last but not least, different polls and surveys conducted throughout this period, showed a

\(^4\) DIAMOND, Larry: Developing Democracy; The Johns Hopkins University Press, Baltimore (1999), pg. 41.
\(^6\) SABA, Roberto P. and MANZETTI, Luigi: Privatization in Argentina: The implications for corruption; in “Crime, Law and Social Change”, N. 25 (1997); pg. 353
\(^7\) ALIANZA: Presentation of the Center for Special Investigations on Corruption; Press release, Buenos Aires (1998)
\(^8\) MENEM, Carlos: Corrupción: Volvió la Polémica; Clarín, Buenos Aires, (8-5-98)
\(^10\) LA NACIÓN: La Corrupción no tiene Patria ni Partido; Editorial 4-4-93
\(^11\) ibid
strong perception in public opinion that corruption was a relevant problem\textsuperscript{12}.

In the second half of the decade, a shift in the way corruption was studied took place. This began after the works of a young Argentine economist (now teaching at Harvard) who wrote that, corruption being “a major social and economic phenomenon”, there has been a “lack of empirical discipline” in those studies; and that with the “availability of systematic data on corruption...empirical tests are beginning to emerge”.\textsuperscript{13} A substantial contribution to this change has been made by the World Bank's chief expert on corruption, who considers that amongst the “new frontiers” that have to be explored to improve studies on corruption as a social phenomenon, the focus must be shifted from individualized prosecutions to a systemic approach—from individuals to systems, processes and institutions\textsuperscript{14}—overcoming the limitations of the ex-post legalistic enforcement measures\textsuperscript{15}. In this, two guidelines for the proposed shift should be: i) conceptualizing corruption as “as a public sector developmental challenge rather than merely as a private criminal activity”;\textsuperscript{16} and ii) enhancing the “primacy of empiricism”\textsuperscript{17}.

2. Two Asymmetries, Two Questions

The approach of this chapter will follow these criteria: it will consider political corruption as a systemic pheno-

\textsuperscript{12} See this Section, 1.c
\textsuperscript{13} ADES, Alberto and DI TELLA, Rafael: The Causes and Consequences of Corruption; in IDS Bulletin, Vol. 27, No. 2 (1996); pg. 6
\textsuperscript{15} KAUFMANN, Daniel: Challenges in the Next Stage of Anti-Corruption. Handout. Workshop: Combating Bribery in International Business; Buenos Aires (1998); pg. 12.
\textsuperscript{16} Ibid
non, and the analysis will rely on empirical data both of perceptions and facts. Another important point taken into account is the necessity of not confusing politicians in question with the institutions themselves, in order not to repeat the errors of the past century that led to potentially undemocratic political reforms\(^\text{18}\), or to similar developments that can be observed taking place in Latin America today. Instead, allegations of political corruption in Argentina will be addressed from the perspective of the social sciences, using data that reflect the systemic dimension of the phenomenon; therefore, no individual case will be considered.

Three types of information about political corruption as a socio-political phenomenon will be used here: i) "perceptual" data based on surveys and polls, both at the national and international levels; ii) "factual" data based on two different independent official sources; and iii) "institutional" information, on the changes and reforms carried out regarding corruption and transparency.

From those data, two asymmetries will be extracted: i) one, between perception and factual information: while perception of corruption is high, the factual information only verified a limited pervasiveness; ii) the other, between relevance of corruption as a perceived problem and importance as a political issue: corruption has been consistently perceived as the country's number 2 problem, but it eventually became the number 1 political issue.

These characteristics pose two questions: i) What explains the asymmetry between the perceptions and the factual

\(^{17}\) Ibid

\(^{18}\) See: LAPALOMBARA, Joseph: Structural and Institutional Aspects of Corruption; in “Social Research”, Vol. 61, No. 2 (1994), pg. 326
information? ii) Why did a phenomenon that has consistently been perceived as the number 2 problem become the number 1 political issue?

In order to answer those questions, the chapter will proceed as follows: Section three presents the “analytical approaches” usually applied to study corruption as a socio-political phenomenon. Sections four to six present available perceptual, factual and institutional data about corruption in Argentina. Section seven summarizes an empirical assessment of the extent and characteristics of the studied phenomenon, analyzing the abovementioned asymmetries between perceptions and facts on the one hand, and between social relevance and political prominence on the other. Finally, section eight proposes some hypothetical conjectures to explain the characteristics of the phenomenon as observed in Argentina.

3. Analytical Approaches

The subject of political corruption has been approached from several perspectives: moral, political and economic. In addition, there is a “communicational approach” that is particularly suited to explain corruption as “perception”.

a) Moral

The moral approach to political corruption considers the phenomenon by comparing certain behaviors to a set of standards of acceptability. These standards tend to change over time as a function of social and cultural evolution, although changes in actual behavior tend to be slower. As moral standards in regards political corruption tend to change faster
than the actual behavior of bureaucrats and politicians, the social perception of corruption tends to evolve as well. According to this approach, the “asynchrony” among these evolutions explains the changes in political reactions to the phenomenon, “even when the purportedly ‘corrupt’ behavior remains constant”.¹⁹

But “moral condemnation of corruption has utterly failed to curb it”;²⁰ therefore, a shift from an “ethics focus” to a “technocratic program”²¹ has been proposed by leading international experts.

b) Political

Along with violence, treason, secrecy and propaganda, corruption has been defined as one of the “pathologies of politics”, an array of “political phenomena that are ubiquitous, though universally condemned”²². Corruption “is not necessarily tied to a particular type of political regime²³, and “no contemporary democratic society, to say nothing of the countries of Eastern Europe and the former Soviet Union, would get a complete bill of health where corruption is concerned...The much more basic point however is another: the widespread political turmoil associated with the issue of corruption is...a manifestation of a much deeper and more persuasive loss of public confidence in the institutions and

process of democracy". In effect, this turmoil affects the political legitimacy of the state in itself. It has been argued that "If the citizens believe their generals, judges and tax gatherers to be corrupt, the 'reach' (what Mann refers to as intensive capacity) of the state is seriously diminished".

The political approach to corruption considers "The abuse of power...[to be] at the heart of corruption", and it "is more likely to be reduced by reducing the opportunities for it, by not charging the government with all kinds of tasks involving valuable discretionary power".

c) Economic

"Economics is a powerful tool for the analysis of corruption...to understanding where corrupt incentives are the greatest and have the biggest impact". Several economic factors are considered determinants of corruption: regulations and authorizations, taxation, public spending decisions, public provision of goods and services at below-market prices, and subsidies. Corruption produces distortionary effects, introducing wrong incentives that redirect the allocation of resources rendering economic activity less efficient. On the other hand, corruption also has disincentive effects, intro-
ducing new risks and uncertainties that deter economic prospective, especially investment.\textsuperscript{30}

Depending on different economic analytical models, proposed policies to fight corruption vary as well. i) The "helping hand model" considers regulations and government intervention legitimate responses to "market failures", and corruption is seen as a "personal failure" of bureaucrats and politicians; the solutions are therefore, better salaries for, more controls upon, and correct incentives for public servants. ii) The "invisible hand model" views the market as working very well without regulation or government intervention; corruption is seen as a "rational response" of economic actors to government failure, and it is judged as beneficial for economic development. iii) In the view of the "grabbing hand model", bureaucrats and politicians—whether in a democracy or not—do not act to maximize social welfare, but to benefit their own constituencies, special interests or themselves, and that regulations are instrumental to their empowerment; corruption is therefore seen as the result of regulations that create opportunities for corrupt behavior. Hence the solution is better served by privatization, deregulation and liberalization, leaving as little discretionary power as possible in the hands of politicians and bureaucrats.\textsuperscript{31}

d) Communicational\textsuperscript{32} In this approach "society's perception of reality is determined by its exchange of symbolic

The basic concept here is that "what we know of reality is the result of our interactions with society and other individuals," because "however important to us is the tiny sliver of reality each of us has experienced firsthand, the whole overall 'picture' is but a construct of our symbol systems." Therefore, "Our subjective reality is dependent upon our interpretation of symbols." This theory argues that "the symbolic construction of reality extends to the concept of politics...but with an important intermediary factor—the mass media," and that "the media's interpretation of political events is vital to our creation of reality."

