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The Role of the State and Industrial Policy in the 1990^s

*Preliminary contributions
to an ongoing debate*

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**UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION**

Prologue

This book is an initial foray into the problem of the role played by the State in defining industrial policy. Those of us in government recognize that, despite our reading, research and reflection on the subject, its nature and importance will call for still more exhaustive efforts.

Nevertheless it is also true that timely discussion and presentation of ideas can be useful, particularly when they are constructive. We believe that the times we live in make such discussion expedient and necessary. Our aim is therefore to enrich the subject and pave the way for further research and commitment.

At the same time, it would be naïve not to acknowledge that the discussion is necessarily political. Bearing in mind the many years of institutional disarray in Argentina, our goal is to ensure that the topic is not left off the agenda when the country elects its third consecutive democratic President.

We therefore present a different model of management of industrial policy by the State—distinct from the traditional one where featherbedding is endemic. Its practical realization, we suggest, will be more eloquent than theoretical debates between market fundamentalists and industrial policy activists.

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Introduction

In recent years there has been frequent comment on the need to “reform”, “downsize”, “rescale” or “modernize” the State. We may deduce that they refer to the State’s whole administrative system: the civil service, public enterprises, government organizations and other agencies of the central administration.

Such discussions typically begin by talking about the organizational issues. But while these are certainly important and far-reaching, they are nonetheless secondary. From there the discourse moves on, usually using unexplained generalizations to arrive at conclusions concerning the central problem—the scope of the State’s role in society.

The State, however, is much more than just an administrative system. To judge, analyse and establish the scope of its role by assessing the performance of its various administrative organs therefore seems hardly realistic.

The lack of a proper appreciation of this distinction partly explains the predominance of a particular school of economic thinking we call “economicism”. Its influence has been significant, determining the direction and magnitude of changes to the State system in many different societies throughout the world. The terminal crisis of Argentina’s economy is the great home-grown example. It imposed severe restrictions which few could claim to ignore.

Stemming from earlier decades, when it was believed that industrialization and economic transformation processes would also somehow solve social problems, the divorce between economic policy and social policy, which is inherent in economicism, is seen today to lack both realism and usefulness. From today’s perspective, shaped by contributions of different

economic development schools, the lost decade of the 1980s bears witness to the impact of economic plans that merely sought to attenuate their own “unfortunate consequences” through the application of “assistance-providing” social rescue policies.¹

Now, in the last decade of the century, with alarming levels of worldwide poverty still stubbornly with us, we urgently need to find ways to incorporate *social* consequences as part of the design framework of *economic* policies—rather than leaving them as an “undesired effect” of those policies.

Argentina’s experience, which is unparalleled in recent economic history, confirms that it is indeed possible to stabilize an economy, and to reorganize its operating bases, while at the same time creating better living conditions for the country’s inhabitants. We believe it is essential to analyse this experience. This work is such a contribution. We also believe it useful to precede such analysis with a re-examination of the role of the State in society. The study is therefore in two parts.

Part one gives a brief historical and anthropological account of the emergence of the State, its *raison d’être* and its purpose. It then analyses the development of the institutions of the State organizational system in general, and the evolution of the Argentinian State in particular, from its creation to the present day. Finally, it discusses the role of the State in modern societies, its participation in the economic process, and the main results of the programme of structural reforms implemented in Argentina, especially those linked most closely to social well-being.

In the light of part one’s conclusions, part two addresses the central aspects that bear on industrial policy. It enumerates the actions and instruments that now comprise Argentina’s industrial policy, putting them in the context of key aspects of Argentina’s surrounding programme of structural reforms. These are summarized in the appendix.

The overall task is to reconcile two aspects of the analysis: one ideological—the concept of the role of the State is always ideological—and the other technical, but stemming from the ideology.

¹See, for example, Oman, C. and Wignaraja, G., *The Postwar Evolution of Development Thinking*, Macmillan, 1991.

It is not our intention to develop a general theory of the State. Nor do we offer a treatise on its emergence and evolution. Others, with recognized experience and deserved renown, have already made enormous efforts in this regard, with excellent results. Nor do we seek to present a novel, let alone a revolutionary, idea. Our interest is more limited: analysing—

- ❑ Whether it is possible to improve the creation and distribution of wealth while also improving the quality of people's lives?
- ❑ Whether such improvements can be achieved over a time span compatible with the average length of human life in a country such as Argentina?

And, if all that is possible,

- ❑ What role is played by the State in the process?

We subscribe to the view that the system of State organization is the result of evolutionary processes in societies with well-defined intentions and objectives. We are convinced that such evolution can be explained in terms of issues such as demographic pressures, intensification of production and environmental depletion—factors that also play a key role in determining social behaviour and patterns. But we seek to replace the traditional explanation inherent in the Victorian concept of progress—the idea that highly civilized peoples observe from on high the successive levels of barbarism that more primitive peoples have to overcome. Instead, we are looking for an alternative, more realistic explanation of cultural evolution, based on real patterns of social behaviour.

We share the opinion of those who hold to a cyclical concept of history—that human history has been composed until now of foreseeable rather than unforeseeable constraints. Thus, in studying the evolution of State institutions, we examine a handful of cases with paradigmatic value, such as the way institutions worked in ancient Rome. We believe they acceptably summarize the different systems of power and domination observed centuries later in Europe. We are aware, nevertheless, that social processes do not necessarily repeat themselves. Thus we accept that even if some type of determinism has governed the course of cultural evolution in the past, it does not mean that this is what will happen in the future.

Finally, we believe that Argentina's post-1991 reform programme was a modern, novel and progressive proposal that went far beyond such a simple *economicist* approach. We believe it is a novel way of addressing the problem—a genuine alternative whose design includes the social impact of the economic reforms it proposes. And for this reason alone, it has continually been validated at the polls and supported by low-income population groups.

The task of the State that emerges from our analysis is that of ensuring the survival of society by taking on the whole range of issues this now involves. Whether that survival benefits the few, or cares for the many, is a topic we also take up—without any intention of exhausting it however.

Historically, State organizations have administered successive cyclic processes involving depletion of resources and intensification of production—seeking to balance the needs of the population with the available resources. Scientific and technological progress today positions these cycles at an ever higher level. Maintaining social cohesion includes satisfying needs that are not always properly assessed. It means reconciling as far as possible two particular dilemmas of all societies:

- ❑ How the State often has to infringe individual liberties in its efforts to defend the rights of all, and
- ❑ Whether the benefits resulting from State management justify its actions before society as a whole.

In summary, the challenge faced by Argentina, and by all modern societies in the 1990s, consists in finding ways to articulate the structural transformation the economy requires, but to do it in a direction compatible with the survival and development needs of all the nation's various groups.

Part one

**The emergence and evolution
of the State**

I. The origin of the State

Our analysis begins with the social organization of nomadic groups and early settlements—the earliest (pre-State) stage in community organization. Even at this level, the interaction of human beings gave rise to conflicts of interest. Not everyone wanted the same things at the same time. To avoid confrontations, therefore, social systems must have had structural mechanisms for settling conflicts in a more or less orderly manner.

Nevertheless, under such conditions, nomadic and early settlement cultures did not need an enormous regulatory apparatus at State level to maintain law and order. This reflected the profound quantitative and qualitative differences between the types of conflicting interests in these early societies and those in the later State societies. Such pre-State societies were notable for:¹

- ❑ Small numbers in the group—all members knew each other personally
- ❑ Key importance of groups of relatives in the social organization—reciprocity was the basic means of exchanging goods and services; the collective interests of the domestic unit were easily identifiable by all group members;
- ❑ Free and equal access to technology and resources—collective ownership of inputs prevented one person or group of persons from hoarding food or other forms of wealth, while others suffered shortages.

To the extent that we can ascertain that political leadership existed in such societies, it was exercised by one leader. In contrast to later leaders of State societies, pre-State leaders did not have coercive instruments

¹Harris, Marvin, *Introducción a la antropología general*, Alianza Editorial, S.A., Madrid, 1986.

with which to enforce their orders. Nor did they have sufficient power to demand obedience. Their success depended rather on their capacity to divine and interpret public opinion and implement its intentions.

In small groups, the main source of law and order was social consensus. When conflicts arose, interventions of the social players aimed at influencing public opinion, which was the only authority capable of legitimizing or disqualifying deeds or actions.

But how did these pre-State societies evolve and the State emerge? Why and how did this next change take place?

Clearly, the cultures organized into nomadic bands and early settlements closely resemble those of an egalitarian society. We may infer that the average human being enjoyed similar wide-ranging economic and political freedoms. Men decided for themselves what work they would carry out each day (hunting, gathering wild crops, fruit etc.), how much time they would devote to that task, or even whether or not they would undertake the work at all. There were few routines. People did what they had to do. No one told them where or when. Moreover, everything took place within the framework of what was needed to maintain the group's economic level. Judging by the behaviour patterns in similar group and village organizations that exist today, work was undertaken in this manner for a great many years.

This entire system of life changed with the advent of the State. Kings, policemen, armies, lawyers and jailers appeared, and with them came routine work, obligations and taxes. Most aspects of life underwent transformation—from a free and egalitarian lifestyle to another system, rigidly regulated and more complex.

To explain the transformation, and the decision of a given society to sacrifice the individual political and economic freedoms, as demanded by State-level organizations, we must analyse the production systems of hunter-gatherers and primitive farmers—the capacity of those systems to confront population pressures in particular.

The resources available undoubtedly varied from group to group. Agricultural societies occupying favourable land, could intensify food production for relatively longer periods without abrupt depletions or loss

of production efficiency. On the other hand, the more the demographic reproductive rate of hunter-gatherers exceeded the group's capacity for production using those resources, the greater the pressure for tribes to divide and segment. Geographical displacement of some of the people combined with stricter and more severe birth control mechanisms to reduce the number of mouths to be fed.

Evolution from pre-State social organizations that were mainly egalitarian societies began when farmers in established villages found it necessary to develop special institutions. Primarily to stimulate the intensification of production, these also rewarded those who worked more than others.

Anthropologists call such "intensifiers of production" the *great men*. Studies of numerous groups in Melanesia and New Guinea "at their purest and most egalitarian stage" according to anthropologist Marvin Harris, show that, while the *great men* remain workers, they are distinguished by ambition and community spirit. They persuade their relatives and neighbours to work for them by promising to celebrate an enormous feast with the extra food they produce. When the feast takes place, the *great man*, surrounded by his proud assistants, distributes piles of food and other gifts but keeps nothing for himself. Says Harris, "under given ecological conditions and in times of war, those food administrators could have risen above their followers and become the original nucleus of the ruling classes in the first States."²

Harris is here supported by other researchers, e.g. Douglas Oliver among the Siuai of Bougainville, Solomon Islands, Bronislaw Malinowski among the Trobriand islanders of New Guinea, William Bartram among the Cherokees of the Tennessee Valley and John Beattie among the Bunyoro of East Africa. According to their studies "the greater and denser the population, the greater the redistribution network and the more powerful the redistributing warrior chief. In certain circumstances, the exercise of power—on the one hand by the redistributor and his closest followers, and on the other by the food producers—was so unbalanced that to all intents and purposes the redistributing chiefs constituted the main coercive force in social life."³

²Op. cit.

³Op. cit.

When this happened, contributions to the central food reserve, which in some of the societies studied were built up for war or precautionary purposes, were no longer voluntary. They were, in effect, taxes and compulsory contributions. Free access to land and other natural resources was similarly restricted. Access to resources ceased being a right, which had been a distinctive feature of pre-State societies. It became something granted, not by a redistributing chief, but by a King or Lord.

The appearance of social institutions aimed at intensifying food production reflected, therefore, an unconscious process stimulated by the existence demographic reproductive pressures within the community—rather than planning ordered by a dominant group in the tribe or village.

The position of *great man* was no doubt sought by some villagers as a symbol of status and prestige. This is the case with the “Mumi” (great man) among the Siuai. Nevertheless, the title does not confer special powers on its possessor over his neighbours. They depend, in the same way as the leaders of nomadic groups and early settlements, on the people’s goodwill and were similarly subject to powerful public opinion.

Elsewhere, responses to changes in ecological conditions and in relations with neighbouring peoples gradually strengthened the power of the redistributive chief until he became a King. In the case of the “Mukama”, the King of the African Banyoro, long-term analysis covering several generations shows a series of modifications in the way benefits were distributed—modifications that eventually inverted the power relationships. While the Siuai Mumi depended on the generosity of food producers; Bunyoro producers depended on the generosity of the Mukama. The latter maintained large warehouses to hold production surpluses for times of shortage. From there they supplied the religious chiefs and warriors, and rewarded the producers—at the Mukama’s discretion.

In summary, the basic features of social organization in nomadic groups and early settlements changed gradually as a result of population pressures. Eventually they reached conditions that encouraged the appearance of the State as a form of social organization. The transition from a mainly egalitarian redistributive chieftainship to State-like organization is explained by production intensification and population growth in certain fertile geographical regions, the practice of grain storage, pressures of war, and the eventual control by a chief or ruling group over access to the means of production.

The *raison d'être* of primitive States, we may conclude, is the administration of the process of intensification of food production. Its primary aim was the redistribution of the food produced on the basis of some socially approved and established criterion, thus ensuring the survival of the social group in the face of demographic and ecological pressures. The first administrator of this process, the *great man*, was the pivotal figure around whom the process of increasing production and redistribution of wealth was administered.

