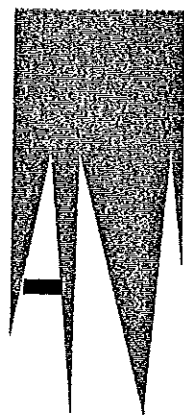


THE POLITICS OF INSTITUTIONAL WEAKNESS

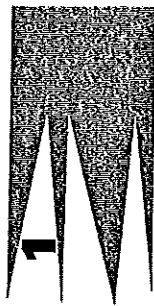
ARGENTINACY

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Institutions, Actors, and the Politics of Economic Reform



Building Castles in the Sand? The Politics of Institutional Weakness in Argentina

Steven Levitsky and María Victoria Murillo

Few countries have puzzled social scientists more than Argentina. Given its level of development, large, educated middle class, and comparatively egalitarian class structure, the country has consistently "underperformed" in terms of both economic growth and democratic stability.¹ Indeed, it is the wealthiest country in history to experience a military coup (Przeworski and Limongi 1997, 170).

The central argument of this book is that a major cause of Argentina's underperformance was persistent and widespread institutional instability. Beginning in 1930, a series of military coups set in motion a self-reinforcing pattern in which periodic crises led to the subversion or collapse of a wide range of political and economic institutions. In the absence of stable and effective rules of the game, political and economic actors operated in a Hobbesian world of extreme uncertainty, short time horizons, and low levels of trust and cooperation (Nino 1992; O'Donnell 1994). As a result, the Argentine polity and economy remained highly vulnerable to crisis, praetorian conflict, and breakdown.

The 1983 democratic transition put an end to the cycle of military coups and ushered in an unprecedented period of democratic rule. The new democratic institutions proved strikingly robust, surviving the hyperinflationary crisis of 1989, the radical economic reforms of the 1990s, and the

1. See O'Donnell 1973, Waisman 1987, Adelman 1994, and Przeworski and Limongi 1997.

economic collapse of 2001–2. Many of the core market institutions created after 1989 also proved durable. Yet a variety of other political and economic institutions remained weak, and the political and economic meltdown of 2001–2 suggests that Argentina remains far more vulnerable to severe institutional crisis than neighboring countries such as Brazil, Chile, and Uruguay.

This chapter is divided into three sections. The first section traces the instability of Argentina's political institutions from the early twentieth century through 1989. The second section chronicles the political and economic changes of the Menem period (1989–99), examining both the radical reforms undertaken by the Menem government and the legacies of those changes. The third section analyzes the post-Menemist period (1999–2003), including the rise and fall of the Alianza government, the political-economic crisis of 2001–2, and the first two years of the Kirchner government.

THE ORIGINS OF INSTITUTIONAL INSTABILITY

Argentina's political history is marked by a recurrent pattern of institutional instability. The 1853 constitution, written in the aftermath of nearly half a century of civil war, established a federal and presidential system with a bicameral congress. Limited suffrage and electoral manipulation allowed the emerging political and economic elite to establish a less-than-competitive oligarchic regime—dominated by the agrarian elite-based National Autonomous Party (PAN)—that foreshadowed later periods of majoritarian rule (Botana 1979; Floria and García Belsunce 1992). Middle-class protest spearheaded by the Radical Civic Union (UCR) eventually led to the passage of the 1912 Sáenz Peña Law, which established compulsory and secret universal male suffrage (women did not gain the right to vote until 1949). In 1916, democratic elections brought UCR leader Hipólito Yrigoyen to the presidency. The UCR easily retained the presidency in 1922 and 1928.

Although the Radicals established Argentina's first democracy, the new regime failed to consolidate. The rise of the UCR ushered in a new period of one-party dominance (Rock 1975). Conservative forces fragmented after 1912, and in the absence of a large peasantry, they lacked a mass base with which to remain competitive in the national electoral arena. Powerful in the economic realm but unable to win elections, the oligarchic elite never gained a stake in the democratic regime (Di Tella 1968; Gibson 1996). In 1930, soon after the onset of the Great Depression, conservatives backed a

military coup that put a premature end to Yrigoyen's second presidency. The coup ushered in a period of authoritarian rule (1930–43) in which conservative elites maintained themselves in power via widespread electoral fraud. It also established a pattern in which electoral losers, facing the prospect of long-term minority status, turned to the barracks as a means of obtaining (or excluding rivals from) power.

Conservative rule was eventually undermined by socioeconomic change. Industrialization and massive urbanization fueled the growth of the urban working classes, and under the conservative post-1930 governments, the demands of these emerging social classes went largely unmet (Matsushita 1988). In 1943, another coup brought to power a group of nationalist military officers that included Colonel Juan Domingo Perón. Using his position in the newly created post of secretary of labor to build working-class support, Perón granted unprecedented political access to union leaders, intervened on the side of unions in labor disputes, and sponsored social legislation that had been long demanded by the labor movement (Murnis and Portantiero 1971; Torre 1990). This populist appeal was extraordinary successful, and when Perón was jailed by fellow officers in October 1945, a massive working-class mobilization forced his release and the calling of elections for early 1946 (Torre 1990, 107–40). The October 17, 1945, mobilization marked the birth of the Peronist movement, and it divided Argentines into Peronist and anti-Peronist camps—a cleavage that would endure for more than half a century.

Perón won the February 1946 presidential election, defeating a broad coalition that included conservative economic elites, the middle-class UCR, and the Socialist and Communist parties. Mobilizing urban workers through unions and the rural poor through clientelist networks (Mora y Araujo and Llorente 1980), Peronism quickly established itself as the most powerful political force in Argentine history. Using a combination of material and symbolic appeals, Perón and his wife Eva effectively incorporated the lower classes into politics (Ostiguy 1998; Navarro 2002). With solid control over Congress, Perón undertook extensive socioeconomic reforms. The new government expanded the state's role in the economy, nationalized key economic sectors such as the railroads and telephones, taxed agricultural exports to promote industrialization, expanded workers' incomes, and introduced reforms that improved working conditions and extended a variety of new social benefits (including social security, health insurance, paid vacations, and mandatory Christmas bonuses) (McGuire 1997). Moreover, the 1945 Labor Law strengthened unions by establishing monopolies of representation for collective bargaining and automatic dues deductions. As a result, the General Labor Confederation (CGT) quickly

grew into one of the largest and best organized in Latin America. Yet the corporatist Labor Law also enhanced state control over the unions, which Perón used to purge the CGT of communist, socialist, and even independent Peronist union leaderships (Doyon 1988).