Upon this basis, the communicational theory reaches the following conclusions regarding corruption: i) First, "corruption should be viewed as a phenomenon in which perceptions are as important as an 'act' that may have occurred." ii) Second, "the public's response to acts of corruption does not necessarily depend on a rational judgment of actions that take place. Rather, the members of the public...weigh factors [such] as the alleged corrupted 'ethos', their attitude toward government officials at the time, and the degree and manner in which allegations of corruption are magnified in the media." iii) Third, in order to understand the public's reaction to allegations of corruption, the process through which people attach meanings to symbols related to corruption...
needs to be examined. And iv) fourth, “the political outcome of allegations of political corruption does not depend upon the severity of the crimes of which a politician is accused, but on the symbolic construction of the charges through the media and the political rhetoric”.

The question that follows here is “How are allegations of political corruption symbolically constructed?”; or, in more theoretical terms, “How is meaning attached to symbols?”

Symbolic construction of allegations of political corruption has been described as “a set of social rules” involving four steps: i) a ‘sociolinguistic process’ that ‘names’ certain acts, attaching to them two levels of meaning: first, the institutional meaning of "crime"; second, the political meaning of "cultural offense"; ii) a ‘dialectical process’ that publicly exposes accusations and defense, setting two competing dramas; iii) a ‘narrative process’, through which the media provides a third "public" drama in which the people may become involved. And iv) a ‘ceremonial process’, that “visualizes” the punishment and purgation of the offender.

4. Perceptions

“Corruption is a perception of society...what is judged is not only corruption, but the appearance of corruption, too”. While this statement, made by Herbert Alexander in Buenos Ai-

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41 BORCHERS, Timothy: Op. Cit., pg. 11
42 BORCHERS, Timothy: Op. Cit., pg. 3
43 BORCHERS, Timothy: Op. Cit., pg. 28
44 BORCHERS, Timothy: Op. Cit., pg. 32
res in 1993\textsuperscript{48}, was not original—the same thing was said two thousand years before in regards to Caesar’s wife—it nonetheless expressed a generally accepted opinion. Perceptions of corruption over the decade were reflected in polls and surveys, both at the national and international levels.

\textit{a) The TI Index}

The “Transparency International Corruption Perception Index” is the best-known index of corruption; it is based upon surveys of the opinions of businessmen, academics and country specialists who rank countries from 10 (least corrupt) to 0 (most corrupt). However, opinions are not everything; one of the most important International Monetary Fund officials points out that “It is important to keep in mind that the indexes reflect perceptions and not objective and quantitative measures of actual corruption”.\textsuperscript{49} For his part, the World Bank's expert cited earlier warned that “the margin of error in the ranking of a particular country can be very large”.\textsuperscript{50} Notwithstanding these limitations, the TI index is widely used, if not as a direct measurement, then as a reflection of opinions considered relevant. In this, Argentina has been placed consistently in the middle of the lower half of the rankings, below such countries as Chile, Spain, Italy and South Korea, and above countries as Colombia, India, Venezuela and Russia.

\begin{itemize}
\item \textsuperscript{47} Ibid
\item \textsuperscript{48} Ámbito Financiero, Buenos Aires, 06-11-93
\item \textsuperscript{49} TANZI, Vito: Op.Cit.. pg. 577.
\item \textsuperscript{50} KAUFMANNNNN, Daniel: Challenges in the Next Stage of Anti-Corruption. Handout. Workshop: Combating Bribery in International Business; Buenos Aires (1998); pg. 12
\end{itemize}
Graph IV.II.1 shows the scores of Argentina in the TI Surveys from 1995 to 2000. Table IV.II.1 presents an abridged version of the TI Index Ranking over the same period.\textsuperscript{51}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{graph.png}
\caption{Graph IV.II.1
\textit{Transparency International Index}
\textit{Argentina’s Scores}
(1995-2000)}
\end{figure}

Table IV.II.1
Transparency International Index
Sample Countries

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<td>6.00</td>
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</table>
b) International Surveys

A 1997 worldwide study conducted by Gallup International celebrating its Fiftieth Anniversary measured perceptions of corruption at three levels: first, as a problem; second, among leaders; and third, among people in general. It was based upon a public opinion poll representative of all the population, answering a set of specific questions. The results were presented (according to the percentage of mentions) as a ranking of problems in the first case and as a ranking of countries in the other two.

Corruption is considered the number 1 problem in Latin America, the Far East and Africa; in the Middle East it is number 2, in Eastern Europe it is number 3 and in Western Europe number 5. Regarding perceived corruption among both leaders and the general population, Argentina was again placed in the middle of the lower half of the ranking, below Greece, Bolivia, Japan and Colombia, and above Taiwan, Italy, South Korea and Russia.

Tables IV.II.2, 3 and 4\textsuperscript{52} show the figures.

\textsuperscript{52} Gallup International 50\textsuperscript{th} Anniversary Study (1997).
Table IV.II.2
Perception of Corruption Among the Leaders
Differences Less-More
(Forty Countries-1997)

<table>
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<th>Negative Scores</th>
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<td>74 19 Greece</td>
</tr>
<tr>
<td>2   Norway</td>
<td>67 20 Estonia</td>
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<tr>
<td>3   Sweden</td>
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<td>4   Hong Kong</td>
<td>59 22 Belarus</td>
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<td>5   Netherlands</td>
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<td>7   New Zealand</td>
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</tr>
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<td>8   Switzerland</td>
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</tr>
<tr>
<td>9   Finland</td>
<td>34 27 Colombia</td>
</tr>
<tr>
<td>10  Uruguay</td>
<td>30 28 Argentina</td>
</tr>
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<td>11  United Kingdom</td>
<td>28 29 Taiwan</td>
</tr>
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<td>12  Israel</td>
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<td>37  Turkey</td>
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<td>39  Nigeria</td>
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<td>40  Korea</td>
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Table IV.II.3  
Perception of Corruption Among People  
Differences Less—More  
(Forty Countries—1997)

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<tr>
<td>2 Denmark</td>
<td>60   25   Bulgaria</td>
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<tr>
<td>3 New Zealand</td>
<td>57   26   Ukraine</td>
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<td>4 Sweden</td>
<td>54   27   Romania</td>
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<td>5 Hong Kong</td>
<td>54   28   India</td>
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<td>6 Finland</td>
<td>45   29   Argentina</td>
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<td>7 Bolivia</td>
<td>43   30   Hungary</td>
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<td>8 Switzerland</td>
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<td>27   36   Yugoslavia</td>
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<td>14 Greece</td>
<td>26   37   Korea</td>
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<td>20 Estonia</td>
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Table IV.II.4
Country’s Most Important Problems
Ranking by Region
(Forty Countries-1997)

<table>
<thead>
<tr>
<th>Problem</th>
<th>W-Europe</th>
<th>E-Europe</th>
<th>L-America</th>
<th>F-East</th>
<th>M-East</th>
<th>Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>22%</td>
<td>42%</td>
<td>45%</td>
<td>56%</td>
<td>33%</td>
<td>55%</td>
</tr>
<tr>
<td>Poverty</td>
<td>20%</td>
<td>51%</td>
<td>43%</td>
<td>18%</td>
<td>30%</td>
<td>13%</td>
</tr>
<tr>
<td>Violence</td>
<td>25%</td>
<td>10%</td>
<td>18%</td>
<td>17%</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>48%</td>
<td>44%</td>
<td>37%</td>
<td>34%</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>Crime</td>
<td>33%</td>
<td>34%</td>
<td>12%</td>
<td>28%</td>
<td>23%</td>
<td>32%</td>
</tr>
<tr>
<td>Environment</td>
<td>11%</td>
<td>7%</td>
<td>5%</td>
<td>27%</td>
<td>9%</td>
<td>2%</td>
</tr>
<tr>
<td>Drugs</td>
<td>36%</td>
<td>8%</td>
<td>35%</td>
<td>13%</td>
<td>38%</td>
<td>13%</td>
</tr>
</tbody>
</table>

c) National Surveys

Gallup Argentina conducted systematic surveys at the national level showing that domestic public opinion over the nineties considered corruption a problem of importance, within a set of problems comprised of unemployment, education, security, and poverty. The ranking was headed by unemployment for eight of the ten years; corruption has consistently placed second.