The following chapter analyses the extent this role was maintained throughout the evolution of State organizations.

II. Evolution of the State

Having discussed the *raison d'être* and the basic driving forces behind the appearance of the State, we now analyse its evolution.

We study the Roman Empire for three particular reasons. First, the evolution of the Roman State enables us to review key aspects, such as the legitimacy of the State's authority and the emergence of the main state institutions. In line with Toynbee, for whom the idea was central to his work, we see the Roman Empire as the prototype of the idea of the Universal State.

Secondly, Graeco-Roman civilization is the direct antecedent to Western civilization. We may therefore transpose conclusions to subsequent historical periods.

Thirdly, the Roman Empire provides a clear overview of an extensive period of human history covering the complete evolution of a people in relation to its supreme public power, the State.

As pointed out in chapter I, the transition from redistributing chieftainship to a kingdom occurred through a series of barely perceptible changes running through generations. Each one saw only a small alteration in the established order as the balance of power between producers and the redistributing authority changed. Understanding how the monarch emerges as an institution and what legitimizes his authority, calls for more detailed analysis.

What later became the Roman Empire emerged initially in response to demographic pressure among the tribes located in the Lazio region. Confined to a specific fertile area, gradually grew in number and population density increased. Food production technology had to become

relatively more efficient, and also more complex. Growing population density also increased the frequency of disputes and the requirement for many different formulas for compromise and settlements. These in turn became the seeds of what today's legal knowledge and what lawyers study at private law institutions.

All this was accompanied by the pre-Roman development—Rome had not yet been founded—of a vast, complex and precise concept of the world that was essentially religious.⁴ It was this perception of the world based fundamentally on a religious and sacred feeling of reverential fear, according to the theories of Emile Durkheim and ... Bachhofen, that gave rise to power in pre-Roman society.⁵

We say that something or someone is legitimate when his or her exercise of power reflects people's belief that he or she is the person who should (who has the right to) exercise it. But that right—of the King, the Senate, or whoever—is not recognized in an arbitrary manner. The belief that the *institution* is the one that has the right to exercise government exists only as part of a whole, consolidated belief in a certain concept of the world shared by all the people—what today we call “consensus”. In the previous chapter we referred to it in the form of the power of public opinion and its egalitarian role in pre-State societies.

In the Lazio region, the religious concept of the world was deeply rooted in the future Romans. The tribes were possibly among the most religious that ever existed. There was virtually no act, public or private, in which some type of religious service was not performed. Nevertheless, the main rites, the most important ones for public life, could not be celebrated by just anybody.⁶ Only certain men chosen from a handful of

⁴As José Ortega y Gasset points out, people's concept of the world cannot be anything other than religious. An individual or group of individuals can have a non-religious concept—scientific, for instance—but a people cannot have an idea of the world other than a religious one. See, Ortega y Gasset, José, *Una interpretación de la Historia Universal*, Alianza Editorial, S.A., Madrid, 1979.

⁵The feeling that something is sacred expresses fear of the hidden force of social consensus. Appealing to the sacred nature of a rule is a man of resolving people's uncertainty regarding what they should or should not do and, how they should act with respect to that rule. See Harris, Marvin, *Introducción a la Antropología General*, Alianza Editorial, S.A., Madrid, 1986. Relevant also is the anthropologist Bachofen's study of the history of civilizations. This shows a functional relationship between the evolution of social organizations and the evolution of religious beliefs. See Harris, Marvin, *El desarrollo de la teoría antropológica*, Siglo XXI de España Editores, 1985.

⁶In pre-State societies, any individual with the charisma and ability to convince his relatives and neighbours to work for him and organize the resulting production could become chief.

families were empowered to officiate. They were, of course, the families that had moved ahead of others—through their courage in war, their ability to organize production and accumulate wealth, and their religious zeal.

It was thus that the first stable authority emerged. The first permanent state feature was the figure of the *rex*, the leader or director of rites who officiated in collective religious life. Later, the *rex* or *king* would take on other important functions, such as leadership of the army (whose fate was linked to the help it received from the divinities), implementation of laws, and the administration of justice.

This king exercised his authority not *de facto*, momentarily and in the manner of the earlier pre-State chiefs, but by right, and permanently. His right and legitimacy came from the gods. He was king “by the will of God” and his main concern, delegated by society, was to keep communication channels between the people and the divinity open.⁷

Again, as in the case of the *great men*, the relationship gradually and imperceptibly inverted over the years. The families chosen by society to communicate with God due to their courage, wealth and profession of faith, became those chosen by God to express himself. They were persons and families “chosen by God”; he provided their legitimacy and the basis for legitimizing their special rights.

When the Etruscans invaded and dominated the Lazio region, they gathered several tribes in a city they called Rome and replaced their kings with an Etruscan one. And, *because it was divine*, the Latins initially recognized this reign and its legitimacy. They accepted the State and religious institutions of the dominating people, even preserving them throughout their history. When, however, because of their unnecessary cruelty and inefficiency, the Etruscan kings angered their Roman subjects, they rose up against them and expelled them.

In the opinion of certain philosophers and historians (among them Ortega y Gasset) this significantly affects the paradigmatic value of the Roman Empire. The pre-Rome’s transition from monarchy to republic was

⁷Ortega y Gasset, José, op. cit.

premature. Among other European peoples the monarchical system survived throughout most of their subsequent history. In our view, the validity of the Roman paradigm was essentially unaffected. True, the downfall of the monarchy was followed by the establishment of the republic. But the new system of government was neither radically different from the previous one, nor did it deviate from its basic functional strategy. The new system split royal authority into two, assigning the duties to two Consuls who became the highest judges, the army chiefs and the legislators.

In order to establish laws, the Consuls had to concede participation to the Senate. But such power sharing already had a long history. Previous kings had always had the Senate at their side. During the monarchy period it was an advisory council made up of the former kings of the tribes of the Lazio region, i.e. Rome's most ancient, respected and powerful families. Following the revolution that expelled the Etruscan kings, the new Senate took a leading role and was first and foremost aristocratic. But because continuous warfare had required a high degree of popular mobilization, there also had to be compromises between the patricians and the people—with the people acquiring a larger share of power. Hence the name of the new Roman State: *Senatus Populusque*.

Even when they changed the system of government, the Romans did not fully cast away the legitimacy of royalty. So strong and definitive was this relationship in their concept of life and the world, even the profound rejection of the monarchic system (induced by the abuses and suffering to which they were subjected) was not sufficient to nullify the legitimacy granted to the king's power through divine will. They thus conserved, through the figure of the *rex sacrorum*, the essential features of that concept: the maintenance of the relationship between the people and God. But, for fear that the hated monarchy would re-emerge, they decreed at the same time that the new leading role of the senate that the "rex sacrorum" would never occupy any political or military post.

For a long time the Romans continued to believe that senators, consuls, the *rex sacrorum* and the highest pontifex should only be chosen from certain families. Despite this, the popular participation continued to intensify in step with the pace of military campaigns, perhaps reaching its highest point with the Punic Wars. As Rome grew, the city filled up with

new inhabitants who, without the old tradition of the patricians, now represented the majority. And although the theory of popular sovereignty never existed in Rome, it was these new citizens who created and accumulated wealth. It was they who underwrote the State's military campaigns in economic and human terms. Hence, although it did not occur to them to question the legitimacy of the Senate—which they also considered divine—they gradually understood that they should have more say in government. The mechanisms they used were elections and universal suffrage.

This same process can also be observed in the European monarchies. Europe's kings also legitimized their power in divine will. They also maintained unyielding and absolute control over the State apparatus. But as the technical and material conditions of production gradually changed, so did the degree of pressure exerted by the people to participate in government.

The Englishman John Locke showed this clearly in his *"Treatise on Civil Government"*, written in the late seventeenth century. Providing ideological support to the then still incipient popular concern, Locke, as had Hobbes before him, based his ideas on the "state of nature and the original contract". But contrary to Hobbes, who in the end justified absolutism, Locke distinguished between the legislative power and the executive power. He even proposed a "completely terrestrial, completely human limitation" on royal power, sanctioned, in the final analysis, by subjects' right of insurrection.

J. J. Chevalier's analysis of Locke's treatise explains that, according to the English thinker, man by nature has two powers. Upon entering the civil state, he forsakes both of them for the benefit of society, which inherits them. For, by nature, man has the power to do all he deems necessary for his own conservation and that of the rest of society. He forsakes it so that it can be regulated and administered by the laws of society, "which reduces in various aspects the freedom one has according to the laws of nature".

Secondly, man foresakes the power to punish crimes committed against natural laws; that is, the power to use his natural strength to ensure enforcement of these laws. He yields this power in order to assist and strengthen the executive power of a political society.

Thus, society, the inheritor of the freedoms men enjoyed as nature made them, possesses, in turn, two essential powers. One is the legislative, which regulates how the forces of the State should be used to conserve society and its members. The other is the executive, which ensures the execution of positive laws within the national territory.⁸ In this manner, by laying the philosophical foundations for advancing towards a “mixed monarchy” in which absolute royal power would be regulated by a legislature, Locke breaks the divine legitimacy of royalty. It is the same idea of “mixed constitution” which the historian Polybius tried to bring to the understanding of the Roman State, and which the late Greeks dreamed of after years of failure with various constitutional models.

John Locke’s thinking was later to nourish the ideas of Americans such as Jefferson and Franklin, and those of many French eighteenth-century thinkers. As we know, these movements illuminated developments after the American and French revolutions—developments that left the State more or less as we know it today.

Of course, Locke’s ideas were not the only influence. Many other intellectuals contributed. The French thinker Montesquieu made a major contribution to the theory of the division of powers with his *“The Spirit of the Laws”*, published in 1784. Regarding the theory of governments, he tells us that: *“In order to form a moderate government one has to combine the powers, regulate them, restrain them, make them act, give ballast to one, so to speak, to put it in a condition to resist another; it is a masterpiece of legislation that chance rarely does and that is rarely left to be done by prudence. A despotic government, on the other hand, hits you in the eye, so to speak; it is uniform in all its aspects; since only passions are needed to establish it, everyone is good for that.”*⁹

The thinking of the time, as we can see, gradually supports the theory of popular sovereignty. As a result, the legitimacy of power is deemed to reside today in the people, who deposit it in State Institutions through some type of contract. The same God who had chosen kings to communi-

⁸Chevalier, Jean-Jacques, *Los grandes textos políticos*, Ed. Aguilar, S.A., Madrid, 1985.

⁹Chevalier, Jean-Jacques, *op. cit.*

cate with the people had also created man free. Man only handed over his rights through a contractual agreement to become socially organized.¹⁰

All these theories point in the same direction: legitimizing the right of an increasingly wealthy and numerous population to participate in government affairs. But on top of the “indomitable struggle of human nature against any type of oppression”, as some thinkers put it, the fact remains that once again it was successive intensification and exhaustion of different systems of production that produced alterations in the balance of power and forced changes in State control systems.

All rapid intensification of production systems face the same problem: any increase in the rate of energy consumption in production also deteriorates the ecosystem’s reproductive capacity. In other words, whatever manner of production was used, there is only one way to prevent a drop in output: to adopt more effective technologies.

The State, whose original *raison d’être* was to administer the process of intensifying food production, continues to carry out this task but in the face of increasingly numerous populations and more complex productive processes. It is when these processes give rise to an excessive concentration of power that people limit State institutions—to the extent that they still have the means so to do. To ensure society’s survival in the face of ecological or other threats, they even limit the legitimacy they grant to their authorities, preventing them from departing or exceeding the purpose that justified their existence. Again, to quote Locke: “*the powers of the State should be used to conserve society and its members.*”

Some, perhaps, will find this explanation excessively mechanistic. The aim, however, has been to equip ourselves with a minimum historical

¹⁰It is nevertheless remarkable how, despite the evolution of ideas and religious beliefs and institutions, thinkers continued to appeal to the religious concept of the world held by people as a means of assuring and consolidating state power. J.J. Rousseau’s “*Social Contract*”, for example, includes a chapter “*On civil religion*”. He explains that “*it benefits the State for every citizen to profess a religion that makes him love his duties, but the dogmas of this religion concern neither the State nor its members, only inasmuch as they are related to the morals and duties that whoever professes it is obliged to fulfil towards his fellow men. Each person may have particular opinions, without it being the concern of the Sovereign to know them, since the fate of his subjects in the other life is not his responsibility as long as they are good citizens in this life. There is, then, a purely civil profession of faith whose articles should be established by the Sovereign, not exactly as religious dogmas, but as feelings of sociability, without which one can be neither a good citizen nor a faithful subject.*” See Rousseau, Jean-Jacques, *El Contrato Social*, Ediciones-Distribuciones, S.A., Madrid, 1985.

base for discussion of the role of the State in our *own* times. To complete the circle, and before entering fully into the central theme, we will make one more stopover: we will study the evolution of the Argentine State.

III. The evolution of the State in the Argentine Republic

Explaining Argentina's current problems is difficult and complex enough. Doing it from an historical standpoint adds an inevitable polemical dimension.

In every country people learn an interpretation of their national history, and draw from it their own conclusions. Controversy is thus natural and logical component of any exchange of views with other countrymen. Argentines, however, take this normally useful and enriching experience, to extremes. The most conspicuous figures in Argentinean history are commonly viewed either as infallible supermen or perfidious villains with dark intentions. More likely they were neither heroes nor villains—but normal human beings with virtues, vices and failings.