Although he was freely elected in 1946, Perón subsequently assaulted democratic institutions. Government opponents were harassed, jailed, and exiled; public employees were forced to join the Peronist party; press freedom was curtailed; and post-1946 elections were marred by intimidation and abuse of state resources. Moreover, Perón used his majoritarian control to weaken institutions perceived as obstacles to his political goals. Thus, the Peronists packed the Supreme Court, redrew electoral districts to reduce opposition representation in Congress, and in 1949, unilaterally imposed a new constitution that permitted Perón's reelection. Excluded from all centers of political power and facing the prospect of long-term minority status, Radicals and conservatives backed efforts to remove Perón through extraconstitutional means. In 1955, a military coup ousted Perón and forced him into an eighteen-year exile.

The 1955 coup ushered in a period characterized by an "impossible game" (O'Donnell 1973). Unable to defeat Peronism in free elections, military and economic elites opted to ban the movement, effectively disenfranchising a large sector of the electorate. With Perón in exile and the party (renamed the Partido Justicialista, or PJ) banned, Peronism survived within the powerful labor movement (James 1988). Peronism's survival prevented remaining parties from building majority electoral support. The UCR, which was the country's largest legal party, split in 1957. Given the size of the Peronist electorate, the two competing Radical parties were tempted to make deals with Perón, promising legalization in exchange for Peronist votes. But when Peronist candidates were permitted to compete in provincial and legislative elections, as occurred in 1962 and 1965, they won, triggering military intervention. Thus, the presidencies of Arturo Frondizi (Intransigent Radical Civic Union) and Arturo Illia (People's Radical Civic Union) were ended by coups in 1962 and 1966.

Argentine politics was thus deadlocked between 1955 and 1972 (O'Donnell 1973, 166–97). On the one hand, lifting the ban on Peronism would almost certainly result in a Peronist victory, which was unacceptable to key elite sectors. On the other hand, Peronism's exclusion from the electoral arena proved equally destabilizing. Lacking representation in the political arena, the powerful labor movement opted for tactics—such as general strikes, factory occupations, and mass protests—that undermined government ability and destabilized regimes (Cavarozzi 1987; McGuire 1997). Peron-

ism's exclusion exacerbated an ongoing conflict between two powerful, but politically unmediated, socioeconomic alliances: a "defensive alliance" of organized labor and domestic industrialists and an outward-oriented alliance of agricultural exporters and international capital (O'Donnell 1978; also Waisman 1987). Because outcomes in this conflict had substantial redistributive consequences, control of the state became a high-stakes game (O'Donnell 1978; Waisman 1987). Yet because Peronism (which represented labor) was banned and conservative parties (which had represented agricultural exporters) were weak, the post-1955 party system failed to mediate this conflict (Cavarozzi 1987; Collier and Collier 1991). As a result, non-Peronist governments—both civilian and military—proved weak and unstable.

By the early 1970s, persistent instability, the proscription of Peronism, and the emergence of urban guerrilla movements (both Peronist and leftist) had given rise to a serious crisis of legitimacy. In 1972, the military government responded to increasing polarization and political violence by calling elections, legalizing Peronism, and permitting Perón's return from exile. The following year, the aging Perón again won the presidency, this time with an unprecedented 62 percent of the vote. However, Perón's return to power failed to stem the rising tide of praetorianism and political violence. Perón's death in 1974 left the presidency in the hands of his widow and vice president, María Estela Martínez de Perón. Amid large-scale labor mobilization and increasing guerrilla and paramilitary violence, Argentina descended into chaos, and in March 1976, Perón's widow was ousted in yet another military coup (De Riz 1981).

The 1976 coup ushered in a period of military rule characterized by unprecedented repression. All political activity was banned, and in what came to be known as the Dirty War, tens of thousands of Argentines were illegally detained, tortured, and "disappeared." At the same time, the military government's economic opening weakened the country's previously protected industrial sector. The reforms failed to produce sustained growth, however, and in the early 1980s, the country fell into a severe economic crisis. In 1982, in an ill-advised bid to win back a minimum of popular support, the military government launched an invasion of the British-controlled Malvinas/Falkland Islands. The Argentine military suffered a devastating defeat at the hands of British forces, which triggered the collapse of the regime and a transition to democracy (Munck 1998).

In October 1983, UCR candidate Raúl Alfonsín won Argentina's first presidential election in more than a decade, handing the Peronists their first-ever defeat. The election inaugurated a democratic period of unprece-

dented scope and duration. The brutality and dramatic failure of the military regime discredited the armed forces and engendered a broad public consensus around liberal democracy (Catterberg 1991). It also gave rise to a powerful human rights movement, which launched a high-profile civic campaign to bring those responsible for the Dirty War to justice.

The Alfonsín government undertook a series of democratizing initiatives. The most celebrated of these was the prosecution and conviction of military commanders implicated in human rights violations—an initiative that was unparalleled anywhere in Latin America. The human rights trials triggered a backlash among sectors of the armed forces, made manifest by three military rebellions in 1987 and 1988 (Norden 1996; López and Pion-Berlin 1996). The rebellions were met with massive civic mobilizations in defense of democracy, but they nevertheless led the government to limit the scope of the trials to higher-level officers. Still, the government's achievements in the area of civil-military relations were impressive. Unlike post-transition Brazil and Chile, key areas of military decision-making, including the budget, procurement, and national defense strategy, were placed under a civilian-led Defense Ministry. The 1988 Defense Law prohibited the armed forces from intervening in matters of internal security and denied them any role in the policymaking process. Notwithstanding the military rebellions, then, the combination of a military defeat with key institutional and societal changes left the armed forces far weaker than their counterparts in neighboring countries such as Brazil, Chile, and Uruguay.

Alfonsín was less successful on the economic front. The Radical government inherited an economy battered by recession and inflation, which it attempted to combat through a heterodox adjustment program. After some initial success, this program collapsed amid severe distributional conflict among unions, industrialists, and agro-exporters (Smith 1990). Efforts to negotiate a social pact with the Peronist unions failed, and the CGT led an astounding thirteen general strikes between 1984 and 1988 (Gaudio and Thompson 1990). As the specter of a Peronist victory in 1989 elections grew, capital flight and financial speculation soared, culminating in a hyperinflationary burst that brought the economy to the brink of collapse. In May, Peronist candidate Carlos Menem, a populist provincial governor, was elected president. Soon afterward, a wave of mass looting forced Alfonsín to resign the presidency six months before the end of his mandate. Thus, although Menem's inauguration marked the first time in Argentine history that the presidency had changed hands between elected leaders of different parties, it took place in a context of extreme institutional fluidity.