Table IV.II.5\textsuperscript{53} presents the figures for each year. Table IV.II.6\textsuperscript{54} presents the averages for the decade.

\textsuperscript{53} Data: Gallup Argentina
\textsuperscript{54} Data: Gallup Argentina
## Table IV.II.5
### Country’s Most Important Problems
#### Argentina
#### Ranking (1991-1999)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1°</td>
<td>Unemployment 34</td>
<td>Unemployment 33</td>
<td>Corruption 16</td>
<td>Unemployment 26</td>
<td>Unemployment 32</td>
</tr>
<tr>
<td>2°</td>
<td>Inflation 21</td>
<td>Corruption 16</td>
<td>Education 16</td>
<td>Corruption 19</td>
<td>Corruption 13</td>
</tr>
<tr>
<td>3°</td>
<td>Corruption 15</td>
<td>Security 11</td>
<td>Unemployment 13</td>
<td>Education 10</td>
<td>Poverty 12</td>
</tr>
<tr>
<td>4°</td>
<td>Security 7</td>
<td>Inflation 10</td>
<td>Retirement 12</td>
<td>Salaries 10</td>
<td>Salaries 7</td>
</tr>
<tr>
<td>5°</td>
<td>Drugs 5</td>
<td>Drugs 8</td>
<td>Drugs 11</td>
<td>Drugs 9</td>
<td>Retirement 7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1°</td>
<td>Unemployment 37</td>
<td>Unemployment 39</td>
<td>Corruption 30</td>
<td>Unemployment 36</td>
<td>Unemployment 40</td>
</tr>
<tr>
<td>2°</td>
<td>Corruption 13</td>
<td>Corruption 23</td>
<td>Unemployment 28</td>
<td>Corruption 24</td>
<td>Corruption 19</td>
</tr>
<tr>
<td>3°</td>
<td>Education 12</td>
<td>Poverty 13</td>
<td>Poverty 9</td>
<td>Poverty 9</td>
<td>Poverty 10</td>
</tr>
<tr>
<td>4°</td>
<td>Salaries 10</td>
<td>Education 8</td>
<td>Justice 9</td>
<td>Education 8</td>
<td>Security 10</td>
</tr>
<tr>
<td>5°</td>
<td>Poverty 10</td>
<td>Justice 9</td>
<td>Security 7</td>
<td>Security 7</td>
<td>Education 7</td>
</tr>
</tbody>
</table>

## Table IV.II.6
### Country’s Most Important Problems
#### Argentina
#### Average 1991/1999

<table>
<thead>
<tr>
<th>Problem</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1° Unemployment</td>
<td>31.8</td>
</tr>
<tr>
<td>2° Corruption</td>
<td>18.8</td>
</tr>
<tr>
<td>3° Poverty</td>
<td>10.5</td>
</tr>
<tr>
<td>4° Education</td>
<td>10.1</td>
</tr>
<tr>
<td>5° Security</td>
<td>8.4</td>
</tr>
</tbody>
</table>
Perceptions of corruption in Argentine public opinion varied over time. In the period of more active reforms (1991-1995) it tended to decline; it visibly rose from 1995 to 1997, coinciding with the political campaign that, based on the issue of corruption, led to the opposition's electoral victory in October 1997. From then on, it tended to decline again, stabilizing below the peak but above the average for the decade.

Graph IV.II.2\textsuperscript{55} shows the trend.

\textbf{Graph IV.II.2}

\textit{Perception of Corruption as a Problem}

\textit{Argentina}

\textit{(1990-2000)}

Polls are powerful instruments for studying social perceptions and attitudes, not measuring facts. That is why “the recognition of the limits of each single corruption indicator or index does point to the desirability (for researchers and

\textsuperscript{55} Data: Gallup Argentina
policy-makers alike) of always applying a multi-pronged empirical approach."\textsuperscript{56} In the next section a different approach (based on facts, not perceptions), will be applied.

5. The Facts

It has been said that if corruption could be measured, it could probably be eliminated, but that this is impossible because any attempt to measure acts of corruption would require counting many relatively unimportant actions and identifying each one, and (it is argued) that information is simply not available.\textsuperscript{57} Strictly speaking, this is correct. Nevertheless, if the usefulness of an instrument can be accepted despite certain limitations—as polls and surveys are accepted despite theirs—other methods can provide reliable "factual" direct information.

In the case of Argentina there are two official reports from two different independent offices under two different administrations that identify and enumerate acts of corruption reported over two different periods of time: the "1998 Report of the General Attorney’s Office" (Procuración del Tesoro de la Nación)\textsuperscript{58} and the "2000 Report of the Anti-Corruption Office" (Oficina Anticorrupción)\textsuperscript{59}. Although each report follows a different methodology, both consist of factual information, analyze hundreds of denunciations using technical standards, consider each act on an individual basis, and present the results in a quantitative manner.

\textsuperscript{56} KAUFMANN, Daniel: Op.Cit., pg. 13
\textsuperscript{57} TANZI, Vito: Op.Cit., pg. 566

During the electoral campaign and the months following the October 1997 mid-term elections, opposition politicians and Congressmen made public references to corruption in the Federal Government. The President instructed me, as General Attorney (Procurador del Tesoro de la Nación), to conduct the proper investigations and to take the necessary steps to ask them to put the information they had at judges’ disposition.

An important number of opposition Congressmen and political leaders—including current President Fernando De la Rúa, who was then Chief of the Government of the City of Buenos Aires and president of the Radical Party—presented the General Attorney with a quantity of documents and materials of diverse type and value: 1008 documents in 5883 pages. The event received more than ordinary media coverage.

Table IV.II.7 summarizes these documents, classified by type.