We will therefore try to avoid passionate arguments, sticking instead to an analysis of the facts and their interpretation. We focus on three main periods of history: from the Declaration of Independence to approximately 1850; from 1930 to 1950; and from that year to the present.

Although the first period technically begins in 1816, its origin dates back to the first independent government in May of 1810. This was when the separatist movement, an outcome of Napoleon's invasion of Spain, spread to Argentina. Ostensibly loyal to the deposed Fernando VII, its protagonist to some extent adopted attitudes of resistance to the invader embodied by the juntas of Cadiz and Seville. But although separatist—with two governments claiming legitimacy—they were not in reality disposed to follow any other political course than their own.

The May 1910 revolution led to dismantling of the administrative apparatus the government had inherited from the colonial period. This

took several years, but, thanks to intermediaries such as the 1813 Assembly, the transition was practically complete when independence was formally declared. Nevertheless, because the entire system was overturned without being replaced, it also created a high level of institutional instability. When it spread to politics in general, it created one of the main characteristics of the period: lack of a state administrative apparatus.

The state of disarray was such that many of the leaders of the independence movement treated the lands they had liberated as if they had conquered them. Not only was the Viceroyalty of Río de la Plata militarized, but the rest of the continent as well. The large armies that had been formed during the wars of independence meanwhile consumed a major share of public funds. Combined with the low level of economic activity of the new industries—essentially sugar, leather, salted meats and wheat—this meant that there was little need to replace the colonial administrative apparatus with another: there was very little to administer.

The incipient nature of commerce, its simple, rudimentary forms and the low volume of local capital neither demanded nor permitted the existence of a strong currency.¹¹ Both commerce in Buenos Aires and the network of representatives in provincial cities (who acted as intermediaries between Buenos Aires and Potosí, Perú) were seriously affected by the rupture of the jurisdictions of Alto Perú (the region that specialized in minting money) and the political fragmentation that followed the revolution. Contact with Alto Perú was hampered, and markets for manufactured goods imported by wholesale distributors in Buenos Aires were lost.¹²

At the same time, growing federalism during that period further isolated the interior of the country and hampered its economic recovery.¹³ In this context the rehabilitation of the Buenos Aires economy was to

¹¹See Prebisch, Raúl, "Historia Monetaria Argentina", in *Economía e Historia*, compiled by Mario Rapoport, Buenos Aires, Thesis, 1988.

¹²See Ossona, Jorge L., "Evolución de las economías regionales", in *Economía e Historia*, compiled by Mario Rapoport, Buenos Aires, Thesis, 1988.

¹³"Although Buenos Aires' initial efforts to become the country's axis for political organization were relatively fruitless, the city was powerful enough to promote a model of economic development that subordinated the country's development to its own. Paradoxically, federalism was its natural ally. By encouraging isolationism it was able to appropriate all the income from its customs regime, meanwhile the economic and fiscal consequences of its model led to the increasing impoverishment of the interior." Oszlak, Oscar, *La Formación del Estado Argentino*, Universidad de Belgrano, 1982.

depend increasingly on the prosperity of its landowners, for whom it became crucial to expand and defend the borders they shared with indigenous tribes. This therefore became one of the main objectives of the provincial State.¹⁴

On the foreign front, Britain, the dominant power of the time as a result of its industrial revolution, primarily sought markets in which to sell the goods produced by its new industries. It did not yet need supply sources. For their part, prior to change of government in 1810, River Plate exports were in any case limited by the demonetization of the economy (a consequence of the loss of Alto Perú) and by stagnant exports of raw materials. In those conditions, the local market was only of marginal interest to British trade circles—in contrast to the prospects later.¹⁵ The volume of international trade in 1850 was thus much the same as in 1825. It was not until the 1850s, in fact, that the process began to revert.

Meanwhile, having completed the first stage of the industrial revolution, the European countries that led its changes entered the second stage when their demand for raw materials began to diversify and expand substantially. Food, textiles and leather were needed in order to feed and clothe large numbers of workers that had previously not formed part of the consumer chain—thus easing the social tensions that had built up during the first stage of the industrialization process. It was as a result of those developments that Argentina's relative position began to improve, thus initiating the second historical period mentioned above. The country's basic commercial activities, such as salted meat, leather and wheat, largely undeveloped until then, started to become essential supplies for the Old World.¹⁶

Benefiting from the emergence of distinguished and powerful customers, local businessmen used the new, attractive profits of their incipient

¹⁴Ibid.

¹⁵"The structure of the Rio Plata market made it a modest consumer of overseas imports. Britain, for its part, did not require large volumes of the few raw materials offered by Río de la Plata at the time." See Ossona, Jorge L., op.cit.

¹⁶"Great Britain, whose industrial development initially depended on raw materials from North America, was able to replace its former colony by accelerating the incorporation into the world market of new supply countries, among them Argentina". See Rapoport, Mario, "El modelo agroexportador argentino 1880-1914" in *Economía e Historia*, compiled by Mario Rapoport, Buenos Aires, Thesis, 1988.

industries to raise their investment rates and to diversify—particularly into the financial sector.¹⁷

At the same time, other mechanisms enabled consolidation of the country's territory. Military campaigns in unsettled areas extended the country's area of arable land and thus the ability to supply exports. They kept busy a sizeable army that would otherwise have acted on its tendency to interfere in internal political conflicts. An additional outcome was that part of the lands "recovered" from the Indians were distributed among army officers, thereby offsetting the cost of military campaigns and in the long run, of maintaining the army itself.

Meanwhile, the quickening impact of the second phase of the industrialization process in European countries was no longer confined to their imports of raw materials. Europe's economic development yielded significant capital surpluses, major shares of which were to come to the New World.¹⁸

Why were funds not reinvested in the highly profitable industries that had accumulated them? And why was a virgin territory such as Argentina chosen as a particular place in which to invest? According to some scholars, among them Marcelo Cavarozzi, the young Republic of Argentina was attractive for several reasons.¹⁹

First, like the rest of Latin America, Argentina was free of competition. If investments were distributed soundly, they could be very profit-

¹⁷"The dominant class that formed and consolidated itself in Argentina during the last third of the nineteenth century ... although it owned much of the land, conducted a wide variety of ... productive and speculative activities (ranging from agricultural and livestock to industrial production, and including the provision of services, cooperation in the construction of infrastructure, urban and rural speculation, etc. ... and the main foundation of its economic-social power lay in its control of commerce and finance." See Sábato, Jorge, *La clase dominante en la Argentina moderna. Formación y características*. Editorial CISEA, 1988.

¹⁸By the middle of the nineteenth century, Britain had become a major capital exporter, particularly of railway companies and government loans and, to a lesser extent, extracting or raw-material processing industries, plantations, real estate companies, banks and public-services firms. Between 1870 and 1913 the amount of capital invested abroad increased almost fourfold... Prior to 1850 Europe and the United States had been the recipients of 50 per cent of foreign investment. But in 1890 the countries of the British Empire (...) and those of Latin America, particularly Argentina where most of the investments were made in the subcontinent, accounted for 67 per cent of such capital." See Rapoport, Mario, op. cit.

¹⁹See Cavarozzi, Marcelo, *Notas sobre la evolución del Estado y sus funciones en Argentina y América Latina*, Universidad de Buenos Aires.

able. This was an important consideration in terms of capital and human resources, bearing in mind the frictions of competition to which these investors were subject in the heart of the industrial world.²⁰

Secondly, the social risk was lower in Latin America. This is evident from an historical perspective. During the first phase of the industrial revolution labour was not organized. There was no legislation, and workers laboured under inhuman conditions. Eventually however, over-exploitation reached a natural limit: people were simply not prepared to die of hunger or cold at their workplaces. The result was increased social tension. The various instruments and mechanisms employed to ease the situation gave rise to the increasing demand for raw materials, as noted above. Nevertheless, the problems were to persist for some time.

For European businessmen, reducing company risk thus became an important factor in evaluating potential investments. For Argentina, the increased trade and investment flows underlined clearly the need for an orderly political and administrative system to manage and direct the entire process.^{21. 22} It was primarily in that context that Argentina's constitution was drawn up, and that subsequently, in the hands of the 1880s generation, the modern State was developed—with the separation of the branches of power, and, through the Sáenz Peña law, with universal suffrage.

²⁰"In the new stage that began in 1880, the characteristics of foreign, especially British, investment were different to those of the previous period. Capital flows no longer depended on trade development, although they had an influence on it over the medium term. What determined the conduct of foreign investors was the high profitability of their investments, which reached annual dividends of between 10 and 15 per cent in some years and which could not easily be matched in other parts of the world. Moreover, the British financial market had a large stock of funds available and sought to open up new areas that were free of the stiff competition to which British producers and capital in the Britain were subject in Europe and other countries." See Rapoport, Mario, op. cit.

²¹"(...) Argentina's incorporation into the world market called for the formation and consolidation of a modern State apparatus." See Sábato, Jorge, op. cit.

²²"The method chosen to reach these goals was a political regime. Under such circumstances legislators conceived a form of organizing and distributing power that sought to strike a balance between the egalitarian values of a republic open to all and the hierarchical values of a restrictive republic. The touchstone of this formula was a decision-making capacity dominated by the central political power; it granted power to a privileged minority, limited the political participation of the rest of the population, and gave all citizens maximum rights in their civil activity. The idea was to organize a central power that was of necessity strong enough to be able to control local powers and flexible enough to incorporate the former provincial governors into a broader political unity." See Botana, Natalio, *El orden conservador*, Hispamérica, 1986.

The new "State" enabled orderly management. Sound management of resources, favourable international circumstances and exploitation of comparative advantages, placed Argentina in a comfortable position in economic terms. The country's short and medium-term prospects were also favourable.

Of course, the process was neither as linear nor simple as we have described it. The development of the new state system and its implementation led to a series of disputes among different sectors of society concerning its control. As conditions permitted, a variety of mechanisms and groups—political parties, electoral laws and courts of justice—struggled for greater control of the administration and of the economic factors that supported it.²³

Whether 1916, the year the first government was elected through universal suffrage, or the year 1930 should begin the third stage of our analysis is debatable. We opt for 1930. The criterion, as shown in previous chapters, is the degree of control society is able to exercise. This in turn depends on the power society holds over the factors that generate wealth. In the end, General Uriburu's military coup seems more representative—of the later events in this stage of the analysis, of the form of political expression, and of the type of legitimizing power that the main social players promoted. In addition, key economic events that were to influence the local setting were consolidated around 1930, although they began somewhat earlier.

One factor, the drop in world trade and the complicated economic turn of events that began with the collapse of the New York stock exchange in 1929, prompted some sectors of society to move into positions of control in the State system. They deemed that emerging economic circumstances permitted little room for manoeuvre. Those who controlled the factors of accumulation of wealth viewed leaving the fragile

²³In comparison to European countries and similarly to the "new" countries of the period, socially Argentina was a democracy, in contrast to the virtual monopoly of the government held by a small social group during most of the country's first phase. Very rapidly and with increasing momentum, demands and pressures built up to gain a measure of political participation more in keeping with the country's new social composition.

After many struggles, some of them arduous, it finally became possible for governments to be elected through universal, secret ballot." See Rouquié, Alain, *¿Cómo renacen las democracias?* Emecé Editores, first edition, 1985.

redistributive balance that prevailed (and the country's links to the exterior) in the hands of a "populist" government as a considerable risk.²⁴

Another factor was that the world crisis, which had been gathering strength since the First World War, and became more acute in 1929-1932, seriously affected the two pillars of Argentina's relations with the more developed world: exports and capital flows. Weakened productive capacity of industrialized countries and the lack of foreign exchange in less developed countries paved the way for import substitution. This, with the passing of time and the development of basic physical infrastructure and energy sources, was to gather strength and importance in Argentina's economic structure. It also led to deep-seated changes in the country's productive profile—shifting the focus of national economic activity from the agro-export sector to a new industrial sector based on import substitution.

In response, the State had to broaden its activities still further in order to cover new fields of action. Among its new functions were customs protection, credit support for new-born industries, expansion of infrastructure and transfer of resources from exports to the manufacturing sector. Argentina thus embarked on a new structural-development phase, both qualitatively and quantitatively.²⁵

Many authors view it as a paradox that this process should be led by the conservative political groups that had come into power following the *coup d'état* that toppled Yrigoyen. In our view, it merely constitutes further proof that the changes in the State's functional and power structure were the result, as we have sought to demonstrate throughout the first part of this book, of pragmatic economic considerations that would ensure the survival of a dominant group—rather than political and ideological

²⁴At the time, this concept of "control of the State" and the struggles or disputes between social sectors to gain such control was important in all countries with strong export sectors. Domestic control of their agricultural export sectors required the State to: (a) develop infrastructure that, thanks to the extensive nature of productive activities, generated external economies for the rest of the society; (b) appropriate and parcel out land; and (c) develop the labour force by promoting immigration and implementing education policies (see Cavarozzi, M. op. cit). Whichever group held power would conduct these policies, which was why control of the State apparatus was so important and meaningful.