ARGENTINA UNDER MENEM

Carlos Menem's presidency was a critical juncture in Argentine politics. Abandoning Peronism's traditional populist program, the Menem government radically restructured the country's economic institutions, replacing the state-led industrialization model established during the 1940s with a market-oriented model. Menem also oversaw important political changes, including the further erosion of military influence and the drafting of a new constitution in 1994.

In some respects, Argentina was strikingly successful during the 1990s. The country combined economic liberalization and democracy in a way that was unparalleled in Latin America. Virtually none of the most radical economic reforms in post-1973 Latin America were undertaken in a context of full-fledged democracy. In Chile and Mexico, reforms were carried out under authoritarian regimes. In Peru, they were accompanied by an *autogolpe* in which the congress and the judiciary were dissolved and the leading opponent of neoliberalism was forced into exile. Even in Bolivia, orthodox stabilization was implemented via distinctly authoritarian mechanisms, including states of siege and harsh labor repression. By contrast, in democracies such as Costa Rica, Uruguay, Venezuela, and Brazil, economic reform was slower and less extensive. Placed in comparative perspective, then, Argentina's capacity to reconcile radical reform and democracy during the 1990s was extraordinary: among fully democratic cases, Argentina carried out the most rapid and far-reaching economic reforms; among cases of deep crisis and radical reform, Argentina was the most democratic.

Yet there was a dark side to the successes of the Menem period. Many of the policy arrangements and political side payments that made radical reform possible under democracy ultimately proved economically unsustainable. Moreover, Menem did little to strengthen political institutions, and in many important respects, he weakened them. In carrying out radical economic reforms (but also in an effort to concentrate power), the Menem government often circumvented or manipulated institutions of legislative and judicial oversight, which undermined the country's nascent system of democratic checks and balances.

The Politics of Radical Economic Reform

Although he was elected on a populist platform, President Menem responded to the 1989 hyperinflationary crisis with a dramatic policy shift. Filling his cabinet with business leaders, conservative politicians, and mar-

ket-oriented technocrats to highlight his commitment to free markets, Menem embarked on what was widely viewed as the fastest and most far-reaching economic reform program in Latin America (Gwartney, Lawson, and Block 1996; IDB 1997). The government eliminated price controls, restrictions on foreign capital, and a variety of other regulations; dramatically lowered trade barriers; and sold off virtually all of Argentina's state-owned companies. It also reduced the central government's role in the provision of social welfare by privatizing and decentralizing important responsibilities. For example, it replaced the pay-as-you-go pension system established by Perón with an individualized, privately funded system (Gerchunoff and Torre 1996; Pastor and Wise 1999) and decentralized public education and the provision of health care to the provincial level.

Whereas Alfonsín's mild stabilization and reform efforts were derailed by legislative opposition, popular protest, and distributional conflict, the Menem government implemented its radical neoliberal program with striking success. This success was rooted in several factors. First, the government's ability to end hyperinflation enhanced public support for the overall reform process. Successful stabilization was, in large part, a product of the 1991 Convertibility Law. The brainchild of Minister of the Economy Domingo Cavallo, the Convertibility Law constrained monetary policy through the creation of a currency board. The law established a new currency with a one-to-one parity with the dollar, prohibited the government from printing money not backed by foreign reserves, and permitted contracts in any currency. By tying the government's hands in monetary and exchange rate policy, the convertibility system enhanced the domestic and international credibility of the government's new economic institutions (Acuña 1994; Starr 1997). This credibility was further enhanced by the fact that convertibility was passed into law by Congress, which made it more difficult for governments to change. Convertibility brought inflation down from more than 2300 percent in 1990 to near zero in 1994, triggering—together with privatization—a massive inflow of foreign investment. Between 1991 and 1997, price stability and strong economic growth generated broad public support for the government's reform program (Palermo and Torre 1992; Palermo and Novaro 1996; Etchegaray and Elordi 2001).

A second factor behind the success of the Menem reforms was the strength of the Peronist party. The PJ maintained an extensive grassroots organization, deeply embedded in working- and lower-class society, and a strong subculture and identity, which helped the Menem government maintain a stable support base in a context of crisis and radical reform. The PJ's vast infrastructure of neighborhood branches, soup kitchens,

clubs, and clientelist networks played a critical role in dampening popular sector opposition to neoliberalism. In low-income neighborhoods throughout the country, Peronist "problem-solving networks" distributed food, medicine, disability pensions, and odd jobs to people who lacked alternative sources of social assistance (Auyero 2000; Levitsky 2003, 187–91), helping to prevent the kind of urban riots that brought the Alfonsín presidency to an early end. Peronism's continued hegemony among the popular sectors also limited the space for antireform appeals. Because most working- and lower-class Argentines continued to vote Peronist throughout the 1990s, attempts by left-wing and nationalist parties to capture these votes through anti-neoliberals failed repeatedly.

The PJ's electoral strength also provided the Menem government with a majority in the Senate and a near-majority in the Chamber of Deputies, which ensured—with the help of small conservative and provincial parties—the relatively smooth passage of its most important reform measures (Llanos 2001). Although this passage often required arduous negotiation and substantial concessions, unified government was nevertheless critical to avoiding the kind of executive-legislative deadlock that had undermined reform efforts in other Latin American countries. Indeed, Menem's success in pushing neoliberal reforms through the legislature stands in stark contrast to Alfonsín's more modest reform proposals, which were blocked by the Peronist-controlled Congress.

The Menem government also benefited from the PJ's close ties to organized labor. The vast majority of union leaders remained Peronist in the 1990s, and many of them maintained close ties to the party (Levitsky 2003, 130–39). These ties gave union leaders a stake in the government's success and an incentive to limit public opposition to Menem. Union bosses also maintained long-standing personal ties to PJ leaders. By enhancing trust and communication between government and union officials, these ties lengthened the unionists' time horizons and facilitated the negotiation of side payments that were critical to keeping many unions in the pro-government camp. Thus, whereas Alfonsín confronted thirteen general strikes during his presidency, the Menem government gained a remarkable degree of labor acquiescence—and even cooperation—with far more radical reforms.² Initially divided into pro- and anti-Menem camps, the CGT did not lead a single general strike during Menem's first three and half years in office and led only one general strike during his entire first term. Although dissident labor organizations such as the Congress of

2. It is worth noting that in some unions, there existed substantial rank-and-file support for privatization (Ranis 1992).

Argentine Workers (CRA) and Argentine Workers Movement (MTA) mobilized repeatedly against the Menem reforms during the 1990s, most large unions refused to join them; as a result, these protests failed to mobilize large numbers of workers (Martuccelli and Svampa 1997; Murillo 1997, 2001; Levitsky and Way 1998).