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60 "General Attorney " is the conventional translation for Procurador del Tesoro de la Nación, who is the top Legal Officer of Government's executive branch. It is similar but not identical to the US "Attorney General".
61 Decree 197/98; during my tenure as Procurador del Tesoro.
62 Bordenave, Marcela; Bravo, Alfredo; Cafiero, Juan Pablo; Castro, Alicia; Conti, Diana B.; D’Alessandro, Dario; Fernandez de Combes, Elsa; Gonzalez, Maria América; Parentella, Irma; Vago, Ricardo; Vensentini, Marcelo; Villalba, Alfredo; Viqueira, Horacio.
63 PROCURACIÓN DEL TESORO DE LA NACIÓN: Op. Cit., pg. 4
Table IV.II.7
Documents Presented to the General Attorney’s Office
(According to Type)

<table>
<thead>
<tr>
<th>Type of Documents</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congressional Resolution and Declaration Drafts</td>
<td>609</td>
</tr>
<tr>
<td>Congressional Bills of Laws Drafts</td>
<td>138</td>
</tr>
<tr>
<td>Copies of Reports of the General Auditing (AGN)</td>
<td>103</td>
</tr>
<tr>
<td>Copies of letters</td>
<td>74</td>
</tr>
<tr>
<td>Copies of presentations to the Judiciary</td>
<td>37</td>
</tr>
<tr>
<td>Copies of contracts and auxiliary documentation</td>
<td>14</td>
</tr>
<tr>
<td>Copies of files and administrative documents</td>
<td>13</td>
</tr>
<tr>
<td>Copies of documents-letters</td>
<td>5</td>
</tr>
<tr>
<td>Copies of parliamentary working papers</td>
<td>5</td>
</tr>
<tr>
<td>Copies of Reports of the General Controller (SIGEN)</td>
<td>2</td>
</tr>
<tr>
<td>Total documents presented</td>
<td>1008</td>
</tr>
</tbody>
</table>

This data was systematized in four steps: i) identification of documents containing any type of mention referring to corruption; ii) deletion of redundant materials; iii) determination of non-redundant references to acts of corruption; and iv) determination of non-redundant references to administrative irregularities. In order to classify these documents, corruption was defined in accordance with the Inter-American Convention Against Corruption.

Out of one thousand denunciations, half made no mention referring to corruption, while one-fourth contained repeated charges. However, after technical review, there were only twelve referred to alleged acts of corruption, out of which ten were already under judicial procedures, while the remaining two had been subject to previous administrative inquires and the involved personnel acquitted. In addition, there were
sixteen mentions of administrative irregularities, nine of which were already under judicial procedures, while the remaining seven were minor mistakes or wrongdoings.

Table IV.II.8 presents the figures.

Table IV.II.8
Documents Presented to the General Attorney’s Office
(Contained Mentions According to Type)

<table>
<thead>
<tr>
<th>Type of Mention</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic mentions of corruption</td>
<td>484</td>
</tr>
<tr>
<td>Not redundant generic mentions of corruption</td>
<td>254</td>
</tr>
<tr>
<td>Not redundant mentions of “acts of corruption”</td>
<td>12</td>
</tr>
<tr>
<td>Not redundant mentions of administrative irregularities</td>
<td>16</td>
</tr>
</tbody>
</table>

The acts of corruption mentioned in the denunciations analyzed in the 1998 Report of the General Attorney’s Office referred to the following matters: i) public procurement; ii) public works; iii) judicial transactions; iv) military sales; and v) public benefits. None of them referred directly to the process of reforms.


In December 1999 the new administration created a new “Anti-Corruption Office” (ACO), replacing the “National Office of Public Ethics”\(^\text{65}\). The competencies of this new office included the following: i) To receive denunciations related to public corruption; ii) To investigate public agents and officers; iii) To present denunciations to the judges. Furthermore, the Anti-Corruption Office would produce an annual report on its activities.

\(^{64}\) PROCURACIÓN DEL TESORO DE LA NACIÓN: Op. Cit., pg. 9

\(^{65}\) The creation of the National Office of Public Ethics is referred in this Section, 3.
The Annual Report of the year 2000 was the first from the new ACO and the new Administration. It reported that throughout the year, 1076 files were opened, based on denunciations of private citizens, officers, monitoring agencies and the media.

Graph IV.II.3 shows the number of files opened by month; Table IV.II.9 presents the number of opened files, classified by type of denouncer.

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66 OFICINA ANTICORRUPCIÓN: Informe Anual 2000; pg. 22
67 OFICINA ANTICORRUPCIÓN: Informe Anual 2000; pg. 31
Table IV.II.9
Files Opened by the Anti-Corruption Office
(According to Type of Denouncer)

<table>
<thead>
<tr>
<th>Denouncer</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizens</td>
<td>817</td>
</tr>
<tr>
<td>Ex officio</td>
<td>119</td>
</tr>
<tr>
<td>Public office</td>
<td>104</td>
</tr>
<tr>
<td>Media</td>
<td>25</td>
</tr>
<tr>
<td>Monitoring agencies</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1076</strong></td>
</tr>
</tbody>
</table>

Out of all these denunciations, one-third were dismissed; one-third were reserved for further examination because there was not enough information to determine whether the act actually took place; almost 20% were remitted to other offices because they were not acts of corruption but administrative irregularities; something more than 10% was brought to the attention of the judges for evaluation; the ACO decided to take active judicial engagement in a small number of these cases.

Table IV.II.10\(^{68}\) presents the figures.

Table IV.II.10
Files Opened by the Anti-Corruption Office
(According to Procedural Situation)

<table>
<thead>
<tr>
<th>Procedural Situation</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dismissed (to archives)</td>
<td>350</td>
</tr>
<tr>
<td>Remitted to other offices</td>
<td>183</td>
</tr>
<tr>
<td>Under examination</td>
<td>365</td>
</tr>
<tr>
<td>Brought to notice of Judges</td>
<td>127</td>
</tr>
<tr>
<td>Active Judicial denunciation</td>
<td>17</td>
</tr>
</tbody>
</table>

\(^{68}\) Ibid
The acts of corruption mentioned in the denunciations analyzed in the 2000 Report of the Anti-Corruption Office referred to the following matters: i) public procurement; ii) public works; iii) public benefits; and iv) officials' personal enrichment. None referred directly to the process of reforms.

c) Resulting data

There were more than two thousand denunciations in both reports; made, without any restrictions, by the most important leaders of the opposition, private citizens, officers, monitoring agencies and the media. The denouncer did not have to "prove" that a corrupt act had been committed; they only had to present information of facts that could be a corrupt act. However, the result of both reports rendered less than thirty identifiable cases that would have conformed to the general definition of "Act of Corruption" under the "Inter-American Convention Against Corruption".

6. Reforms and Institutional Changes

There is a growing consensus that "well-designed and properly executed market-oriented reforms" are the most effective anti-corruption tools. For instance, the "inventory of elements to combat corruption" proposed by Transparency International is basically comprised of the following: economic reform (liberalization, deregulation, privatization and trade opening); administrative, civil service, budget, tax

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and legal reforms; enhancing the independence of judges and prosecutors; and setting up special anti-corruption agencies.

As data presented in the respective chapters show, all these reforms have been fully carried out in Argentina with a more than acceptable degree of success. Privatization of state-owned firms\textsuperscript{71} in a context of deregulation, economic reform\textsuperscript{72} and civil service reform\textsuperscript{73}, eliminated the most relevant "structural determinants" of corruption. Privatization of the state-owned media complex (that in 1989 owned most of the country's TV and radio stations\textsuperscript{74}) not only improved the free press to unprecedented levels, but was also a very important change as regards transparency: the media became a major actor, monitoring government activities and the loudest voice in the public debate about corruption.

In addition to the general process of structural reforms, a number of specific institutional changes instrumental to fight corruption were also implemented:

i) Inclusion of the "Ethical Clause" in the Constitution; the new Article 36, in which the last sub-paragraph states: "He who, procuring personal enrichment, incurs in serious fraudulent offense against the Nation shall also attempt against the democratic system, and shall be disqualified to hold public office for the term specified by law. Congress shall enact a law on public ethics which shall rule the exercise of public office"\textsuperscript{75}.

ii) Inclusion at the constitutional level of three new monitoring agencies: Article 85 created the General Auditing

\textsuperscript{71} See Chapter III.I
\textsuperscript{72} See Chapter I.I
\textsuperscript{73} See Chapter III.III
\textsuperscript{74} See Chapter III Section I.10.j
Office, as a technical and autonomous body; Article 86 created the Ombudsman, as an independent official; and Article 120 created the Public Ministry as an independent body, headed by the General Prosecutor.

iii) To enhance the independence of the judiciary, the reformed Constitution created in Article 114 the Council of the Magistracy, as an independent body which selects and proposes candidates for judgeships.

iv) Special laws enhanced the independence of the General Attorney (PTN-Law 24776) and the General Comptroller (SIGEN-Law 24156).

v) Argentina signed the “Inter-American Convention Against Corruption” on March 29, 1996, which was approved by Congress on January 17, 1997.

vi) Creation of the “National Office of Public Ethics” (Decree 152/97) upon the model of the U.S. Anti-Corruption Office (re-created on a similar basis as the “Anti-Corruption Office” by the new administration by Decree 102/99).

vii) Enactment of the “Code of Public Function Ethics” (Decree 41/99).