²⁵"Almost all the most dynamic sectors were no longer the traditional ones, focusing instead more on the domestic market. Whether they were based on industrialization, on other urban activities or on certain regional economies, they almost invariably required some form of State intervention". Llach, Juan José, *El Plan Pinedo de 1940, su significado histórico y los orígenes de la economía política del peronismo*. See Desarrollo Económico/Revista de Ciencias Sociales No. 92, Editorial IDES.

factors. They were the means for achieving the final aim of the State, that of ensuring social survival in the face of uncertainty.

Perhaps it is an exaggeration to speak of survival in the strictest sense. Nevertheless society did face a serious challenge at that time, that of maintaining economic activity on a par with the expectations of its members.²⁶

Naturally some components of society had more power than others, and their demands were met more effectively. For example, the import-substituting industrial sector—which we will not analyse in detail — encouraged development of a politically and socially underprivileged urban proletariat.

The waning importance of political parties as a means of expression for social groups—both those in power and those excluded from it—fostered the emergence of different mechanisms for communication and liaison with the State system (National Boards, Commissions, a Central Bank, labour organizations etc.). Such bodies promoted group interests and satisfied their sectoral demands without resorting to party and parliamentary structures and practices.²⁷

The catalyst in this process was the Peronist movement, which came to power with the backing of the “new” industrial sector through free, democratic elections, thus recovering the basis of the system’s legitimacy.

The State system once again became a leading player. In keeping with the dictates of the dominant ideology at the time, it took on significant new functions in the fields of health care and social action, defence and the economy. The Banco de la Industria (subsequently the National Develop-

²⁶The failure of the economic programme designed by Federico Pinedo provides proof of the new demands which the State had to address in order to respond to the aspirations of a rapidly changing society and the type of solutions required to regain the social cohesion that had been lost: “Although it was the most elaborate and inclusive proposal that the exclusive political regime that came into power in 1930 could offer the country, the (Pinedo) Plan was defeated politically. Its failure was not the product of its virtues or defects, its obvious ambivalences, or its content. On the contrary, it was the high price the ruling élite had to pay for its inability to forge a broader social and political alliance capable of providing more timely responses to the structural difficulties facing the development of Argentina’s economy and the “catalogues of petitions” that had been accumulating since the First World War.” See Llach, Juan José, *op. cit.*

²⁷See Cavarrozi, Marcelo, *op.cit.*

ment Bank, BANADE), the Argentine Institute for Trade Promotion (IAPI) and various nationalizations formed part of an effort to “place the country’s instruments at the service of industrial development”, which by then was beginning to show signs of decay.²⁸

Once again society, or its legitimate political expression, looked to the State—to which, according to Locke, it had delegated its rights and some of its liberties—to overcome conflicts. The conflicts this time stemmed from marginalized social sectors (mainly the new urban proletariat) and the new industrial profile. The international situation had meanwhile changed again. Because Argentina’s substitution of imported consumer had become ineffective, it became necessary to develop the capital goods industry. At the same time, post-war economic recovery of the countries of Europe and the United States generated new competition in international trade. This impacted not only Argentina’s exports but also its domestic market.

Unable to resolve the conflicts of interests within the alliance that had brought it to power, Peronism gradually weakened. The industrial sectors that had risen to power with it were seriously affected by the internationalization of the domestic market at the outset of the 1950s and thus unable fully to consolidate their power. The labour sector, the “backbone” of the party, was unable to push through its increasing wage demands to the same extent as in the first period of government. This led to greater conflict and social tensions.

The combination of those factors ended by toppling the Peronist government through another *coup d’état*. It signalled the beginning of a period in which Argentina’s political crisis deepened. Once again the political parties were unable to represent and reconcile the interests of the dominant groups and sectors. Only at the outset of the 1980s did the cycle of interruptions in the system of democracy as a consequence of the crisis begin to be overcome—in line with trends that spanned the continent. Meanwhile, aside from a few isolated and unsuccessful alteration attempts (such as President Frondizi’s), the functional and administrative

²⁸According to Llach, Peronist economic policy was based on the following criteria: (1) a new vision of the State and its role in the economy; (2) the social and revenue policies implemented by the Peronists to increase the real income levels of wage earners were based on that new vision, and (3) the aims of economic independence and political sovereignty. See Llach, Juan José, *op. cit.*

structure of the State system remained intact. Changes were few, superficial and entirely cosmetic.

To summarize, there were three key periods in the evolution of the Argentinean State: its establishment from 1860 to 1880, and the two eras of subsequent development, the first around 1930 and then from 1950 onwards. Each period was characterized by the need, examined previously, to control the State system in order to address economic and social issues.

IV. The role of the State

As we have seen, the State emerged initially in response to the need for orderly administration of the economic processes required to intensify production. The need exists equally in primitive state organizations and in countries like Argentina. Over the centuries, both its organization and its institutions evolved. The essential purpose we defined remained unchanged, however: securing the survival of society.

While “survival” may seem excessive from today’s perspective, the forms of the continuation that the State sought to maintain depended on both the systems and methods of production and on people’s needs and expectations.

Primitive hunter-gatherers accepted having their freedoms curtailed so as to ensure their livelihood in the face of reproductive (i.e. demographic) pressures. Centuries later, central Europeans were prepared to accept feudal authoritarianism—as long as it protected them from the attacks of barbarians, who sacked and ravaged everything in their path. In those former times, a plate of hot food or security against aggression were the respective means of responding to prevailing social problems. Their equivalents today would be aspirations to access to education, healthcare and decent housing.

At every stage the State was expected to do fundamentally the same thing: provide solutions through its institutions. We can therefore update the definition of social survival presented in the historical introduction as follows: *the purpose of a modern State is to maintain economic activity and the organization of society at levels consistent with its members’ aspirations.*

That is what we understand by the “role” of the State. When the State administration departs from this role to defend private or group interests,

society tries, as we have seen through history, to put it back on the right track as far as it can. When the interests of the groups that control the State satisfy social aspirations to a large degree, such redirection is not necessary, at least explicitly. The extent of such deviations at the hands of particular groups from the State's essential role is therefore a measure of the effectiveness of the State system as a tool for controlling society, the level of its participation in community matters and the range of its activities.

As we saw in the case of the Roman Empire, families, groups or individuals that moved ahead thanks to their ability to accumulate wealth positioned themselves better than others to settle disputes through control of the State system. Despite this, the evolution of ideas and economic development have led to a series of mechanisms that allow less powerful groups or sectors also to participate—thus tempering the tone and lowering the levels of the disputes. This became more essential as populations grew, ecological pressures increased and production techniques developed.

Groups that succeed in the struggle for control of the State face, today as in the past, a choice between conducting public affairs exclusively in their own interest, or allowing less powerful and more numerous sectors some measure of participation. Social development has to some extent placed limits on the first option. Democracy, for all its imperfections, inaccuracies and limitations, has proven a good alternative in carrying out the second.²⁹

What has to remain clear is that the State essentially comprises the social body. Its direction and the policies it follows therefore reflect the balance of forces that struggle for distribution on one hand, and the extent

²⁹As Macpherson states: "Thus, on looking at models of democracy—past, present and possible—we must be very mindful of two things: what they presuppose about the society in which the democratic political system has to act and what they presuppose about the essential nature of the people who have to make the system work (which obviously, in a democratic system, means the people in general, and not merely a governing or ruling class)." In reply to those who suggest that democracy is merely a mechanism for electing and legitimizing governments, making political decisions or passing laws, Macpherson points out: "From Mill to L.T. Hobhouse, A.D. Lindsay, Woodrow Wilson and John Dewey, and to the current partisans of participatory democracy, democracy has been understood as a quality that pervades all aspects of life and the entire functioning of a national community ..., as a type of *society*, a whole set of reciprocal relationships between the people who make up the nation or unit in question." See C.B. Macpherson, *La democracia liberal y su época*, Alianza Editorial, Madrid, 1982.

to which consensus is reached by society on common objectives on the other. This is the original meaning of the concept of “society”. Society is a group of people that achieve consensus around common values—freedom, equality, well-being etc. Based on that consensus, the group focuses on particular societal objectives such as justice, democracy, redistribution of benefit and so on.

We may infer from this that the State is in a better position to perform its role in societies that achieve such synthesis than where this does not occur.³⁰ That is why modern societies as different as Germany, Japan and the United States have all managed to make their State systems perform their role effectively, but under very different conditions and operating structures.

Which brings us to the question, how does the modern State fulfil its role? What mechanisms does it have at its disposal?

In our view, there is only one practical path: to concentrate permanently on growth, and on economic and social development as a means of reconciling the intense sectoral struggles that take place within society. Some groups seek to increase and consolidate their capacity to accumulate wealth, others strive to raise their living standards.³¹ Such an answer, while possibly insufficient considering the many dimensions of analysis stemming from the questions, at least establishes the basic, general concept—the *leitmotiv* of further study.

We begin that study with “economic development”, noting that field of economics is the biggest user of the term “development”. We note also that the idea of development is clearly different from the concept of growth. A country may see its industry’s share of gross domestic product (GDP) grow at a record rate for a prolonged period of time and nevertheless remain underdeveloped. Arab countries with petroleum-based economies,

³⁰Dahrendorf notes in this context: “Modern societies are essentially characterized by three factors: first, a set of institutions geared to economic growth, viewed as the prime economic objective; second, social development aimed at extending civil rights, or citizenship, as Marshall would say, and equality; and third, a high degree of political mobility, in other words, political participation by individuals.” See Dahrendorf, Ralf, *El Nuevo Liberalismo*, Editorial Tecnos, S.A., Madrid, 1982.

³¹See Dahrendorf, op. cit.: “One of the conditions of a free society is that each person’s economic, social and political status be as high as possible. It should be as high as possible in terms of the standard of living and the measure of enjoyment of civil rights.”

for example, sustain good growth rates. But their constraints as single commodity producers keeping them in the category of *developing* countries. Industrialized countries meanwhile grow at lower rates in terms of GDP, but with far greater diversification, technological development and sophistication of their productive activities. That is why they are called *developed* countries.

The United States and its war of independence, Britain under Churchill, post-war Germany and Japan, are all examples of societies showing the necessary determination, expressed through the State, to initiate and continue the development process.

We say “through the State”, because the State is the executive authority chosen by society. It is the setting in which society’s different factions vie for power. Control of the State system and the ability to formulate policies are also essential for carrying out any expansion programme. Development becomes possible when the interests of privileged groups and the most disadvantaged sectors arrive at some kind of accommodation. Otherwise, the dispute continues until one group imposes its own model. Insofar as that model is *inclusive*, it will contribute to increased well-being and raise living standards. It will fail to contribute to the extent it is *exclusive*.

This argues that merely increasing economic diversification and sophistication are insufficient. It is essential that similar processes also take place in the fields of politics and ideas. Without the development of ideas, and without the desire for progress and knowledge, advance is impossible. The issues are linked, as we have pointed out: new production systems are accompanied by new political frameworks, and the entire process is reflected in the structure and operation of the State. That is why development cannot be viewed solely in economic terms. (It is also why, it seems to us, the criticism by fundamentalists who present the Argentine State as a Kafkaesque ideal, responsible for all social ills, has no basis. The State is always fundamentally an expression of the spirit of its society, and especially of its ruling class.)

But, if we accept that the essential role of the State is to ensure society’s survival, we must pre-suppose that the State system has the attributes necessary to accomplish the task—efficiency and effectiveness, appropriate size and scope of activities. At the same time, when the public

sector is the subject, we must be careful. Systems are efficient or inefficient only in terms of the parameters established to measure their results. And the parameters depend on very much on the type of organization and the objectives in question. Thus, the fact that corrupt and deficient administrations failed to attain their objectives in the past in no way nullifies the value or importance of the functions entrusted to them by society.

Organizations are able to constantly evaluate their progress in attaining objectives through *management control*. Conversely, any organization can fail where such control is absent. For example, private banks may fail to meet their objectives of maximizing profits when they are the victim of embezzlement, swindles or losses incurred by their own officials. But this does not mean that the bank owners solve the problem by changing or abandoning their organizational objectives. Rather, they try to improve and optimize their auditing and control systems. Such an approach is particularly important in the public sector, where there are powerful interests ranged against this type of control. To abandon important social objectives because of mis-applied efficiency criteria can have disastrous consequences in terms of raising the community's levels of well-being and cohesion.

As indicated earlier, life on the threshold of the twenty-first century has expanded. Radio, television, telephones, access to transport and other benefits of scientific and technological progress are now essential not only for improving the quality of modern life, but also, in many cases, for ensuring survival. At the same time such facilities are increasingly indispensable for maintaining social cohesion. People want to be able to choose from a broad range of options, and they want this choice to be real rather than theoretical.³² Thus, ensuring that all members of society have access to such services is also the job of the State. It is one of its functions—just as external defence, administration of justice, and access to health care

³²Dahrendorf writes: "It is not enough to have the theoretical right to choose one's own specialization, the type of education one likes most. The social conditions that guarantee the exercise of that right, like any other, must also exist. Moreover, in addition to these choices, which should be free, there are relationships, or as I often say, bonds: the bonds that enable individuals to make their choices meaningful. Society cannot be completely anomic, disjointed, reduced to isolated individuals. (...) However, this second stage of liberalism calls for a dependable social policy. Constitutionally guaranteed rights are therefore not enough unless they are accompanied by a social policy that makes liberalism active. And I should add that I am not talking of active liberalism in a purely idealistic sense; I am talking specifically of a policy of reforms." See Dahrendorf, Ralf, *op. cit.*

systems are its functions. This does not necessarily mean that the State should undertake them directly or even indirectly. But it should create the conditions for them to exist.