A third factor behind the success of the Menem reforms was the government's use of policy concessions and side payments to construct a stable pro-reform coalition. This coalition included powerful political and economic actors—such as unions, domestic industrialists, and old guard Peronist governors—that might otherwise have opposed neoliberal reforms (Palermo and Novaro 1996; Corrales 1998; Murillo 2001; Etchemendy, this volume). Union support was achieved through agreements not to reform the corporatist labor legislation (which allowed the unions to maintain critical organizational resources) or deregulate labor markets and union-administrated health insurance funds, and by granting unions shares in newly privatized enterprises and participation in the new private pension funds market (Murillo 1997; Etchemendy, this volume). Key domestic industrialists were granted highly favorable conditions for competing in the privatization process, which allowed them to expand their share of critical markets or enter new sectors with protection from foreign competition (Schwartz 1998; Basualdo 2000; Azpiazu 2002; Etchemendy, this volume). Finally, the support of Peronist governors was assured via the repeated postponement of provincial adjustment and state reform processes (Gibson and Calvo 2000). This last concession was critical to Menem's legislative success, as governors exert substantial influence over their provinces' legislative representatives (Jones and Hwang, this volume). Taken together, these concessions were inefficient and fiscally costly, but they may have been critical to the government's capacity to implement its overall reform program.

Finally, the Menem government's economic reforms were accompanied by a series of executive encroachments on legislative and judicial power. These institutional shenanigans included the widespread use of executive decrees, the 1990 packing of the Supreme Court, and the politicized appointment of federal judges (Verbitsky 1993; Larkins 1998). By creating a loyalist majority on the Court, the government ensured that its reforms would not be blocked on constitutional grounds. Perhaps most notably, in the 1990 Peralta case, the Court upheld the constitutionality of Menem's executive decrees (Heimke, this volume).

Notwithstanding their successful implementation, the Menem reforms left several problematic legacies. One was convertibility. Because it was widely viewed as having ended hyperinflation, and because many middle-

class Argentines accumulated debts in dollars, the Convertibility Law enjoyed broad public support throughout the 1990s. Yet by taking monetary and exchange rate policy out of the hands of policymakers, convertibility left them without the tools to respond to either economic shocks or the erosion of Argentina's export competitiveness. A second legacy was a dramatic growth in public debt. Many of the political concessions granted in an effort to accelerate macroeconomic reform—particularly the postponement of adjustment in the provinces—generated substantial fiscal costs. So, too, did the privatization of the pension system.³ These costs induced both federal and provincial governments to turn to large-scale borrowing. Finally, the Menem reforms generated large-scale social exclusion and growing inequality that shrunk the traditionally large Argentine middle class. The unemployment rate, which had been virtually zero for much of the twentieth century, soared to a record 18.6 percent in 1995 and remained in double digits for the rest of the decade. These legacies left Menem's successors in a difficult bind: future governments would face growing demands to address long unmet social needs, but a massive debt burden and a rigid monetary and exchange rate system would seriously limit their capacity to meet those demands.

Democratic Institutions Under Menem

During the 1990s, Argentine democracy was characterized by both unprecedented stability and persistent institutional fluidity. On the one hand, Argentina remained fully democratic throughout the decade. The fairness of national elections was unquestioned, there were no states of emergency or interruptions of the democratic order, and civil liberties were broadly protected. Moreover, press freedom was extensive: the censorship, co-optation, and bullying of the media found elsewhere in the region was virtually nonexistent.⁴ The persistence of full-fledged democracy was particularly striking given the depth of the 1989–90 hyperinflationary crisis and the radical nature of the Menem government's economic reforms.

Democratic institutions were buttressed by an active civil society and a powerful independent media. State encroachments on civil liberties frequently triggered sustained civic protests that imposed heavy political costs

3. Because the state continued to pay out on its obligations to retirees at the same time that contributors moved into the new privately funded system, pension privatization produced a massive fiscal drain.

4. Efforts to limit press freedom (such as a 1992 "Truth in Press" bill and Menem's proposal for a "law of the stick" that would permit citizens to take matters into their own hands when offended by the media) generated massive public opposition, which led the government to abandon them.

on government officials and, in many cases, induced them to undertake serious investigations (Smulovitz and Peruzzotti 2003; Peruzzotti, this volume). For example, in 1990, when the provincial government in Catamarca attempted to cover up the murder of teenager María Soledad Morales (in which members of the governing clan were implicated), civic and church groups organized a series of "marches of silence" that drew national media attention and forced a federal takeover of the case, paving the way for an eventual conviction. Similarly, after the 1997 killing of news photographer José Luis Cabezas (arranged by a mafia boss with close ties to the government), civic and media groups organized a massive and successful campaign—flooding Buenos Aires with "Who killed Cabezas?" posters, fliers, and advertisements—to bring the perpetrators to justice.

The Menem period also saw a dramatic reduction in the military's influence in politics. Weakened and discredited by their defeat in the Falklands/Malvinas War, the armed forces became increasingly marginal players in the political arena. Unlike many other countries in the region, there were no military officers in the cabinet, no independent military political proclamations, and no military shows of force in the streets of the capital. In 1990, the government crushed a rebellion led by Colonel Mohammad Ali Seineldin and issued a controversial pardon of top military officers convicted of human rights violations. After that point, the armed forces stood on the sidelines as the government slashed its budget and overall size, abolished the draft, and privatized military-owned enterprises. By the end of the decade, military spending was under the tight control of the Ministry of the Economy, and responsibility for determining military missions and deployment lay exclusively with the Foreign Ministry. In 1995, Armed Forces Commander Martín Balza issued a stunning apology for the military's behavior during the Dirty War. Although little progress was made in developing civilian oversight capacity in either Congress or the Defense Ministry, the armed forces' subordination to civilian authorities was not seriously questioned during the 1990s. These developments suggest an important lesson for Third Wave democracies in Latin America. In Argentina, a dramatically weakened military, rather than a carefully protected one, appears to have been critical to democratic stability. In this case, then, it was not necessary to spare the military "queen" (O'Donnell and Schmitter 1986, 69) in the name of democratic consolidation.

Notwithstanding these successes, however, many of Argentina's democratic institutions remained fragile during the 1990s. Particularly during his first term in office, President Menem took advantage of his popular support and a weakened opposition to concentrate power and bend a range of political institutions to his advantage. For example, Menem frequently

circumvented the legislative process through the use of Necessity and Urgency Decrees. Prior to 1994, decree authority was not explicitly granted by the constitution, and legal experts disagreed over its constitutionality (Ferreira Rubio and Goretti 1998, 285–90). Whereas President Alfonsín issued 10 Necessity and Urgency Decrees between 1983 and 1989, Menem issued 335 of them between 1989 and 1994 (Ferreira Rubio and Goretti 2000, 1, 4).