Nevertheless, despite these reforms and institutional innovations, the polls show that public perception of corruption in Argentina did not improve.

7. Characteristics of the Phenomenon in Argentina

Corruption, along with other political pathologies, is ubiquitous, and it is probably impossible to make it totally

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75 Constitution of the Argentine Nation; English version; Argentine Senate web-
disappear. Nevertheless, "it is equally patent that when it became too widespread it became destructive of the political community...and only within...strictly circumscribed limits can it function without creating a serious threat to the survival of the political order".76 Did corruption in Argentina pass those limits? From the evidence, it does not seem so.

While perception of corruption is high, the measurements are far from the extremes: i) In the TI Ranking, Argentina has been placed consistently in the middle of the lower half of the ranking, and its score has been improving since 1997. ii) In the Gallup International study, Argentina was again placed in the middle of the lower half of the ranking, regarding perceived corruption both among leaders and general population; and perception of corruption as a problem ranks lower in Argentina than in the Latin American average. iii) While corruption is considered a problem of importance in the Gallup national surveys, it ranks below unemployment; the average percentage of mentions throughout the decade was 18.8%, surpassing 25% only once.

While available factual information confirms the existence of acts of political corruption in Argentina, it does not do so to an extent that authorizes consideration of corruption as a "property" of the Argentine state. Both reports summarized above77 are the result of massive amounts of documentation produced directly and indirectly by a wide, diverse and unrestricted array of sources. Both reports analyzed the materials following technical standards, and both arrived at similar findings: i) demonstrating the existence of elements

76 FRIEDERICH, Carl: Op. Cit., pg. 2
77 See this Section, 3.
that supported the allegations of political corruption; ii) identifying a small number of such allegations (less than two in one hundred) as suitable to the internationally accepted definition of "act of corruption"; and iii) verifying that none of the identified acts directly referred to the reforms process.

From those perceptual and factual data, two asymmetries can be identified in the phenomenon of political corruption as it has been described in Argentina:

i) First, the asymmetry between the social perception and the factual information: While the perception of corruption is high, the measurements are far from the extremes: in national and international surveys, Argentina is in the middle of the lower half of the ranking. On the other hand, available factual information seems to confirm the existence of acts of political corruption in Argentina, though its pervasiveness is limited.

ii) Second, the asymmetry between its perception as social problem and its relevance as political issue: While corruption is considered a problem of importance in the national surveys, it has been consistently the number 2 problem, with an average percentage of mentions of 18.8%; the number 1 problem has consistently been unemployment, with an average of 31.8% mentions. However, from 1997 on, corruption was almost always the dominant issue in the political debate.

These characteristics raise several questions: Why have perceptions of political corruption been so resilient? Why did corruption become so prominent? In more specific terms, these characteristics pose two questions: i) What explains the asymmetry between perceptions and factual information?
ii) Why did a phenomenon that has consistently been perceived as the number 2 problem become the number 1 political issue?\(^78\)

The theoretical elements presented earlier, have prepared the ground for finding the answers.

8. Hypotheses

Here it will be argued that the social construction of corruption allegations explains the first question, and that the perceived intention of President Menem to attempt a second re-election contributes to an explanation of the second.

a) The perception of corruption does not depend on factual determinants, but on symbolic construction.

The first question refers to the asymmetry between perception and factual information: while perception of corruption is high, factual information does not verify the phenomenon with an equally high level of pervasiveness. What explains this asymmetry?

The elements provided by the communicational theory\(^79\) fit the case best: i) The social perception of reality is determined by the exchange of symbolic communication upon which depends the public's subjective reality; this symbolic construction encompasses politics through the mass media; therefore, the media's interpretation is vital to the creation of subjective reality. ii) Regarding corruption, perceptions are as important as 'acts'; the public's perceptions do not depend on a rational assessment of actual acts, but on factors such as attitude toward government, the public "persona" of the accused, and the mode in which the allegations are

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\(^78\) I thank Leonardo Vivas (WCFIA, Harvard University) for his contributions on this point.

\(^79\) See this Section, 5.d
treated in the media. iii) The political outcome of allegations of corruption does not depend upon the severity of the accusations but on the symbolic construction of the charges through the media and the political rhetoric.

Perception of corruption is not dependent on factual determinants but on symbolic construction. That symbolic construction is in turn built upon certain facts, through a three steps process: i) the ‘naming’ of the acts by both the actors and the media, attaching to them meanings of legal and political offenses; ii) the public exposition of accusations and defenses as two competing dramas; and iii) the media 'narrative' of a third drama, in which the people may play a part.

Chart IV.II.1 summarizes this process.

<table>
<thead>
<tr>
<th>Step</th>
<th>Who</th>
<th>What</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naming</td>
<td>Actors + Media</td>
<td>Legal + Political Meanings</td>
</tr>
<tr>
<td>Debate</td>
<td>Actors</td>
<td>Competing Dramas: Accusation + Defense</td>
</tr>
<tr>
<td>Narrative</td>
<td>Media</td>
<td>Public Drama: people take part</td>
</tr>
</tbody>
</table>

This process of the social construction of allegations of political corruption is what brought reason to the asymmetry between perception of corruption and factual information.
b) Political corruption and re-election were "merged" into the encompassing idea of "abuse of power", becoming a political symbol of institutional offense and of political transgression.

The second question refers to the asymmetry between relevance as perceived problem and importance as political issue: while corruption has been consistently the Number 2 problem, it became the number 1 political issue. What are the reasons for this?

According to public opinion polls, corruption has consistently ranked second in the country's perceived problems. However, available factual information would place corruption lower in the ranking, and no new salient scandals appeared over the considered period. Nevertheless, from 1997 onwards corruption was almost always the dominant issue in the national political debate. If there were no significant changes in the conditions (perceptions, factual data, or scandals) but the political prominence of corruption increased, the cause has to be another concomitant phenomenon, for a constant does not explain a variation. It will be argued here that the concomitant phenomenon was the alleged intention of President Menem to attain a second presidential re-election.

A combination of political and communicational elements will be suitable for this case: i) President Menem was elected for the first time in 1989; the constitutional text effective at that time did not allow presidents to be re-elected. However, in 1994 several reforms were included in the Constitution, among them, the possibility for a presidential re-election. Public opinion strongly supported this
reform\textsuperscript{82}. ii) Under the new constitutional rules, President Menem was re-elected in 1995; he was the first Argentine president re-elected since President Perón, almost half a century before. Voters strongly supported Menem in his re-election, with more than 50\% of the votes. iii) Around 1996 the idea of a second re-election for a third term appear within certain circles. President Menem publicly denied any intention of running again and never personally made a single institutional movement towards re-election. Nevertheless, some of his aides made two attempts through lawsuits to attain a judicial interpretation of the new Constitution, favorable to a second re-election; neither succeeded. As a matter of fact, President Menem did not run in 1999. iv) The idea of a second re-election (named by the press "re-re-election") produced strong reactions both from the opposition and from some Justicialista leaders as well\textsuperscript{83}. But—more relevant for this argument—it received a clear rejection in the public opinion surveys.