Creating the right conditions for provision of goods and services calls neither for privatization for the sake of privatization, nor for nationalization for the sake of nationalization.³³ It calls rather for choosing the appropriate instruments to put more and better goods and services within people's reach. It is just as immoral, and useless, not to have any telephones at all as to have a communications system that does not work owing to mismanagement. If privatizing them means that they will work properly and be within everyone's reach, then that is what needs to be done. Corporate efficiency or inefficiency should be gauged by the clarity of the objectives set, whether or not its management control is effective, the parameters used to measure its results and by the suitability of the administrator that runs it. It makes no sense to try to gauge its efficiency by the origin of its capital.

This is the context for the following chapter where we examine the results of the structural reforms undertaken by the current Argentine government in the 1990s, specifically in terms of living standards.

³³If they are seen as objectives in themselves, privatizing and nationalizing are two aspects of the same *economicist* concept, see Introduction, p. 1.

V. Principal economic policy results³⁴

The policy goal of the current Argentinean government is to revitalize economic links with international markets. Reform of the State system and deregulation of markets are basic pillars of the transformation to that end. They represent a crucial change in the basis of economic policy, which hitherto was anchored in a variety of subsidies, and without corresponding benefits for society.

The transformation also focuses on the management problems of the pre-reform economy stemming from growing fiscal deficits and domestic debt, and which eventually exploded in the form of hyperinflation in 1989. The reforms aim, therefore, at creating a predictable macro-economic environment and functioning market mechanisms that stimulate growth through domestic and international competitiveness—the necessary conditions for industrial success.

Initial efforts targeted a comprehensive balance in public accounts, thus making it possible to have a solvent monetary unit once again. A Convertibility Law obliged the Central Bank to provide 100 per cent backing for the monetary base in gold, foreign currency or other foreign assets. The State thus ceased to be taxed by inflation. As a result, in 1993, for the first time in decades the government achieved a consolidated surplus—after payment of interests and without taking into account capital resources.

This balancing of public accounts was supported by a comprehensive reform of the State administration and public expenditure. Its main features are:

- ❑ Strict compliance with budget approved by the National Congress
- ❑ Simplifying and strengthening the tax system

³⁴Details of Argentina's structural reforms implemented in the 1990s, which have been extensively analysed by other authors, are presented in the appendix.

- Reform of the national public administration
- Privatizing all public enterprises
- Restructuring the national State banking system and part of the provincial banking system
- Redefining relations between the State and provincial governments
- Comprehensive reform of the social security system
- Consolidating and restructuring the domestic and foreign public debt.

The State thus began to play a subsidiary role characterized by defence of competition, transparent regulation of monopolistic activities and protection of workers' rights and other rights guaranteed by the Constitution.

The results of its economic policy, in particular, the evolution of different macroeconomic variables over the past three years, are summarized below.

A process of continuous deceleration of price inflation initiated in March 1991 brought inflation down to international levels. This reversed sixteen years of uninterrupted inflation increases that had peaked in 1989 at almost 5,000 per cent. In 1983, the annual increment in the Index of Combined Prices (50 per cent wholesale and 50 per cent retail) was down to 3.7 per cent, having dropped to 10.3 per cent in 1992 (table 1).

Table 1. Annual inflation

<i>Year</i>	<i>Inflation</i>	<i>Year</i>	<i>Inflation</i>
1975	335.0	1985	385.4
1976	347.5	1986	81.9
1977	160.4	1987	174.8
1978	169.8	1988	387.7
1979	139.7	1989	4923.6
1980	87.6	1990	1343.9
1981	131.3	1991	84.0
1982	209.7	1992	17.5
1983	433.7	1993	7.4
1984	688.0	1994	3.9

Source: INDEC.

As a consequence of this stability, economic activity recovered strongly, reaching the highest levels in twenty years. It led also to an unprecedented achievement in Argentina's recent economic history: simultaneous strong GDP growth and a surplus in public accounts (table 2). Private investment and export growth forecasts indicate, moreover, that GDP growth will be maintained over the next few years.

The recovery was supported by considerable growth in gross domestic investment between 1991 and 1993 (table 3). This reflected not only the relative decline in the cost of capital, but also the magnifying effect of the huge pent-up demand for investment—the consequence of long period of capital depletion suffered during the 1980s.

Table 2. GDP growth (1986 prices)

<i>Year</i>	<i>Per cent change</i>	<i>Year</i>	<i>Per cent change</i>
1980	1.50	1988	-1.90
1981	-5.70	1989	-6.20
1982	-3.10	1990	0.10
1983	3.70	1991*	8.90
1984	1.80	1992*	8.70
1985	-6.60	1993*	6.00
1986	7.30	1994**	6.84
1987	2.60		

*Provisional figures.

**Estimate based on Jan-Sept.

Source: Economic Programming Secretariat.

Table 3. Gross domestic investment growth (1986 prices)

<i>Year</i>	<i>Per cent change</i>	<i>Year</i>	<i>Per cent change</i>
1980	5.0	1988	-2.0
1981	-16.3	1989	-24.4
1982	-16.4	1990	-9.9
1983	-0.7	1991*	25.1
1984	-3.4	1992*	30.9
1985	-17.8	1993*	13.7
1986	15.2	1994**	22.5
1987	14.8		

*Provisional figures.

**Estimate based on Jan-Sept.

Source: Economic Programming Secretariat.

Wholesale reordering of public finances enabled recovery of fiscal solvency. In 1993, again for the first time in decades, the public sector registered a consolidated surplus after payment of interest and excluding income from privatization (see table 4). These achievements were thanks to the combined effect of designing a system for division of labour between the public sector (at its different levels) and the private sector, and some substantial increases in tax collection.

**Table 4. Consolidated results of the non-financial public sector
(Per cent share of GDP)**

Concept	1985	1986	1987	1988	1989	1990	1991	1992	1993
Primary surplus without capital resources	1.42	1.12	0.82	-0.99	0.55	0.97	0.51	1.38	1.99
Capital resources	15.00	0.07	0.15	0.14	0.24	0.45	1.21	0.79	1.00
Primary surplus of the NFPS*	1.57	1.19	-0.67	-0.85	0.79	1.42	1.72	2.17	2.99
NFPS interests	4.40	3.20	3.49	3.82	12.30	3.37	2.65	1.49	1.21
Global result of the NFPS	-2.84	-2.01	-4.15	-4.66	-11.5	-1.95	-0.93	0.68	1.78
Quasi-fiscal BCRA result**	-2.09	-1.19	-0.67	-0.49	-4.65	-0.75	-0.36	-0.14	0.07
Global public sector surplus	-4.93	-3.20	-4.82	-5.16	-16.16	-2.69	-1.29	0.55	1.85
Global public sector surplus without capital resources	-5.08	-3.27	-4.97	-5.30	-16.40	-3.14	-2.50	-0.24	0.85

*Non-financial public sector.

**Argentine Republic Central Bank.

Source: Public Revenue Secretariat.

Sustained growth in employment levels (table 5). Argentina's structural reform is accompanied by sustained growth in employment levels opened up by major investment opportunities opened up. These in turn enable significant transfer of redundant public-sector labour to the private sector. Such productive mobilization of human resources has led potential workers, discouraged by previous labour conditions, to rejoin the active labour market.

Table 5. Urban employment index (1983 = 100)

Year	Index	Year	Index
1984	103	1989	116
1985	104	1990	116
1986	109	1991	121
1987	112	1992	124
1988	113	1993	126

Source: Economic Programming Secretariat.

Improvements in real wages and the greater probability of success in the search for work led particularly to growth in urban activity. Between 1990 and 1993 the economically active urban population increased by 1.14 million—compared to an increase of only 693,000 if growth rates of the previous five-year period had continued. During the same period, the expansion of the economy made it possible for an additional 828,000 people in urban areas to find employment—equivalent to an accumulated annual growth rate of 2.7 per cent, almost 50 per cent higher than the estimated growth of the urban population. The combination of these and other factors meant that the increase in the rate of unemployment was modest, rising from 7.4 per cent in 1990 to 9.3 per cent in 1993.

Increased employment levels and the sustained improvement in the population's purchasing power (table 6). The associated stability at least partly explains the social consensus on the programme of reforms. This is reinforced by the substantial drop in the proportion of households and persons living below the poverty and the extreme poverty levels in Greater Buenos Aires (table 7).

Table 6. Purchasing power of industrial wages (1989 = 100)

Year	Index
1988	132
1989	100
1990	102
1991	111
1992	120
1993	125

Source: Economic Programming Secretariat.

Table 7. Greater Buenos Aires households below poverty and extreme poverty lines

	Percentage below lines of		
	Extreme poverty*	Poverty*	
	Households**	Households**	People
May 1988	6.4	22.6	29.9
October 1988	7.8	24.2	32.4
May 1989	6.3	19.7	25.9
October 1989	12.7	38.3	47.4
May 1990	9.1	33.7	42.6
October 1990	5.0	25.3	33.8
May 1991	3.8	21.8	28.8
October 1991	2.4	16.3	21.6
May 1992	2.4	15.1	19.3
October 1992	2.6	13.7	17.8
May 1993	2.9	13.6	17.8
October 1993	3.6	13.1	16.9
May 1994	3.1	11.9	16.1

*The extreme poverty line is the cost of a basic food basket. The poverty line is approximately double the extreme poverty line.

**Calculation based on declared incomes in INDEC's household surveys. The percentages in the table are over-estimated because incomes are underestimated by about 20 per cent. They should thus be considered as even indicating trends over time.

Source: Executive Committee for the Study of Poverty in Argentina, and INDEC.

Full re-establishment of relations with multilateral lending agencies, the agreement reached with the IMF, restructuring and reduction of the foreign public debt through the Brady Plan, and debt conversion operations through the privatization programme (for a nominal total of US\$16.2 billion). This made it possible to regain access to external public credit. Reprogramming and consolidation of domestic liabilities was the final step in restoring confidence. It was confirmed by the repatriation of capital and the dramatic drop in Argentina's country risk (table 8).

Establishment of peso-US dollar parity. Perhaps one of the most controversial aspects of current economic policy is the issue of exchange parity (real exchange rate) resulting from the Convertibility Plan. Some argue that peso-US dollar parity would be difficult to

maintain for ever. One basis for adjusting it would be to measure relative prices with an indicator that reflects production costs in comparisons of the prices of importable and exportable goods. This would measure the variation over time of the profitability of producing goods that can be traded abroad.

Table 8. Country risk premium in Argentina*
(Annual per cent)

Year	Index	Year	Index
I-1990	31.9	I-1990	6.5
II-1990	22.5	II-1992	5.7
III-1990	15.5	III-1992	6.9
IV-1990	16.9	IV-1992	7.7
I-1991	17.6	I-1993	7.9
II-1991	10.9	II-1993	4.9
III-1991	9.1	III-1993	3.6
IV-1991	6.5	IV-1993	2.9

*Calculated from the difference between the TIR of the Bonex/89 and LIBOR.
Source: Estudio Macroeconómica.

Productivity rises estimated at 15 per cent on average. For the period 1991 to 1994 (table 9), the slight increase in the weighted average of domestic industrial production costs stemming from convertibility was more than offset by productivity rises and by the nominal exchange rate (less than 1 peso per US dollar in March 1991).

Domestic price increases, as measured in foreign currency, occurred in only a few sectors. They stemmed from additional demand for some services (education, prepaid medicine, recreation, rents) which is gradually being corrected through increased supply resulting from deregulation.

Increased capital inflows and gross domestic investment transformed the trade surplus of the high inflation years (which spurred capital flight) into a deficit of US\$ 3.7 billion in 1993—equivalent to 1.4 per cent of GDP (table 10). Exports, which totalled US\$ 13.118 billion in 1993, remained at a slightly higher level than in 1990 even though the economy grew 25.5 per cent during the same period.

Table 9. Domestic industrial production costs

<i>Item</i>	<i>Per cent variation</i>
	<i>September 1994/March 1991</i>
Financial cost	-66
Labour cost	14
Taxes	-57
Duties	-32
Imported inputs	9
Others	-8
Weighted average	8

Source: Estudio ALPHA.

**Table 10. Trade balance evolution
(Millions of current dollars)**

<i>Year</i>	<i>Exports</i>	<i>Imports</i>	<i>Trade</i>
1981	9 143	9 430	-287
1982	7 625	5 337	2 288
1983	7 836	4 504	3 332
1984	8 107	4 585	3 523
1985	8 396	3 814	4 582
1986	6 852	4 724	2 128
1987	6 360	5 818	542
1988	9 135	5 322	3 813
1989	9 579	4 203	5 376
1990	12 353	4 077	8 276
1991	11 978	8 276	3 702
1992	12 236	14 872	-2 636
1993	13 118	16 783	-3 666
1994*	12 864	17 708	-4 844

*Provisional figures based on January-October.

Source: Ministry of Economy, based on INDEC data.