Menem also showed little respect for judicial independence. In 1990, he pushed through legislation—over the objections of the UCR and with a contested quorum—expanding the size of the Supreme Court from five to nine. He then stacked the Court with loyalists, creating what came to be known as an "automatic majority." The new Supreme Court rarely ruled against Menem on important issues (Helmke, this volume). The appointment of federal judges was also highly politicized.⁵ Though hardly new in Argentina, executive intervention in the judiciary was particularly severe during the 1990s, and it seriously eroded the legitimacy of the court system.⁶

Menem's concentration of executive power had several important consequences. For one, the absence of rigorous checks and balances facilitated radical economic reform. Had President Menem been held fully accountable to Congress and the judiciary, the reform process would almost certainly have been slower and less far-reaching. In addition, the deficit of executive accountability permitted a substantial degree of corruption. The economic reform process—including several key privatizations—lacked transparency and was marred by questionable deals, and a series of high-profile corruption scandals involving top government officials created a public perception of widespread and unchecked abuse of power. Indeed, although several ministers and high-level appointees were either directly implicated in scandals or forced to resign amid corruption allegations, none of these officials were brought to justice during the Menem administration.

One of the most striking instances of institutional manipulation during the 1990s was Menem's repeated effort to modify the constitution to enable him to run for reelection. In 1993, Menem took advantage of his broad popular support to bully ex-President Alfonsín into accepting a constitutional reform by threatening to hold a plebiscite on the issue. The

5. One of Menem's cabinet ministers is reported to have listed on a napkin all of the federal appeals court justices the government "controlled" (Verbitsky 1997).

6. For example, a 1993 survey found that more than 60 percent of Argentines perceived the judiciary to be in worse shape than it had been at the time of the 1983 democratic transition (Clarín, December 7, 2003).

result was the 1993 Olivos Pact, which ensured UCR support for a constitutional reform that included a reelection clause. The pact, which was approved by an elected constituent assembly in 1994, produced a series of institutional reforms, many of which were widely viewed as democratizing. These included a shortening of the presidential mandate from six to four years, the direct election of senators (previously chosen by provincial legislatures), the granting of autonomy to the city of Buenos Aires, and the direct election of the Buenos Aires mayor. The 1994 constitution also created a Magistrates' Council to oversee the selection of federal judges and established clear regulations for executive decrees. Nevertheless, the process that gave rise to the constitutional reforms (a threatened plebiscite, followed by a secret pact between two party *caudillos*), together with the widespread perception that Menem had simply used the reform as a means to gain reelection, deprived the constitutional process of some of its public prestige.⁷

Argentina's democratic institutions survived the Menem government's abuses. As Menem's public support began to wane during his second term, opposition forces gained strength. The legislature became increasingly assertive, and previously deferential justices began to rule against the government (Helmke, this volume). The limits on Menem's power were made particularly manifest in 1998, when he engaged in a blatantly unconstitutional bid for a third term in office. Unlike 1993-94, the "reelection" effort generated broad public opposition, was rejected by all major opposition parties, and more crucially, by a large faction of the PJ led by Buenos Aires governor Eduardo Duhalde. When Menem supporters turned to the judiciary, even the famed Supreme Court's "automatic majority" made it clear that it would not rule in the president's favor. As a result, Menem was left with no alternative but to hand over the presidency, as scheduled, in December 1999.

Menem's institutional manipulation had important costs. The government's effort to circumvent, break, or change rules that stood in the way of its political and policy objectives reinforced existing patterns of institutional instability. Thus, even though many of the political and economic reforms undertaken during the 1990s were widely viewed as beneficial,

7. It should be noted that the Olivos Pact represented an important bipartisan consensus that was notably lacking in earlier constitutional reform processes (particularly that of 1949). Indeed, a major motivating force behind the pact appears to have been Menem and Alfonsín's belief that a bipartisan consensus was critical to the legitimacy of the new constitution (Smulovitz 1995: 80-81). Nevertheless, the pact had devastating electoral consequences for the UCR, since many Radical voters perceived Alfonsín to have abandoned his opposition to the Menem government's abuses.

abuses committed while carrying out those reforms weakened the legitimacy of the institutions that emerged from the process. Indeed, widespread perceptions of unchecked corruption and abuse eroded the credibility of Argentina's representative institutions, widening the gap between citizens and the political elite (see Torre and Peruzzotti chapters, this volume).

The Party System and Political Representation in the 1990s

The Argentine party system experienced both continuity and change during the 1990s. In contrast to Peru and Venezuela, where the failure of established populist parties contributed to party system collapse and the rise of antisystem outsiders, Argentina's party system proved resilient in the face of economic crisis and radical reform. In large part, this stability was rooted in the PJ's capacity to adapt to the neoliberal challenge while simultaneously maintaining its traditional support base (Levitsky 2003, this volume). As Table 1.1 shows, the PJ won four straight national elections after the Menem government's neoliberal turn. Peronism's decisive victories in the 1991 and 1993 midterm elections were widely interpreted as votes of support for convertibility, and they provided Menem with clear mandates to proceed with economic reforms. The PJ also won the 1994 constituent assembly elections, and in 1995, Menem was overwhelmingly reelected with 50 percent of the vote.

The Radicals, who were discredited by both the failure of the Alfonsín government and the Olivos Pact, fell from 52 percent of the presidential vote in 1983 to an unprecedented low of 17 percent in 1995. UCR candidate Horacio Massaccesi finished third in the 1995 presidential race, behind former Peronist José Octavio Bordón, who ran as the candidate of the newly created Front for a Country in Solidarity (FREPASO). The center-left FREPASO, which campaigned on issues of clean government and institutional integrity, captured much of the UCR's middle-class electorate.

The emergence of FREPASO temporarily divided non-Peronist forces, as both FREPASO and the UCR competed primarily for the middle-class vote. As a result, the PJ, which remained hegemonic among the working and lower classes, dominated electoral politics in the mid-1990s. However, in August 1997, the UCR and FREPASO formed the Alianza por el Trabajo, la Educación, y la Justicia (Alliance for Jobs, Justice, and Education), transforming the previously weak and divided opposition into a viable electoral alternative. The party system remained divided into Peronist and non-Peronist camps, but the latter was now represented by a coalition of the established Radicals and the emerging FREPASO. The Alianza defeated the PJ in

the 1997 legislative elections, breaking a string of six consecutive Peronist victories. In 1999, the Alianza's presidential ticket of Fernando De la Rúa (UCR) and Carlos "Chacho" Álvarez (FREPASO) campaigned on a platform of clean government, institutional integrity, and greater attention to social needs. Taking advantage of increased public dissatisfaction over corruption and increased social exclusion, the Alianza won easily, defeating PJ candidate Eduardo Duhalde by 48 percent to 38 percent.