Graph IV.II.4\textsuperscript{84} presents the figures.

\textsuperscript{81} See Chapter III, Section II.

\textsuperscript{82} See Chapter III, Section II, 1.

\textsuperscript{83} Governor Duhalde (PJ-Buenos Aires), actually issued a decree calling a provincial referendum against re-election.

\textsuperscript{84} Data: La Nación. Buenos Aires, 2/4/99
As was said earlier, the first step of the symbolic construction of allegations of political corruption is the ‘naming’ of the acts, by which actors and media attach meanings of legal and political offenses. That naming implies three levels: i) "factual" (mentioning the acts as direct reference to experience); ii) "institutional" (giving the acts technical or legal meaning); and iii) "cultural" (giving the acts meanings linked to values considered basic for the symbolic environment). Through this process, simple facts are first upgraded to the level of institutional offense, and then to the level of cultural offense. Facts are thereby transformed into cultural and political symbols.

How was the "re-re-election" debate linked to corruption? The argument is the following: i) The political "sub-

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The "stance" of corruption is the idea of "abuse of power"; and an attempt at a second re-election was widely perceived as an abuse. ii) Corruption and re-election were "merged" into the encompassing idea of "abuse of power". iii) This idea of abuse of power was "named" as an institutional offense first, and as a violation of the political values after. iv) Thereby, political corruption (encompassed within the idea of "abuse of power") was transformed into a political symbol not only of institutional offense but also of political violation.

Graph IV.II.5 illustrates this process.

Graph IV.II.5
Corruption and Re-election: Symbolic Construction

This hypothesis helps to answer why the phenomenon of political corruption in Argentina, which has consistently placed second in public perception, became first in the political discourse.

86 See this Section, 3.b.
ON PUBLIC DEBATE

It has been said that successful reforms require "isolation" of reformers. This has not been the case for Argentina, where reforms have been successful and widely debated—in the political field, academia, the business community and society at large—and the media has reflected that debate. A quantitative study of publications of the debate on convertibility in four major newspapers of Buenos Aires in terms of coverage, actors, arguments and circumstances, portrays a society which has learned how to make its voice be heard.

1. Reformers and Society

Conventional wisdom regarding political costs of economic reform is that they are subject to a "time inconsistency" problem and a "collective action" problem.¹ i) The first is that although effects of reforms are positive in the medium and long run, there is a "valley of transition that must to be traversed before climbing higher hills".² ii) The second is that those affected by the short run economic hardship, would engage in collective action against reforms (union mobilization, electoral rejection, business lobbying).

In order to overcome those problems, the "isolation" of reformers has been suggested. The Chilean experience in the early eighties, where a coherent team of technocrats with enough delegated authority fostered a successful process of

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¹ See HERRERA, Yoshiko: Government 1102, Harvard University; Lecture Notes (2000).
² PRZEWORSKI, Adam: Democracy and the market; Cambridge University Press UK (1991); pg. 138
reforms, has been cited in this regard. Other case frequently recalled is that of South Korea, where successful reforms were "imposed by technocratic elites who were ‘insulated’ from the political pressures of interest groups and mass publics".

This was not the case in Argentina. There was no "time inconsistency" problem, since the immediate effects of the reforms were visibly positive; as it has been pointed out above, "one of the outstanding values of this reform has been not only its sustainability over time, but its immediate positive impact in the firsts years". In addition, there was no "collective action" problem either, since the reforming government won four elections in a row after the process of reforms was launched.

Argentine reformers of the nineties were not isolated; on the contrary, for good or bad they had to be in close interaction with the political, economic, and social environment of the country in that time. As it has been presented throughout this book, every reform had to be discussed in Congress; most of them required a very complex process of consensus building and institutional design in which political parties, unions and business took part; and one—the reform of the Constitution—involved a political pact of historic dimensions.

"The reforms of the nineties in Argentina—as stated in the Introduction—have been ‘choices’ made to solve certain

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5 See Chapter I, Section I.9
6 See Introduction, 1.
problems”. Both problems and choices had been subject to reflection and permanent public debate; and belonging—as they did—to the public opinion, those analysis and proposals were reflected in the media. Fundamental problems and their possible solutions generated very deep and persistent public debates, to which the media devoted extensive coverage. This short section will consider a very representative case of the press coverage of that debate: the discussion on the Convertibility Plan.

2. The media contribution

During the nineties, the Argentine mass media institutions were, at the same time, subject of specific reforms and “part of the communications processes existing and operating in and around” political and economic changes as a whole. They were the subject of specific reforms because—as it has been presented elsewhere—the privatization of numerous TV channels, radio broadcastings, and stock in press-related enterprises, was a very important component of the early stages of the reforms. On the other hand, from privatization onwards, media redefined their role as an independent actor of the system, and played it with increasing power.

In a quite oft-cited article, Harold Lasswell summarized the communications process of society as follows: “The communication process in society performs three functions: (a) surveillance of the environment, disclosing threats and

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7 ROGERSON, Ken: The role of the media in transitions from authoritarian political systems: Russia and Poland since the fall of Communism; in “East European Quarterly; (Fall 1997); pg. 329.
8 See Chapter III, Section I.10.
opportunities affecting the value position of the community and of the component parts within it; (b) correlation of the components of society in making a response to the environment; (c) transmission of the social inheritance”. And it concludes: “In democratic societies, rational choices depend on enlightenment, which in turn depends upon communication; and especially upon equivalence of attention among leaders, experts, and rank and file”.

The subject of this section—media coverage of the social debate on convertibility—was encompassed in Lasswell's second function of the societal communication process: correlation of society’s components in the building of collective responses to environmental changes. Studies about the effects of mass communications on social change consider that “Mass communication does not usually serve as necessary and sufficient cause of something, but rather functions with other factors and influences”10; and different forms of prior political knowledge have been pointed as one of the most relevant of those other factors and influences.11 In the Argentine case, choices made by society supporting convertibility above almost any other consideration have been based to a great extent upon one specific type of "prior political knowledge": the social learning produced by a long period of inflation, in particular the "first hand" experience of hyperinflation.

It was in that situation in which the social communication through media of the debate among professionals, made substantial contributions correlating experts, decision mak-

ers, actors and public opinion in legitimating convertibility as well as in re-shaping the patterns of social behavior: Argentines changed from being a society “adaptive to inflation”, to a society “defensive of stability”.

3. The Study

a) This study will focus its attention on the following: i) the permanence of the debate over the Convertibility Plan in the media; ii) the actors of that debate; iii) the arguments used by both supporters and opponents of Convertibility; iv) the variations in the frequency of the publications related to this debate.

b) Although this debate has been a “multimedia” phenomenon—since it took place in graphic media as well as on TV and radio—this study will encompass only the printed press. It will consider the coverage in four major Buenos Aires’ dailies: i) La Nación; ii) Clarín; iii) Ámbito Financiero and iv) Página 12.

c) The search and selection of the materials was done through Internet, checking the digital issues of the above mentioned four newspapers. The collection of La Nación and Clarín were available from 1996 onwards, but those of Ámbito Financiero and Página 12 were partially on line since 1999; nevertheless, that small number of available issues of these two newspapers has been included.

d) The public debate on the Convertibility Plan has been in the media since its implementation, in March 1991, and is still there; hence, whatever period of time considered would be representative enough for a study like this. It would have been beyond the limits of this work to consider a span of ten
years—and taking into account the availability of the newspapers’ digital issues—thus the temporal extent covered by this analysis is the period of twenty months beginning on April 1, 1999 and ending on December 10, 2000. This is a relevant period because it encompasses: i) the last year of President Menem’s administration; ii) the campaign for Presidential elections; and iii) the first year of President De la Rúa’s administration.