The rise in productivity resulting from the significant investment growth is meanwhile translating into increased export levels—the result of slow maturing of the projects implemented. Foreign sales in the automobile and autoparts sector are particularly expected to grow because of

the complementarity agreements signed with Brazil and the entry of multinational corporations (General Motors, Toyota and others) not previously present in the local market. With the consolidation of MERCOSUR, Argentina's clear competitive advantages in production of processed foods will provide a further important source of foreign exchange.

Imports of capital goods and their spare parts amounted to US\$ 6.924 billion in 1993, almost 250 per cent more than the average for the period 1980-1990 (table 11). This growth in foreign purchases results from the zero tariff on imports of this type of goods and tax rebates for domestic producers affected by that reduction.

Table 11. Classification of imports by economic use

	Millions of current dollars													
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994*
Consumer goods	1661	443	244	282	238	346	347	272	221	330	1514	3205	3527	3214
Intermediates	3027	2333	2270	2328	1698	2362	2532	2581	2158	2069	3419	4742	5063	5125
Capital goods	2097	982	787	692	702	663	1041	904	745	636	1435	3095	4115	4941
Parts/accessories**	1395	889	747	810	719	920	1217	1053	701	691	1237	2591	280	2865
Fuels	862	644	452	471	456	419	635	494	366	316	452	416	386	503
Passenger vehicles	244	27	4	0	2	11	17	12	7	12	202	793	849	1030
Other imports	144	20	1	1	1	3	29	5	7	23	17	30	35	31
Total	9430	5337	4504	4585	3814	4724	5818	5322	4203	4077	8276	14872	16783	17708
	Percentages													
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994*
Consumer goods	18	8	5	6	6	7	6	5	5	8	18	22	21	18
Intermediates	32	44	50	51	45	50	44	49	51	51	41	32	30	29
Capital goods	22	18	17	15	18	14	18	17	18	16	17	21	25	28
Parts/accessories**	15	17	17	18	19	19	21	20	17	17	15	17	17	16
Fuels	9	12	10	10	12	9	11	9	9	8	5	3	2	3
Passenger vehicles	3	1	0	0	0	0	0	0	0	0	2	5	5	6
Other imports	2	0	0	0	0	0	1	0	0	1	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

*First ten months.

**For capital goods.

Source: INDEC.

Part two

Industrial policy in the 1990s

VI. The State and industrial policy

Our conclusions regarding the role of the State reveal three different models of development and growth. As the context for industrial policy in Argentina, they all closely reflect changes at the international level: the agro-export model, import substitution and the current one—the “industrial specialization” model.

The *agro-exporting* model of economic development, based on production of primary goods derived from natural resources, prevailed from the end of the nineteenth century to the late 1930s. The economy at that time was built around activities related to the rural sector, foreign trade, and a number of infrastructure projects, as well as essential services for carrying out these operations and complementing the urbanization process. Argentina depended significantly on imports of non-agricultural manufactured goods—a situation, which in the monetary context of the time produced periodic depressions in the domestic market stemming from trade imbalances. The model became redundant with the changes that took place in the world political and economic front with the advent of the two world wars: the world economy began to contract and the supply of manufactured goods dwindled.

The second model of growth was in the post-war period: industrialization through *import substitution*. Its main characteristics can be summarized as:

- ❑ Mobilization of the State as the engine of economic growth; and
- ❑ Development of industry geared to meeting demand for manufactured goods, manufactured consumer durables and capital goods—all within the framework of an economy that was semi-closed to imports and with high, protectionist tariffs.

The associated institutional and market framework of the period generated a model of industrial organization that was scarcely designed to compete with the outside world. The “state of the art” of the typical industrial plant was far below international standards in terms of input productivity, production mix and the way production was organized and managed. Predominant features of industrial plants in this model included insufficient economies of scale, a high degree of vertical integration, and products almost exclusively focused on the domestic market. A high level of government intervention in markets (through subsidies or regulations to reallocate income) coupled with direct entrepreneurial activity by the State produced recurring fiscal imbalances that undermined the growth process.

As the fiscal imbalances became increasingly acute, the financial crises (internal and external) of the 1970s revealed serious macroeconomic imbalances. They led in turn to successive application of short-term recessive adjustment programmes over a period of more than 10 years. Despite this, the way such programmes were applied during the 1980s meant they were unable to address the basic problems of the substitution model—the oversized and inefficient State and a private sector that was not in a position to take on the increasingly fierce competition in world markets.

Industry thus shrank appreciably, particularly in companies producing goods whose added value depended on technology. At the expense of sectors using local engineering skills and capacities, it focused instead on production requiring intensive use of natural resources. The role of multinational corporations operating in Argentina meanwhile diminished, and a small conglomerate of large national companies that had diversified into the main areas of heavy industry (petrochemicals, iron and steel, automobiles etc.) became more and more predominant. Industry thus ceased to be the driving force of the economy.

But, to a certain extent, industry’s crisis during the 1980s also shaped the features of the model that replaced import substitution towards the end of that decade and in the early 1990s. The imbalances that had been building up for decades made it essential to restore the basic pillars of savings and investment in Argentina, and to establish a sound platform of economic certainty. Fundamental factors, such as regaining the value of local currency and reforming the public sector’s administra-

tive apparatus, became essential components of any economic-policy approach for reversing the conditions generated during those years.

The third growth model implemented in Argentina (beginning in 1989) reflected not only the assessment of the results of import-substitution policies but also the new standards of the world economic order. Its focus, reform of the State system and market deregulation, became basic pillars of a process of industrial specialization aimed at regenerating the country's economic links with international markets. Industrial success would depend on three things: establishment of a predictable macro-economic environment, the functioning of market mechanisms designed to spur growth through both domestic and international competition, and restored trust in the public sector.

Liberalizing and deregulating the economy in that context were entirely progressive mechanisms. They addressed the problems of sectoral competitiveness while taking into account the interests of consumers—as individuals or small-scale businesses. What made the new approach in economic and industrial policy particularly important was that the new actions to bolster the industrial sector were designed to have a neutral fiscal effect. In addition, they had to have verifiable goals and commitments over time, and be adaptable if the proposed objectives were not being attained. Finally, as part of this process it was necessary to link market stability and deregulation to growth in demand—a significant departure from economic programmes that traditionally led to industrial recession.

Argentina's new economic approach thus placed greater emphasis on the general interests of the community than on sectoral interests. The new organization of the economy established a clear, active and explicit industrial policy in line with the new international scenario, and was therefore totally different from the situation during import substitution. In particular, the new industrial policy called for industrial specialization based on the manufacture of products with greater value added.

The first example in that regard is the regime governing the automobile industry. This launched a sector upgrading and restructuring strategy featuring a reduced number of the number of models and specialization on the most technologically advanced ones. Its excellent pilot results justified the regime's establishment in *all* industrial enterprises and

led consequently to the Industrial Specialization and Retrofitting System (ISS) initiated in 1993. The programme particularly benefited companies committed to good results (i.e. increased exports) over time, thus reflecting efficient levels of organization. Equally important, almost 70 per cent of its component programmes and commitments pertained to small and medium-sized enterprises (SMEs). The idea was not, however, to restructure Argentinean industry through a State mechanism. The industrial-policy criterion was to set examples of valid business practices that can be followed by all businesses.

A similar strategy was adopted with respect to access to credit at competitive rates, especially access for SMEs (which normally have to pay higher interest rates than larger companies), and on which the technological upgrading process brought about by specialization depended. Nevertheless, the *Triennial Promotion and Development Programme for Small and Medium-Sized Enterprises* did not attempt to solve the problem of having a financial structure unaccustomed to dealing with productive risk within a programme of very low fiscal cost. The idea instead was to encourage banks to compete in financing the projects and productive activities of SMEs thus establishing a benchmark rate, with lending rates lowered by several points. More importantly, it prompted many banks to do business with small and medium-sized companies.

There was also a need to encourage investment by reducing its cost. Conditions for investing in machinery and equipment were therefore improved by eliminating tariffs on imports of capital goods, and by establishing a 15 per cent drawback on domestic sales of capital goods made by local producers, as a means of encouraging their production. It is important to note here that the new system promoted equalization of prices among beneficiary companies. Together with the mechanism for importing used equipment and the possibility of importing non-domestic parts and components in order to manufacture capital goods, this was an unprecedented approach to promote domestic production. In the past, strong protectionism and prohibition on imports of capital goods had been easy to evade thanks to special regulations and clauses applicable to a few firms.

But while such credit and equipment purchases were necessary, they were not sufficient for a successful system of technological upgrading based on production specialization. In the context of a highly dynamic and

competitive global economy, what determines the growth and consolidation of industry is the flow of information and knowledge of innovative technology. And for that to develop and extend its benefits to all industrial sectors, above all among small and medium-sized companies, it was essential to have scientific and technological agencies that could function as points of technological reference. The *National Institute of Industrial Technology (INTI)* was therefore restructured to that end—in order that it could contribute effectively to improving the technology used by the country's productive sector. The new measures and arrangements to assist small and medium-sized companies to upgrade technologically were the opportunity for INTI to play a leading role in industrial development once again. In particular, the creation of eight regional subsidiaries strengthened the Institute's promotion and extension activities by facilitating SMEs' access to soft technology.

A *Supplier Development Programme* was also launched. Aimed at transferring management models and techniques used by large firms to the SMEs that supply them, the programme basically consisted of introducing continuous improvements throughout the productive chain. This ensures that quality standards are met in the manufacture of parts and components for end products, and makes them competitive on the international market. A joint programme involving the private and public sectors, it mobilizes large private-sector enterprises in the automobile, agro-food, textile and iron and steel sectors as promoters. They select a set of their supplier firms and, in conjunction with INTI, extend technical assistance to them in areas such as quality management, industrial design and technological upgrading.

Complementing the supplier development programme, a *National Standards, Quality and Certification System* was established to provide the productive sector with the infrastructure to meet international quality standards. A voluntary system, its aim was to improve the access of Argentinean goods and services to world markets while also incorporating new international technical standards. The *Industrial Information and Statistics Centre*, created at the same time, maintains offices in each province so that such actions can be extended to small and medium-sized companies nationwide.

The final element was to establish *Productive Development Areas* assigned to make all industrial-policy guidelines consistent throughout the

country and to provide in-depth attention to productive sub-systems in the provinces as required. As part of those efforts, the Government and industrialists in specific production sectors reviewed their productive strategy and jointly devised mechanisms for reaching optimum production and marketing levels in the areas where they are located. Fifteen production agreements involving commitments to increase production have so far been reached—with companies manufacturing furniture, canned fruit, agricultural machinery and capital goods.

To summarize, the role of the State in industrial policy is not to create artificial profit-making conditions or to bring about industrial upgrading in every company. The aim of industrial policy in the 1990s is to encourage businessmen and other agents involved in production processes to develop new practices. The dynamics resulting from these new practices may not be immediately evident, but if changes in companies are consistent, they lead to genuine, sustained productivity increases over time.

Since the changes involve unprecedented shifts in attitude, the challenges to the public and private sectors lie in the new, guiding nature of industrial policy. For the public sector, the way is to ensure that the effects of its instruments reach a critical mass—firstly through improved training for its agents in handling this type of instrument, and secondly (an essential step) through strengthening the links and coordination between different government offices. The private sector has to focus on reassessing aspects of genuine competitiveness contained in the new policy instruments, such as the importance of know-how, quality, adapting to market needs etc.

We believe that the nature of these new practices lies at the heart of the reforms of the State that have taken place during this decade. The following chapters provide an in-depth description of the basic guidelines and instruments of Argentina's industrial policy in the 1990s.

VII. Special systems

A small number of industry-specific programmes promote specialization and complementarity. They boost industrial exports, facilitate upgrading and restructuring, and promote industrialization at a regional level. They thus supplement the government's broad incentives for promoting the modernization of Argentina's industry, such as the measures to deregulate and liberalize the economy.

Industrial Specialization System (ISS)

Many companies began to specialize as a direct response to liberalization and deregulation. They reduced their product ranges by manufacturing the same volume of goods, but focusing on narrower ranges of models or product types. This was a natural and logical reaction by firms whose industrial facilities were smaller than their international counterparts, and whose products therefore had to become more competitive in price and quality—a process that also benefited consumers. It was further encouraged by the government's Industrial Specialization System (ISS).

The ISS's key feature is that any industrial company producing manufactured goods can enter into a programme commitment with the government. The benefit, in return for increasing its exports, is a preferential tariff reduction to 2 per cent for imports that fall under the same chapter heading of the Foreign Trade Catalogue (NCE) as the goods the company is committed to exporting. Beneficiary companies may also import parts, components and accessories, or unassembled goods—again as long as the products they have committed to exporting under these programmes are the same kind of goods.

Companies registering with the system must reach an agreement with their respective chambers of commerce and industry concerning the

products, parts or components for which they have requested import-tax reduction. This ensures there are no conflicts of commercial interest among the companies involved.

The primary purpose of the mechanism is to encourage businesses to specialize in their most competitive products, and to increase their scale of production. Other aims are to consolidate firms' market position (both domestically and abroad) and to improve their business opportunities. But within that framework, company upgrading itself is voluntary—depending on the trade dynamics generated by a company on joining the system.

Here two factors should be borne in mind. On one hand, a company's commitment to increasing exports on the basis of a given business strategy presupposes that it disposes of a minimum management capacity. This was verified by studying the *modus operandi* of each company that formed part of the system in 1993. On the other, this minimum management capacity is focused on making use of company's real competitive advantages. They thus join the programme on a case-by-case basis rather than across the board as in other systems. Compared to traditional industrial-promotion systems, this emphasis on management capability is one of the ISS's distinguishing features.