The rise of the Alianza appeared to stabilize the party system and return it to the competitive parity of the 1980s. However, serious problems lurked beneath the surface. The absence of policymaking transparency and the high-profile corruption scandals of the 1990s had eroded the credibility of Argentina's representative institutions, particularly among middle- and upper middle-class voters. In 1997 and 1999, the Alianza appeared to be a viable alternative for these voters, and the middle-class electorate voted overwhelmingly for De la Rúa. However, middle-class support for the Alianza would prove shallow and short-lived.

THE POST-MENEMIST ERA

The post-Menemist period was marked by an economic collapse and a severe crisis of political representation. Although the crisis again made manifest the resilience of Argentine democracy, it also highlighted both the limitations of the 1990s experiment with democracy and radical market reform and the continued weakness of Argentina's political and economic institutions.

The Unfulfilled Promise of Renovation: The Rise and Fall of the Alianza

Fernando De la Rúa's defeat of Peronist Eduardo Duhalde in the 1999 presidential election brought the Menemist era to a close. Although it accepted the fundamentals of the new economic model, the Alianza promised to combat corruption and address the social costs of neoliberalism, which generated high expectations of the new government. However, De la Rúa failed to deliver on both of these fronts.

On the political front, the Alianza failed to clean up politics. In August 2000, allegations surfaced that government officials had bribed a handful of senators in an effort to pass labor reform legislation. Vice President (and FREPASO leader) Carlos Álvarez, whose party had made anticorruption its central plank, called publicly for a serious investigation, and when De la Rúa balked, Álvarez resigned. Although FREPASO remained in the

Total includes vote for the UCR and FREPASO in districts in which these parties ran separately.

^aUCR and FREPASO
^bFrete Grande (FG) in 1993 and 1994.
^cElection to the Chamber of Deputies
^dElection to the Constituent Assembly
^eElection to the presidency

Sources: Fraga 1995; McGuire 1995; Cerverasoli 1997; www.milvoto.com.

Party	1991 ^a	1993 ^b	1994 ^c	1995 ^d	1995 ^e	1997 ^f	1999 ^g
Partido Justicialista (PJ)	40.2	42.5	38.5	49.9	43.0	36.3	33.0
Unión Cívica Radical (UCR)	29.0	30.2	20.5	17.0	21.7	38.3	—
Unión del Centro Democrático (UCeDE)	5.2	2.6	1.5	—	3.2	—	—
Frete País Solidario (FREPASO) ^h	—	2.5	13.6	29.2	20.7	—	—
Movimiento por la Dignidad y la Independencia (MODIN)	—	5.8	9.2	1.7	1.7	0.9	—
Alliance for Jobs, Justice, and Education ⁱ	—	—	—	—	—	45.7 ^j	45.5
Action for the Republic	—	—	—	—	—	3.9	10.2
Minor and provincial parties	25.6	16.4	16.7	2.2	9.7	2.6	13.5
Total	100	100	100	100	100	100	100

government, Álvarez's resignation triggered the *de facto* collapse of both the Alianza and *FRUPASO*. More important, the scandal shattered the Alianza's claim to represent a "new way" of doing politics and convinced many of its erstwhile supporters that none of the major parties effectively represented them (Torre, this volume).

The Alianza fared even worse on the economic front. The De la Rúa government inherited a prolonged recession that was rooted in a series of external shocks, including large-scale capital outflows triggered by the 1997-98 Asian financial crisis, a strengthening U.S. dollar, and Brazil's 1999 devaluation. Yet the Convertibility Law prevented the government from using exchange rate or monetary policy to reactivate the economy. Wedded to convertibility and confronted with a heavy debt burden, fiscal pressure created by declining tax revenues and fixed transfers to the provinces, jittery bond markets, and inflexible IMF demands for fiscal adjustment, the new government opted for a series of pro-cyclical austerity measures that prolonged and deepened the economic downturn. In March 2001, as Argentina entered its fourth consecutive year of recession, a desperate De la Rúa reappointed Domingo Cavallo, the father of convertibility under Menem, as minister of the economy. Yet Cavallo was unable to reverse the situation.

In the midst of a prolonged recession and in the wake of the Senate corruption scandal, Argentine voters vented their frustration in the October 2001 legislative elections. The Alianza was badly defeated by the PJ, and its share of the valid legislative vote was cut nearly in half relative to 1999. More ominous, the percentage of voters who cast blank and spoiled ballots—a protest against the entire political elite—soared to an unprecedented 22 percent of the overall vote. Indeed, the blank and spoiled vote exceeded that of the governing Alianza, and in two of the country's largest districts (the Federal Capital and Santa Fe), it exceeded those of all parties.

Mounting fears of a debt default or currency devaluation, reinforced by the Alianza's devastating electoral defeat, triggered a severe financial crisis. In late November 2001, Cavallo responded to a wave of capital flight by imposing strict limits on bank withdrawals and currency movements. The political consequences of the so-called *corralito* (playpen)—which deprived the middle classes of their savings and starved the cash-dependent informal economy that sustained much of the poor—were devastating. On December 18 and 19, Argentina exploded in a wave of rioting and protest. Confronted with widespread looting, highway blockades, and tens of thousands of middle-class protesters banging pots and pans in downtown Buenos Aires, and after a brutal police repression that resulted in at least two dozen deaths, De la Rúa resigned on December 20. With the vice presi-

dency vacant, Congress elected Peronist governor Adolfo Rodríguez Saá to serve as interim president. Rodríguez Saá immediately declared a default on Argentina's U.S.\$132 million debt—the largest default in history. Yet on December 30, after another round of mass rioting and amid severe conflict within his own party, Rodríguez Saá, too, resigned the presidency.

On January 1, 2002, when Congress selected PJ senator Eduardo Duhalde as Argentina's third president in less than two weeks, Argentina stood on the brink of anarchy. Rallying behind the slogan *que se vayan todos* ("throw everyone out"), protesters descended on the three branches of government, demanding the resignation of the Congress and the Supreme Court. At the same time, groups of poor and unemployed people—known as *piqueteros*—blocked major roads and highways throughout the country demanding food and jobs. While new forms of protest seemed to replace partisan channels of representation, citizen anger against politicians reached such heights that Argentines began to physically attack them on the street, in restaurants, and in other public places.