4. **The Analysis**

   a) The considered universe

   Over the period of time determined for this study, a total of 500 articles on Convertibility were published in the four selected newspapers: 281 in La Nación, 187 in Clarín, 18 in Página 12 and 14 in Ámbito Financiero. This will be the "universe" considered in this study.

   Table IV.III.1 presents the data and Graph IV.III.1 shows the percentages.

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12 This section was developed with the research assistance of Lic. Carolina Coronado
The Reforms of the Nineties in Argentina
By Rodolfo Diaz
WCFIA Fellow - Harvard University

Table IV.III.1
Articles on Convertibility
(April 1999-December 2000)
Totals

<table>
<thead>
<tr>
<th>Newspaper</th>
<th>Articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>La Nación</td>
<td>281</td>
</tr>
<tr>
<td>Clarín</td>
<td>187</td>
</tr>
<tr>
<td>Página 12</td>
<td>18</td>
</tr>
<tr>
<td>Ámbito Financiero</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>500</strong></td>
</tr>
</tbody>
</table>

Graph IV.III.1
Articles on Convertibility
(April 1999-December 2000)
Percentages

b) The stance towards convertibility

Out of that total, articles were distinguished between those in favor and those against convertibility. A significant 82% of the analyzed texts presented at least one argument supporting the model; the remaining 18% presented only criticisms.

Table and Graph IV.III.2 present the data.
### Table IV.III.2
**Articles on Convertibility**  
(In favor-Against)  
Totals

<table>
<thead>
<tr>
<th>Newspaper</th>
<th>In Favor</th>
<th>Against</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>La Nación</td>
<td>236</td>
<td>45</td>
<td>281</td>
</tr>
<tr>
<td>Clarín</td>
<td>152</td>
<td>35</td>
<td>187</td>
</tr>
<tr>
<td>Página 12</td>
<td>10</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>Ámbito Financiero</td>
<td>13</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>411</strong></td>
<td><strong>89</strong></td>
<td><strong>500</strong></td>
</tr>
</tbody>
</table>

### Graph IV.III.2
**Articles on Convertibility**  
(In favor-Against)  
Percentages

![Pie chart](chart.png)

This general proportion between articles in favor and against convertibility was repeated considering each one of the four newspapers. In La Nación, out of 281 articles referred to convertibility 84% were in favor of the model and 16 against it; in Clarín, out of 187 articles 81% were in favor and 19 against; in Ámbito Financiero were 93% and 7%; and in Página 12—the most critical of the market oriented reforms—there were 56% in favor and 44% against the model.
Graphs IV.III.3 presents the percentages for each daily.

**Graphs IV.III.3**  
**Articles on Convertibility**  
(In favor-Against)  
Percentages in Each Daily

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**c) The voices of the published opinions**

Every author of articles or voice of the opinions or judgments published by any of the four selected dailys, be they opinion supporting or opposing the model, have been included in one of the twelve categories of the following classification:  
i) Economists; ii) Journalists; iii) Foreign Opinions; iv) Government Officials; v) Politicians; vi) Businessmen; vii) Union Leaders; viii) Researchers/Writers; ix) Bankers; x) Ranchers; xi) Polls; and xii) Industrialists.

Table IV.III.3 and Graph 4 present the figures.
### Table IV.III.3
Voices of Opinions

<table>
<thead>
<tr>
<th>Voices</th>
<th>Clarín In favor</th>
<th>Clarín Against</th>
<th>La Nación In favor</th>
<th>La Nación Against</th>
<th>Ambito Financiero In favor</th>
<th>Ambito Financiero Against</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economists</td>
<td>31</td>
<td>11</td>
<td>49</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>83 (%)</td>
</tr>
<tr>
<td>Journalists</td>
<td>38</td>
<td>5</td>
<td>57</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>88 (%)</td>
</tr>
<tr>
<td>Foreign Opinions</td>
<td>20</td>
<td>4</td>
<td>55</td>
<td>10</td>
<td>2</td>
<td>-</td>
<td>88 (%)</td>
</tr>
<tr>
<td>Government Officials</td>
<td>26</td>
<td>1</td>
<td>37</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>96 (%)</td>
</tr>
<tr>
<td>Politicians</td>
<td>23</td>
<td>6</td>
<td>15</td>
<td>6</td>
<td>-</td>
<td>1</td>
<td>75 (%)</td>
</tr>
<tr>
<td>Businessmen</td>
<td>6</td>
<td>1</td>
<td>12</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>79 (%)</td>
</tr>
<tr>
<td>Union Leaders</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>1</td>
<td>58 (%)</td>
</tr>
<tr>
<td>Researchers/Writers</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>67 (%)</td>
</tr>
<tr>
<td>Bankers</td>
<td>12</td>
<td>-</td>
<td>13</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>100 (%)</td>
</tr>
<tr>
<td>Ranchers</td>
<td>11</td>
<td>4</td>
<td>3</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>59 (%)</td>
</tr>
<tr>
<td>Polls</td>
<td>2</td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>33 (%)</td>
</tr>
<tr>
<td>Industrialists</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>- (%)</td>
</tr>
</tbody>
</table>

### Graph IV.III.4
Voices of Opinions
(Clarin and La Nación)
Since newspapers are the source of this research, it is not unexpected that the majority of observed voices are journalists (136 cases); economists (94 cases) and foreign opinions (which encompasses several categories, 89 cases); then, there are politicians (50 cases) and government officials (41 cases); sectorial representatives (businessmen, bankers, union leaders, ranchers and industrialists) come next; and polls are referred to as well.

Also unsurprising are the stances of the different categories of voices towards convertibility, according to the articles considered in this study: bankers, government officials, journalists, foreign opinions and economists were above 80% in favor; businessmen, politicians, intellectuals, ranchers and union leaders were above 50% in favor; and industrialists were 67% against.
d) The arguments

The arguments made in the articles—either in favor or against convertibility—can be ordered according to a simple typology.

The typical arguments in favor of convertibility were the following: i) It was the successful economic model which society accepted as the only possible option (243 articles); ii) It stopped inflation, and was the cause of stability (95 articles); iii) It encouraged growth (29 articles) iv) It encouraged productivity (20 articles); v) It re-established national currency (13 articles); vi) It opened financial markets (10 articles); vii) It encouraged Foreign Direct Investment (10 articles); viii) It lowered poverty indexes (4 articles).

Table IV.III.4 presents these figures.

Table IV.III.4
Arguments in Favor of Convertibility

<table>
<thead>
<tr>
<th>Arguments</th>
<th>Clarin</th>
<th>La Nación</th>
<th>Página 12</th>
<th>Ámbito Financiero</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>This model was the only possibility</td>
<td>88</td>
<td>139</td>
<td>4</td>
<td>12</td>
<td>243</td>
</tr>
<tr>
<td>It stopped hyper-inflation</td>
<td>32</td>
<td>52</td>
<td>5</td>
<td>6</td>
<td>95</td>
</tr>
<tr>
<td>It encouraged growth</td>
<td>9</td>
<td>18</td>
<td>1</td>
<td>1</td>
<td>29</td>
</tr>
<tr>
<td>It increased competitiveness</td>
<td>15</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>It re-established currency</td>
<td>1</td>
<td>11</td>
<td>0</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>It opened international financial markets</td>
<td>3</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>It encouraged FDI</td>
<td>6</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>It lowered poverty indexes</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

On the other hand, the typical arguments against the model were the following: i) It was an inflexible economic model (18 articles); ii) It diminished competitiveness (15
The Reforms of the Nineties in Argentina  
By Rodolfo Diaz  
WCFIA Fellow - Harvard University  

articles); iii) It increased production costs (13 articles); iv) It caused social crisis (12 articles); v) It caused unemployment (11 articles); vi) It caused recession (10 articles); vii) It was a “National Tragedy” (8 articles); viii) It caused currency overvaluation (7 articles); ix) It increased public expenditure (1 article).