Automobile regime

The pioneering example of the ISS in action is the Argentine Automobile Regime.¹ A direct outcome of the government's strategy of encouraging specialization, its main features are as follows:

- ❑ Final assembly plants are required to submit upgrading plans (covering a maximum of three years) and quarterly reports on the performance of selected parameters. They forward them to an information system established for monitoring purposes.²
- ❑ The import content of vehicles manufactured by assembly plants is now limited to 40 per cent, rising to 50 per cent for new models during the first year of production.

¹Implemented through Decree 2677/91.

²Established through Resolution ex-SIC 450/92.

- ❑ Assembly plants may import finished vehicles so long as they are compensated in accordance with the terms of the ISS. Such vehicles are subject to a 2 per cent tariff.
- ❑ End consumers are free to purchase vehicles manufactured or imported by assembly plants located in Argentina, subject to corresponding tariffs.
- ❑ Import quotas set for 1992, 1993 and 1994 were respectively 8, 9 and 10 per cent of the vehicles produced by assembly plants.
- ❑ Regulations permitted compensation exchange arrangements between local and foreign companies. Thus, firms engaging in compensated exchange programmes may import vehicles by paying the corresponding tariff.

Credit supply

A number of different initiatives were introduced to improve credit terms for SMEs and microenterprises, to support private-sector efforts to improve technology, and to encourage industrial re-equipping. Their primary aim was to rebuild smaller companies' access to credit. Ultimately, the different terms and rates governing industry's credit access was expected gradually to balance out through savings and lower interest rates. In the meantime, a series of interventions stimulated more competitive offers from the financial market to a large part of the country's industrial network, i.e. to SMEs.

Three-year plan

The Three-Year Support and Promotion Plan for SMEs facilitates their access to international markets through a system that equalizes interest rates for investment and upgrading, building up working capital, acquiring capital goods, acquiring technology and financing exports. The Plan is essentially a system of interest-rate subsidy: the Treasury absorbs four percentage points from the interest rate to be paid by SMEs on credits extended by the financial institutions participating in the programme.

To promote partnerships between SMEs, the Plan also finances the establishment of groups of companies.³ This helps SMEs wishing to carry

³As provided for in Resolution ex-SIC 126/93.

out joint activities to acquire and use technology, promote foreign trade, improve terms of access to credit, negotiate purchase or sale terms, improve quality, increase their specialization, and/or undertake any other activity designed to increase their sector's competitiveness.

Microenterprises

The Microenterprises Programme facilitates access to credit for very small and small enterprises to enable them to raise their productivity and increase their impact on employment. Another aim is to help such businesses gain access to training and specialized technical assistance, by creating networks of public and private support agencies. The programme also assists intermediate financing agencies by establishing criteria, systems and procedures for extending loans to micro- and small businesses.

The programme targets new or existing micro- and small businesses in all economic sectors. They may have up to 20 employees (including the owner) and a billing and/or sales turnover of less than US\$200,000 a year. It offers interest rates averaging between 12.0 and 13.5 per cent per annum, an average credit ceiling of US\$10,000 per operation and a maximum of US\$20,000 per borrower. (Of the total US\$60 million made available initially for the programme, US\$45 million came from the Inter-American Development Bank, the remainder (US\$15 million) from participating retail banks.)

Banco de Inversión y Comercio Exterior, S.A. (BICE)

The BICE (Investment and Foreign Trade Bank) was created in 1992 to act as a wholesaler in extending medium and long-term financing at competitive rates for investment and foreign trade projects, focusing particularly on small and medium-sized enterprises. Set up as a private national bank with a government share, its capital stock (currently amounting to over US\$227 million) is held jointly by the Ministry of Economy, the Banco de la Nación Argentina and the Banco Hipotecario Nacional.

Under an agreement with the Central Bank (Banco Central de la República Argentina—BCRA), BICE took over responsibility for foreign-trade financing procedures (OPRAC Line). It thereby inherited a portfolio amounting to approximately US\$200 million, which BCRA finances

through a medium-term credit line. (In 1993 BCRA arranged a series of credits for the equivalent of US\$2 billion, of which the Inter-American Development Bank and the World Bank jointly finance US\$800 million.)

Thus, BICE currently manages the following lines:

- Financing System for Argentine S&ME exports (BICE Norm No. 004)*
- Financing System for taking part in international fairs (BICE Norm No. 005)*
- Financing System for purchases of locally produced capital goods (BICE Norm No. 006)*
- Global Programme for Multisectoral Credit*
- Loan agreement with the French Government*
- World Bank backstop facility programme*
- Joint credit line extended by the Kingdom of Spain (BICE Norm No. 002)*

Negotiable SME bonds and issued invoices

A measure to facilitate SMEs' access to the financial market, authorizes SMEs incorporated as joint stock companies, cooperatives and partnerships to secure loans by issuing negotiable bonds.⁴ Issues range from US\$10,000 to US\$5 million. No risk assessment is required.

Under regulations approved by the National Securities Commission (CNV), the following entities may secure this type of negotiable bond:

- The State, provinces and municipalities*
- Banks and official financial agencies, state partnerships, state-owned companies and public corporations*
- Limited partnership and joint stock companies*
- Cooperatives, mutual associations, social-work institutions, non-profit organizations, foundations and trade unions*

⁴Decree 1087/93.

- ❑ *Stockbroking agents*
- ❑ *Mutual investment funds*
- ❑ *Individuals officially resident in the country with a net worth of over US\$250,000 (or US\$500,000 in the case of partnerships)*
- ❑ *Individuals or companies officially resident abroad.*

As part of that framework, new regulations governing confirmed invoices create another alternative financing source.⁵ Also mainly aimed at SMEs, this measure extends executory instruments to creditors, by equating commercial invoices with promissory notes. Confirmed invoices thus become credit instruments through which companies can improve the security of their commercial operations with their customers, thus reducing administrative costs and allowing human resources to be assigned to more productive activities.

To date, however, they have not been used much on the market, since they are optional instruments. Unconfirmed invoices enjoy a comparative advantage in that they make it possible for debtors to defer payment. For that reason, the Government is studying the possibility of making confirmed invoices applicable by law to all commercial transactions, incorporating them in the banking system and simplifying the administrative requirements.

Pending bills

Also with a view to facilitating financing for SMEs, the President submitted the following bills to Congress during 1994:

Bill on deferred-payment cheques

Currently being studied by the legislative branch, this bill will make it legal to issue post-dated cheques and endorse them on a multiple basis. Designed as an additional credit instrument for companies, it will enable deferred-payment cheques to be registered and qualified by the banks issuing and paying them, thus eliminating legal non-security and collection arrears.

⁵Law 24.064, which amends Law 6.601/63.

The system will also make it legal to issue cheques for a maximum term of 180 days, which in practice will create a significant secondary source of money that will improve small and medium-sized enterprises' access to credit.

Bill on the use of fiscal credits

Amending the VAT law, another bill will impose a tax penalty on customers who purchase goods using a deferred-payment instrument but then do not pay for them. The aim is to reduce the high level of payment arrears that negatively affects small and medium-sized companies. The change radically alters the method used to calculate fiscal credit on value-added tax. It encourages companies to document their debts with suppliers, so that the latter can discount such papers and gain access to liquidity in turn.

Argentine Technological Fund (FONTAR)

FONTAR is a US\$65 million revolving fund for enabling local firms in the productive sector to update their technology. Fresh funding will be secured from two sources: 50 per cent from a loan extended by the IDB to the Government of Argentina (AR 0141), and 50 per cent from contributions to be made by the Banco de la Nación Argentina. The Banco de la Nación Argentina will jointly finance loans, take on their credit risk and operate as the financial agent of FONTAR's Executive Secretariat. The latter manages the fund and is under the authority of the Economic Programming Secretariat of the Ministry of the Economy and Public Works and Services.

The Fund's aim is to finance projects in a specific activity or continuous set of activities that:

- ❑ Help develop a company's technological capacity by incorporating know-how into its productive processes
- ❑ Reduce production costs and/or maintain or increase the firm's market share.

FONTAR does not finance projects involving simple, direct acquisition of equipment or physical infrastructure. Rather, it fosters one or more of the following activities:

- Research and development leading to new processes or products
- Modifying or improving existing processes or product technology
- Building pilot plants, and developing and producing product prototypes
- Introducing production-management technology to strengthen competitiveness.

The Banco de la Nación Argentina will assess the client-risk of firms applying for financing. Financing will not be extended to projects with an internal rate of return of less than 12 per cent.

FONTAR offers two credit lines for technological-modernization business projects:

- Line 1, compulsory total refund financing, and*
- Line 2, shared-risk and benefit financing.*

The main difference between the two lies in the proportion of project costs project that can be financed through them, and the repayment conditions. Entrepreneurs themselves decide which of the two lines to apply for.

The general conditions for both lines are:

- Maximum amount per project:* US\$500,000
- Grace period for debt repayments:* up to 4 years, as of the date of the first disbursement
- Interest rate:* approximately 12 per cent per annum in US dollars.

National Programme for Technology Innovation and Transfer

Another form of financial assistance in the process of being implemented helps improve companies' competitiveness by promoting research and development and technology transfers. Four mechanisms have been established:

- Loans to finance research and development, technology transfer or technical assistance projects;
- Subsidies to finance research and development projects;

- ❑ Subsidies to finance technical services for technology-based companies;
- ❑ Subsidies to finance technical services for human-resource training and retraining.

The first two are directed at so-called Linkage Units, which can be civil corporations, cooperatives, commercial corporations or partnerships interested in conducting research and development projects. The third mechanism aims specifically at individuals or corporations engaged in productive activities and which hold the rights to a new product or procedure. The fourth is for productive enterprises that partly finance open training programmes and courses organized and carried out through Linkage Units.

Capital goods

To stimulate upgrading, competitiveness and supply of equipment to the industrial sector, a drawback system promoted investment in capital goods by reducing their cost.⁶ Another aim was to re-establish market equilibrium following the elimination of the statistics service tax and the tariff reduction to zero on imported capital goods.⁷ Implemented between 11 May 1993 and 31 December 1995, the new system featured a 15 per cent fiscal drawback on the sales price of new, domestically produced capital goods for use in Argentina. To be eligible, manufacturers had to transfer the drawback to the sales price.

Another measure designed to facilitate modernization of different productive sectors and services, thereby reducing costs and raising competitiveness, is a system to import goods for turnkey plants.⁸ Under that system, imports are not subject to import duties or the statistics service tax, and the tax on country-of-origin verification is reduced to nearly zero.

Equally important, these initiatives to reduce the cost of investing in fixed assets evolved gradually into a genuine incentive policy for capital goods producers. For the first time, a sectoral policy did not merely

⁶Drawback system for manufacturers of capital goods (Decree 937/93).

⁷Resolution 501/93 of the Ministry of Economy, Public Works and Services.

⁸Resolution 857/94 of the Ministry of Economy, Public Works and Services.

consist of applying high tariffs: it was a comprehensive policy drawn up to stimulate the sector's reorganization and restructuring.

System for importing inputs, parts and/or components for capital goods⁹

Since May 1994, companies can submit annual import programmes, through which they can obtain import permits carrying a zero tariff. The relevant import certificates, valid before the Argentine National Customs, are granted by the Secretariat of Industry. The aim is a real decrease in the cost of purchasing non-domestic inputs, parts and/or components used to manufacture capital goods—thus improving the sector's competitiveness and bringing prices into line with international levels.

Management system for importing used capital goods¹⁰

The aim here is to streamline the supply of imported, used capital goods for use in the industrial, agricultural and services sectors by establishing the conditions needed to ensure that they function efficiently.

Exports using the Automobile Regime

Companies registered in the Automobile Regime may include exports of capital goods in the exports they are committed to increase on joining the Industrial Specialization System. This has the following objectives:

- ❑ Converting some of the benefits of the Automobile Regime into export incentives for companies that produce capital goods
- ❑ Compensating the relative disadvantage suffered by companies manufacturing capital goods—since they do not have direct access to the benefits of the Industrial Specialization System
- ❑ Encouraging agreements between the automobile sector as a whole (auto component manufacturers and final assembly plants) and equipment suppliers that form part of the capital goods sector.

⁹Decree 173/94.

¹⁰Ministry of the Economy Resolution 909/94.

Other systems of special support to industry

*Imports of paper for publishing purposes*¹¹—support for publishing books and other printed matter through reduced duties on paper imports.

Law 20.852—Development of suppliers to construction companies that take part in international bids for work financed by the IDB, the International Bank for Reconstruction and Development (IBRD), or called for by bilateral or multinational entities.

¹¹Economy Ministry Resolution 1354/92 and Resolution ex-SIC 439/92).

VIII. Support and advisory agencies and interventions within the sphere of the secretariat of industry

Measures for technical assistance and support for SMEs are among the most important interventions for transforming and modernizing the State in Argentina. Their focus is quality, industrial design and technological modernization. They create an infrastructure for certification and accreditation that improves access of Argentinean products to foreign markets. They establish decentralized networks for transmitting information throughout the industrial system.