Immediately after his inauguration, Duhalde ended the convertibility system, plunging the economy further into chaos. Within weeks, the value of the peso had fallen by more than 70 percent, triggering fears of hyperinflation.⁸ With the banking system paralyzed and no immediate prospect of international assistance, economic activity ground to a halt. Argentina's GDP contracted by 16 percent in the first quarter of 2002, and the unemployment rate climbed to nearly 25 percent. More than five million people fell into poverty between October 2001 and June 2002. By mid-2002, more than half the population was living in poverty, compared to just 22 percent in 1994.

The economic collapse pushed the political system to the breaking point. Widespread public hostility toward the political elite raised the specter of a full-scale party system collapse, and the intensity of social protest and widespread perceptions of chaos triggered talk—for the first time in more than a decade—of military intervention. After police killed two protesters in June 2002, a weakened Duhalde was forced to cut short his own mandate. He announced that he would leave office in May, rather than December, of 2003, and presidential elections were eventually rescheduled for April 2003.

The 2001-2 crisis thus triggered yet another round of institutional collapse. Institutions ranging from the currency board, property rights, and

8. Devaluation generated political pressure from influential dollar-denominated debtors such as provincial governments, business, and much of the middle class. In response, Duhalde subsidized their debts by creating a special exchange rate at great fiscal cost to the state.

central bank autonomy to judicial independence, presidential mandates, and the electoral cycle were dismantled, violated, or seriously threatened. Presidential elections were rescheduled four times. Indeed, throughout 2002, there was little certainty when elections would be held, which offices would be up for election, or how candidates would be selected. Repeated conflict over and manipulation of the electoral rules of the game reinforced the already low levels of public trust in politicians and political institutions.

Political parties also fell into crisis. The parties of the Alianza suffered a meltdown: FREPASO disintegrated, and the UCR fell to less than two percent in opinion polls. As the UCR sank into apparent oblivion, aspiring Radical politicians abandoned the party. Elisa Carrió, a legislator who had emerged as a prominent anticorruption crusader, formed the left-of-center Argentines for a Republic of Equals (AR1), and Ricardo López Murphy, who had briefly served as De la Rúa's minister of the economy, launched the conservative Federal Movement for Renewal (MFR).

Although the PJ remained strong in electoral terms and was widely expected to win the presidency, it was nearly torn apart by internal conflict between Menem, who sought to regain the presidency, and Duhalde. Desperate for a candidate to defeat Menem, Duhalde turned to Nestor Kirchner, the little-known governor of Argentina's least populated province (Santa Cruz). Ex-interim President Adolfo Rodríguez Saá also sought the presidency. The Peronists repeatedly failed to agree on the rules of the game for selecting a candidate, and the nomination process quickly descended into a naked power struggle. Although PJ statutes called for a presidential primary, Duhalde, fearing a Menem victory, used his power in the party to derail such a vote. To avoid a rupture, PJ leaders ultimately opted not to officially nominate a candidate, but rather to allow Menem, Kirchner, and Rodríguez Saá to run outside the party.

The 2003 Election: Democratic Resilience and Partial Party System Collapse

The depth of the 2002 economic crisis and the extent of public hostility toward politicians raised the specter of a party system collapse and a regime-level crisis similar to those of Peru and Venezuela. Nevertheless, Argentina's democratic institutions again remained intact. The role of the armed forces during the crisis was striking. Notwithstanding widespread social protest and an atmosphere of virtual chaos, the military refused to repress protesters, made no attempt to change the government, and abstained from seeking to exert behind-the-scenes influence over political events (as occurred in Bolivia, Ecuador, Peru, and Venezuela). Given the depth of the crisis and Argentina's history of military intervention, this was an extraordinary outcome.

As the 2003 election approached, the political and economic crises began to ease. Buoyed by an incipient economic recovery, the Duhalde government used a combination of old-school clientelism and effective social policies—including the distribution of low-cost medicine and monthly subsidies to nearly two million unemployed heads of households—to restore a minimum of social peace. Levels of protest declined, and political activity was increasingly channeled into the electoral arena.

The May 2003 presidential election was the most fragmented in modern Argentine history. Peronism (unofficially) ran three candidates: Rodríguez Saá, who campaigned as a populist outsider; Menem, who ran as a law-and-order conservative; and Kirchner, who adopted a progressive center-left platform. The leading non-Peronist candidates were ex-Radicals who had formed their own parties: Carrió, who adopted a left-of-center, anticorruption platform, and López Murphy, who combined a clean government appeal with a conservative and market-oriented platform.

The election marked a departure from the protest politics of 2001–2. Notwithstanding widespread public anger and the political elite, no anti-establishment outsider received even two percent of the vote, and the blank and spoiled vote, which had surpassed 20 percent in 2001, fell to just 2.5 percent. Menem, who enjoyed the strong support of a minority of voters but was intensely disliked by a majority, finished first with 24.5 percent of the vote. Kirchner, who was backed by Duhalde's powerful Peronist machine in the province of Buenos Aires, finished second with 22.4 percent.⁹ Because no candidate secured 45 percent of the vote, Menem and Kirchner, two Peronists, qualified for a runoff election. In the second round, the anti-Menemist vote coalesced behind Kirchner.¹⁰ Facing the prospect of overwhelming defeat, Menem abandoned the race, handing the presidency to Kirchner.

The 2001–2 crisis thus had an uneven impact on the party system. On the one hand, the established non-Peronist parties were virtually wiped out. FREPASO and Domingo Cavallo's Action for the Republic disintegrated, and UCR, which had been the country's leading middle-class party for more than a century, suffered an unprecedented decline. Radical candidate Leopoldo Moreau's 2.3 percent of the vote was easily the worst performance in party history. On the other hand, Peronism proved remarkably resilient. Peronist presidential candidates won a combined 61 percent of the vote, and the PJ eventually secured a majority of seats in the

9. López Murphy finished third with 16.4 percent of the vote, followed by Rodríguez Saá and Carrió, each with 14.1 percent.

10. Almost immediately after the first-round vote was counted, surveys showed Kirchner winning the second-round election with more than 70 percent of the vote.

Chamber of Deputies, retained control of the Senate, and won the vast bulk of the country's governorships.

The PJ's electoral resilience was critical to preventing a full-scale party system meltdown and the rise of an anti-political establishment outsider. In Peru and Venezuela, the success of outsider candidates was rooted in the collapse of established populist parties, which left a large number of low-income voters available for "neopopulist" appeals (Roberts 1995; Weiland 1999). In Argentina, by contrast, working- and lower-class voters remained solidly in the Peronist camp, confining the "throw everyone out" vote to the non-Peronist electorate (Escobar et al. 2002; Torre, this volume).