Table IV.III.10
Arguments Against Convertibility

<table>
<thead>
<tr>
<th>Arguments</th>
<th>Clarin</th>
<th>La Nación</th>
<th>Página 12</th>
<th>Ambito Financiero</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflexible economic model</td>
<td>5</td>
<td>10</td>
<td>3</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>It diminished competitiveness</td>
<td>5</td>
<td>8</td>
<td>2</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>It increased production costs</td>
<td>3</td>
<td>9</td>
<td>0</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Cause of the social crisis</td>
<td>8</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Cause of unemployment</td>
<td>7</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Cause of recession</td>
<td>3</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>“National Tragedy”</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Cause of currency overvaluation</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>It increased public expenditure</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

e) Variations in the frequency

The frequency of the publication of materials on convertibility in the selected newspapers varied over time; figures of those variations are presented on a monthly basis in Table and Graph IV.II.11.
Table IV.III.11
Articles on Convertibility
Published in Clarin and La Nación
(Monthly Totals)

<table>
<thead>
<tr>
<th>Period</th>
<th>Clarín In Favor</th>
<th>Clarín Against</th>
<th>Total</th>
<th>La Nación In Favor</th>
<th>La Nación Against</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr-1999</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Mar-1999</td>
<td>31</td>
<td>5</td>
<td>36</td>
<td>26</td>
<td>5</td>
<td>31</td>
</tr>
<tr>
<td>Jun-1999</td>
<td>14</td>
<td>1</td>
<td>15</td>
<td>16</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>Jul-1999</td>
<td>13</td>
<td>5</td>
<td>18</td>
<td>15</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Aug-1999</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Sep.-1999</td>
<td>14</td>
<td>4</td>
<td>18</td>
<td>19</td>
<td>2</td>
<td>21</td>
</tr>
<tr>
<td>Oct-1999</td>
<td>12</td>
<td>1</td>
<td>13</td>
<td>20</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Nov.1999</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Dec.-1999</td>
<td>10</td>
<td>1</td>
<td>11</td>
<td>8</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Jan-2000</td>
<td>8</td>
<td>1</td>
<td>9</td>
<td>16</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Feb-2000</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Mar-2000</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>11</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Apr-2000</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>9</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>May-2000</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Jun-2000</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>11</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Jul-2000</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Aug-2000</td>
<td>9</td>
<td>4</td>
<td>13</td>
<td>8</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Sep-2000</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Oct-2000</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>18</td>
<td>8</td>
<td>26</td>
</tr>
<tr>
<td>Nov. 2000</td>
<td>7</td>
<td>3</td>
<td>10</td>
<td>13</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>10-Dec-2000</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>152</td>
<td>35</td>
<td>187</td>
<td>236</td>
<td>45</td>
<td>281</td>
</tr>
</tbody>
</table>
Graph IV.III.11
Articles on Convertibility
Published in Clarín and La Nación
(Monthly Totals)

In order to situate the observed variations in the frequency of the publication of materials on convertibility in the political context, some relevant political events in the considered period will be pointed.

replacement of the Minister of Economy. ix) October 2000: Former President Alfonsín strongly criticized convertibility; Vice-president Alvarez’s resignation.

No specific “detonants”—other than the political process at large—have been observed in relation to the variation in the frequency of the publication of material related to convertibility. It seems that the convertibility issue in itself was at the same time the subject and the motivation of the public discussion. A pattern similar to the one described here regarding convertibility, could be observed in cases related to privatization (Aerolíneas Argentinas), labor reform (new flexibilization bill), civil service (“adjustments”) and others.

The reforms of the nineties in Argentina have been (and still are) patrimony of public opinion: any event that affects any major reform, actualizes the polemic in society and its consequential debate in the media.
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AKNOWLEDGEMENTS

The financial support for this project was provided through a Trust administered by the Banco de Valores S.A. of Buenos Aires. Héctor Fernández Saavedra—President—designed it; Alejandro Bedoya and Sergio Capdevila implemented it; and the contributions of Carlos Bulgheroni (Bridas Corporation), Antonio Cassia (Sindicato Unido Petroleros e Hidrocarburíferos), Armando Cavalieri (Federación Argentina de Empleados de Comercio y Servicios), Manuel Domper (Banco Central de la República Argentina), Eduardo Eurnekián (Aeropuertos 2000), Rodolfo F. Gabrielli (Fundación para la Transformación), Oscar Lescano (Sindicato de Luz y Fuerza de Capital), José Luis Lingieri (Federación Nacional de Trabajadores de Obras Sanitarias), Mauricio Macri (SOCMA Americana), Ana María Mosso (H. Cámara de Diputados de la Nación), José Pedraza (Unión Ferroviaria); Pedro Pou (Banco Central de la República Argentina), Andrés Rodriguez (Unión del Personal Civil de la Nación), Enrique Strega, Carlos Taboada (Sociedad de Distribuidores de Diarios, Revistas y Afines), and Julio Werthein (La Caja Seguros S.A.), made it possible.

The Weatherhead Center For International Affairs of Harvard University—with Jorge I. Dominguez as Director, Jeffry Frieden as Acting Director and Jim Cooney as Executive Director—was the academic environment where most of the research was actually conducted; the Fellows Program was my home there, supported by the strong presence of its Director Steven Bloomfield and the able assistance of Susan Leary and Tanya Schraiber. Steven Levitsky, Yoshiko Herrera, Margarita Estevez-Abe, among the faculty; Donald Helstead (WCFIA Edi-
tor); Gabriel Aguilera, Bret Gustafson, Lucia Volk and Shannon O'Neil Trowbridge among the graduate students, were interested and supportive. Robert Putnam, Susan Pharr and Devesh Kapur chairs of the Performance of Democracies Workshop, and its group of PhD Candidates. I benefited from members of other institutions of Harvard University: Peter Zimmerman and Merilee Grindle of the Kennedy School of Government; John Coatsworth, Otto Sobllrig and Steven Reifenberg of the David Rockefeller Center for Latin American Studies; Sara Zucker, Ina Bauer and Jenny Ellis, at my first location, the Center for Justice in Times of Transition; and Ned Strong—Director—, Tim Allen, Ruth Reiner, Susan Riegler and Angélica Natera at the LASPAU, my last one. In Washington DC, Miguel Diaz, of the Center for Strategic and International Studies, and William Rogers, of Arnold & Porter.

I had two outstanding teams of Research Assistants. In Buenos Aires: Carlos Roberto Cagnoli, Claudia Elizabeth Currás, Agustin Matías de Escalada, Diego Hernán Gutiérrez, Jorge Kukulas, Alfredo Rubén Olmedo, Mariano Unamuno, Gabriela Rodríguez, Roger Eduardo Jiménez, and Mónica Viviana Luque; coordinated by Néstor Enrique Iribarren and Martin Tomás Gras, at the Fundación Unión, with Anibal Spairani. In Cambridge: Diego Arias Carballo (Kennedy School of Government-2001), María Clara Rivera (Harvard College-2001), Melanie Lorenzo (Harvard College-2001), and Patricia Marian Murphy (Harvard College-2001); all of them selected by the WCFIA Students Program. In Washington DC, Elio Richitelli (Georgetown Law-2002).

The professional contributions of Alejandra Rodríguez Galán, María Cecilia Recalde and Carolina Coronado have to be
mentioned too. The participation of María de la Paz Beledo—my personal assistant in Buenos Aires—was invaluable in this project as it has been in all my endeavors in the last eight years.

To all of them, I express my deep appreciation.

Rodolfo Díaz
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Harvard University