Non-Peronist forces remain unstable. The two "post-Alianza" parties with the strongest claim to middle-class votes, Carrió's center-left ARI and López Murphy's center-right MFR, are little more than personal vehicles for their respective founders. They lack national organizations, and their support bases were concentrated largely in the major metropolitan centers. Since the emergence of Peronism in the 1940s, national-level party building has proven exceedingly difficult in Argentina. Indeed, of the many parties that competed in national elections between 1983 and 2003, only the PJ and the UCR succeeded in penetrating the entire national territory. Alternative political forces, such as the Intransigent Party and FREPASO (on the center-left) and the Center Democratic Union and Action for the Republic (on the center-right), were weakly organized, Buenos Aires-based parties, and all of them virtually disappeared within a decade. If the ARI and the MFR do not extend their influence into the peripheral provinces, they will almost certainly suffer a similar fate.

Argentina's post-1999 party system thus appears to have suffered a *partial collapse*. On the one hand, Peronism's electoral resilience prevented a full-scale party system collapse along the lines of Venezuela and Peru. On the other hand, unlike party systems in Chile, Mexico, Uruguay, and even Brazil, no stable partisan alternative emerged to represent disaffected or previously excluded voters. In contrast to the National Action Party (PAN) and Party of the Democratic Revolution (PRD) in Mexico, the Broad Front in Uruguay, the Workers Party (PT) in Brazil, and the Independent Democratic Union (UDI) in Chile, Argentina's emerging partisan alternatives (FREPASO, Action for the Republic) never developed national structures during the 1990s and quickly collapsed, leaving non-Peronist forces fragmented and disorganized.

The Kirchner Presidency: A New Round of Institutional Change

Following an election in which he won only 22 percent of the vote, President Kirchner quickly established his authority by launching a set of bold

reform initiatives. The new government restructured the military and police hierarchies, shook up several state agencies long linked to corruption, pushed successfully for the removal—via impeachment and resignation—of leading Menemist-era Supreme Court justices, and established mechanisms to ensure a more transparent and consensual judicial nomination process.¹¹ The new government also solidified its support among middle-class progressives by launching a campaign to reopen judicial proceedings against military officials implicated in human rights violations. Finally, Kirchner distanced his government from the economic policies of the 1990s. The new government adopted a harder line in negotiations with international creditors and began to revise several post-privatization concessions and regulatory arrangements that were deemed harmful to consumers. In many respects, these moves went beyond the progressive-reformist platform that had been charted but abandoned by the Alianza. Public opinion surveys showed broad support for the new government and a striking degree of optimism about Argentina's future, at least until the third quarter of 2005.¹²

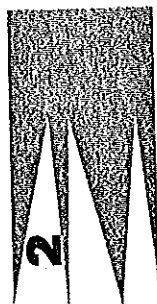
The longer-term impact of Kirchner's reforms remains uncertain. In at least some respects, the early Kirchner presidency resembled that of Menem. The new president concentrated power in the executive, demonstrated an unusual degree of political initiative and energy, and undertook a series of bold initiatives from above that shook up or undid institutional and policy arrangements associated with discredited past governments. Similar to the early Menem years, these rapid-fire initiatives won broad public support and helped to restore public confidence in the political process. However, Kirchner's initiatives were more transparent and more oriented toward institutional integrity than those of early 1990s—perhaps because the primary crisis he faced was one of public confidence, not hyperinflation. Thus, whereas Menem routinely sacrificed institutional integrity in the pursuit of short-term political and economic goals, the Kirchner government faced an important dilemma between process and outcomes. On the one hand, facing a skeptical and highly mobilized public, Kirchner needed to achieve certain institutional outcomes—such as a reshuffling of the Supreme Court and other discredited state agencies—quickly to avoid the fate of his immediate predecessors. On the other hand, simply stacking the Court, as Menem did, would reinforce existing patterns of institutional instability. In some areas, including the Supreme Court, Kirchner was able

11. As of late 2005, the Senate had approved four of Kirchner's proposed appointees to the Supreme Court following the new open debate process.

12. Kirchner's public approval rating reached 80 percent soon after his inauguration in May 2003 and remained above 70 percent through early 2005.

to achieve his goals while taking issues of process seriously, which could enhance the long-term credibility of those institutions. In other areas, such as regulatory agencies that were stacked by the executive in order to protect consumers from rate hikes, outcomes won out over process. Hence, whether the Kirchner round of reforms will break or reinforce preexisting patterns of institutional instability remains to be seen.

If institutional instability remains a central feature of contemporary Argentine politics, however, the scope of that instability may be narrowing. Although the political-economic crises of 1989-90 and 2001-2 resembled earlier ones in that they were accompanied by widespread contestation, subversion, and alteration of the rules, they differed in that certain core political and economic institutions survived. The democratic institutions established in 1983 endured the collapse of the Alfonsín government (and later, that of the Alianza government), and notwithstanding the profound socioeconomic crisis of 2001-2 and the election of a critic of neoliberalism in 2003, the primary free market institutions created during the 1990s remained largely intact. This core institutional stability constitutes a significant break with earlier patterns, and it permits a measure of optimism about Argentina's political future, even as the country struggles to recover from the devastating crises of the not-too-distant past.



The Institutional Foundations of Public Policy: A Transaction Cost Approach and Its Application to Argentina

Pablo T. Spiller and Mariano Tommasi

In the 1990s, Argentina underwent a broad and profound process of market-oriented reform. With its ambitious program of macroeconomic stabilization, liberalization, privatization, and deregulation, Argentina became the poster child of the Washington establishment. After decades of inward-looking policies, stagnation, and fiscal crises that produced hyperinflation in 1989, Argentina seemed to have found its way at last. For a good part of the 1990s, Argentina's macroeconomic performance was extremely strong. From negative growth in the 1980s, its GDP grew over 50 percent in the 1991-97 period, and inflation fell from 23,104 percent in 1990 to around zero in 1997.

Unfortunately, in 1998 the Argentine economy entered into a long, drawn-out recession that exploded into one of the deepest crises in modern economic history in December 2001. In the end, the 1990s turned out to be just one more cycle in Argentina's history of hope and despair. Evaluating Argentina's dismal performance, most economists have blamed poor economic policies for these sad outcomes. We tend to agree with this perspective, but instead of emphasizing the "content" of economic policies (for example, how market-friendly they are), we focus on general policy "characteristics." Argentine policies are unstable in ways that weaken their

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