National Industrial Technology Institute (INTI)

The government goal for INTI is reorganization and transformation into a tool to assist entrepreneurs in the complex process of production restructuring—in particular to meet the demands of companies seeking levels of technological excellence required for the new parameters of international competitiveness and for exporting to exacting markets. INTI's reorganization features selection, through international public competition, of managers for posts generated as a result of its new structure. It also establishes a network of INTI Regional Offices.

The INTI Regional Offices are to:

- act as new sectoral centres
- provide extension services
- undertake promotion and marketing activities
- facilitate SMEs' access to management systems

- ❑ coordinate the activities of all extension units in the region
- ❑ develop an information network
- ❑ carry out industrial surveys, and
- ❑ disseminate information issued by the Secretariat of Industry.

The Regional Offices and their respective areas are:

North East: Provinces of Corrientes, Chaco, Formosa and Misiones.
Headquarters: Chaco.

North West: Provinces of Tucumán, Catamarca, Santiago del Estero, Salta and Jujuy.
Headquarters: Tucumán.

Nuevo Cuyo: Provinces of Mendoza, San Juan, San Luis and La Rioja.
Headquarters: Mendoza.

North Patagonia: Provinces of Neuquén, La Pampa and Río Negro.
Headquarters: Neuquén.

South Patagonia: Provinces of Chubut, Santa Cruz, and Tierra del Fuego.
Headquarters: Chubut.

Centre: Province of Córdoba.
Headquarters: Córdoba.

Coast: Provinces of Santa Fe and Entre Ríos.
Headquarters: Santa Fe.

Buenos Aires: Province of Buenos Aires.
Headquarters: Parque Tecnológico Migueletes (PTM).

Also within the regional framework, INTI envisages sub-regional offices for areas with a substantial contribution to GDP and productive capacity. In addition it will set up extension agencies in certain districts of Greater Buenos Aires or in any other locality where there is a major industrial concentration.

*Supplier Development Programme*¹²

Comprehensive diagnosis to identify the critical factors affecting the competitiveness of Argentinean companies in different industrial sectors shows that producing more and better goods depends on raising productivity, improving quality and significantly reducing production costs of goods and services. However, strategies to sustain increases in exports have to include both the private and the public sectors. They also have to aim at creating and re-creating new competitive advantages and identifying opportunities for access to new markets. Such an objective can be attained if the productive sector comprehensively applies tools for corporate renewal, modern management and labour skills upgrading, focusing them on gaining a better international position. Quality, industrial design and technological upgrading, the three main routes along which to channel corporate development, are therefore promoted by a novel industrial-policy tool—the Supplier Development Programme.

The Programme, implemented jointly by the private and public sectors, relies particularly on large firms in the private sector—participants that have already incorporated into their management models the necessary practices and methodologies for successful production upgrading. Major companies in the agro-food, iron and steel, automobile, textile and clothing, and telecommunications sectors work with the Industry Secretariat and INTI to assist selected supply companies. They transfer to them the means and the know-how to help optimize their organizational structures in the areas of quality, industrial design and technological upgrading. The aim is levels of excellence throughout the supply chain corresponding to the new paradigm of international competitiveness.

*National System of Standards, Quality and Certification*¹³

To improve Argentina's access to new markets and to incorporate international regulations on product quality, the Industry Secretariat implements the *National System of Standards, Quality and Certification*. Its task is to provide the productive sector with an infrastructure for standardization and accreditation that will bring about companies' voluntary

¹²Decree 1255/94.

¹³Decree 1471/94.

certification of products, services, processes and quality systems. In parallel, INTI is adapting itself to take on accreditation and certification functions in accordance with ISO standards—thereby creating the capacity to generate design within companies and the possibility of carrying out adaptive innovations to transferred technologies.

INTI's activities that define the voluntary regulatory framework for companies in terms of quality are as follows:

- ❑ Updating national standards, taking ISO standards as a guideline
- ❑ Making agreements with international agencies with recognized experience in the field of standardization and accreditation
- ❑ Adapting INTI to pre-established functions (accreditation and certification)
- ❑ Hiring international experts to launch and monitor the system
- ❑ Approving provincial certification systems nationwide.

Information and Industrial Statistics Centre (CIEI)

The Information and Industrial Statistics Centre (CIEI) was set up under agreements between the Industry Secretariat, provincial governments and INTI. Its aim is orderly dissemination of information between the public and private sectors, based on a well-defined but flexible structure for transmitting information flows to the industrial system. SMEs are a particular focus. The Centre encourages and supports flexible and efficient use of resources available to SME entrepreneurs and promotes real productive improvements.

The idea is to create a solid instrument that brings the Industry Secretariat closer to productive units. It should also bring about genuine decentralization of information—providing entrepreneurs with communications and technical assistance from the Industry Secretariat, INTI and, above all, from the provinces, in order to make better use of resources available to SME entrepreneurs. The aim is also for entrepreneurs to have rapid access to a varied and complete information service so that they can also transmit individual and/or group demands in relation to their needs.

The provincial offices (known as SME Information Centres, CIPs) that currently comprise the CIEI network throughout the country (including offices within the Province of Buenos Aires) currently number 31. They offer entrepreneurs the following services:

- ❑ Decentralized listing in the National Industrial Register—administered by the CIPs in each province, which also provide access to higher quality and more extensive basic information.
- ❑ A Business Directory enabling SMEs to provide information as the basis of improved inter-industrial relations. Details include their supply and demand for products and services, a description of their production processes, their demand for raw materials, markets of interest, quality controls and technical standards.
- ❑ Information assistance on specific consultations to strengthen the decision-making process among SME entrepreneurs.
- ❑ An SME database with nationwide access to a consultation service via Internet.
- ❑ Advisory services on existing credit lines, and portfolio and project design. Consultations on available support systems.

CIEI funds its operating expenses and those of its offices from business contributions levied through registration with the Business Directory.

Linking National Industrial Register (RIN) operations with those of the CIEI demonstrated its usefulness and practicality from the outset. Since the RIN has offices in each province, businesses do not need to send registration or re-registration forms to the capital. They can take advantage of the same procedure to register in the Business Directory.

CIEI services

Business Directory—Companies can be included in the Directory by filling out a special data form and joining the National Industrial Register. The Directory contains information on the location of each company's production facilities, installed capacity, and (as noted above) the goods and services it provides and requires. In addition to making firms better known both domestically and abroad, the Directory acts as a simple, effective link

between national agencies, programmes and companies—enabling them to engage in ongoing dialogue on all matters of common interest. (In 1993 more than 7,000 companies joined the Directory, the first edition of which was distributed nationally. Access to the Directory is also available at all CIEI offices through their computer network.)

*System to strengthen support structures for small and medium-sized enterprises*¹⁴—Technical assistance to SMEs helps transform their competitive profile in domestic and international markets, e.g. production and administrative management. The enabling decree also establishes a National Register of Consultants.

Through the SME Information Centres (CIPs), and with the support of Chambers of Commerce, the system creates direct links between companies requesting assistance and the State. Personnel hired by CIP Centres—academic experts and technicians—personally visit SMEs, thereby acting as a liaison between the public and private sectors and universities on a scale unprecedented in Argentina. Following such visits, the companies undertake assisted self-diagnosis exercises designed to detect weaknesses in each of the company's areas. The results are then forwarded to CIEI, which is responsible for pertinent recommendations drawn up by a team of selected consultants. The CIEI then passes the recommendations to the CIP Centres, who make them available to entrepreneurs together with a list of public and private consultants drawn up for each province and included in the National Register of Consultants.

Entrepreneurs deciding to hire the services of consultants then sign them up, thereby initiating the change process in one or more areas of the company. Those deciding not to hire consultants are encouraged to carry out as many changes as possible on their own. Both the consultancy firms and the CIP directors are requested to submit monthly progress reports to CIEI. These are subsequently included in a final report on the results of the changes made within companies. By the end, the project should engage a group of approximately 500 companies in the process of transforming their competitive profiles.

Database—Easy access to an information database through each of the CIP Centres enables entrepreneurs to devise production and business

¹⁴Decree 1091/94.

strategies. A computerized system provides rapid summaries of national and international business and technical information. CIP directors then request specific supplementary information via e-mail. Data currently held cover:

Chambers of commerce and business entities

Technical standards

Credit lines

Technological assistance

International SME bodies

Reports and publications

Business opportunities

International competitive bids

Fairs and exhibitions.

Training for entrepreneurs—With routine training established as one of the new conditions of business development, CIEI has responded with a programme of training courses designed especially for small and medium-scale entrepreneurs. The subjects and characteristics of each programme are established in accordance with the needs and demands of each geographical region and/or industrial sector, i.e. technological, economic, commercial or business matters. The programme philosophy is to give courses in the regions where companies are located (in order to reduce their cost), e.g. at regional Chambers of Commerce, and to be as flexible as possible. Thus, courses can be organized for single companies or for a group, for a zone, or for a productive sector.

The centres currently offer the following courses, among others:

- Family-owned companies (during difficult times)
- Comprehensive quality, competitiveness and management administration
- Costs
- Computerization and administration.

Information systems: specific consultations—A free service for SMEs registered in the National Directory of Companies enables consultations on a wide range of subjects dealing with a company's activities, or regarding new projects. Among others, questions can be addressed concerning technology, raw materials, inputs, import and export regulations, reference prices, hiring of services, sales, and markets. Consultations are initiated with a visit, telephone, letter or fax to the nearest zone or provincial CIP. This establishes the essential nature of the inquiry. If the information cannot be secured locally and/or through the database, it can be sought through the national information centre, which has the necessary means and channels to process the inquiry and provide satisfactory responses.

Credit information and assistance: portfolio and project analysis—Entrepreneurs can obtain financial market information at any office in the CIEI network on the different credit lines available at provincial or national level. Nevertheless, in many cases they encounter difficulties in fulfilling the requirements imposed by the banking system. CIP directors therefore provide free advice to companies on the different types and lines of credit. They also help them through the procedures necessary to secure such credit. The SME Window (see below), acting in coordination with the CIEI team, offers a similar service using consultants specializing in credit risk assessment. Likewise disposing of a wide range of experience in the financial market, they assist entrepreneurs to establish credit portfolios and submit support documents to the bank.

Trademarks and patents

To promote scientific, technical and industrial research, INTI is charged with:

- Bringing the system for registering inventions up to date
- Developing the National Institute of Industrial Patents
- Modernizing and raising Argentina's office to the level of industrial patent offices in developed countries.

A strengthening and support agreement with the National Institute of Industrial Technology provides the Directorate of Technology, Quality and Industrial Trademark Rights with a sound management system, i.e.

based on qualified human resources and with the administrative instruments needed to conduct its activities as efficiently as possible.

A Technological Information Department has also been created to meet the needs of companies engaged in repositioning themselves in the market. Its services include systematic preparation of technical profiles and patent documents, i.e. a full description of the invention patented, details of the methods and devices used and the products obtained, and whether the patents are national or international.

Productive Development Areas

The *System to Consolidate and Develop Productive Development Areas*¹⁵ is an agreement between the private sector and the provincial and national public sectors by which each public sector component either makes available economic policy instruments or creates them specifically for the purpose. In return, the private sector establishes goals to be met during the project investment, production and export phases, or in phases defined for each specific case.

Two kinds of instruments are offered:

- ❑ Consultancy services provided through INTI cover technological upgrading, new forms of technology, management systems, standardization and improvement of manufactured goods.
- ❑ Financial services provided under:
 - the Three-Year Plan for the Promotion and Development of Small and Medium-sized Enterprises,¹⁶
 - the Supplementary Guarantee Fund and the Assistance Fund for the Incorporation of Corporations; and
 - the decree¹⁷ on credits with lower interest rates for working capital, investment and/or upgrading projects and financing exports of capital goods, and
 - other government industrial-policy measures.

¹⁵Decree 1304/94.

¹⁶Decree 2586/92) and its Regulatory Resolutions with regard to credits with discount interest rates.

¹⁷Decree 991/93 and its Regulatory Resolutions.

The *Productive Development Areas System* is a consensus-reaching mechanism that links the public and private sectors on the basis of objectives set by the private sector. It ensures that policy interventions have a direct impact on the actual operating conditions of industry, and it addresses in a comprehensive manner the causes of regional deterioration by securing an equal commitment from private and public players that work together to design and implement an industrial strategy. The approach views productive development areas as methodically organized areas for spurring the upgrading and growth. The areas can be geographical zones and/or sectors of activity.

The system commits entrepreneurs to carry out upgrading and making progressive improvements in quality, in harmony with the cultural characteristics of regional production and existing labour relations and methods. In other words, once the initial financial restrictions inherent to productive upgrading have been overcome, it encourages industrialists to take the initiative in boosting production and employment levels, penetrate new markets, and seek horizontal integration between companies wherever possible. The economies of scale and specialization generated would lead to new productive investments.

For their part, municipal and provincial governments will relinquish taxes on the sector or region in question in order to allow businesses to increase their profitability. The resulting loss of public revenue should be offset by increased employment in the private sector and by the possibility of initiating the process of restructuring the provincial and municipal public sector—whose associated job losses should then not act as a constraint on production streamlining. This makes for an instrument that, while not overly biased from the fiscal standpoint, has an effect on several players at the same time—reducing provincial taxes on production and meeting sectoral needs for financing the upgrading process.

The commitments undertaken by the Industry Secretariat for the programme's development are essentially:

- Extending financial support to corporations engaged in analysing sectoral upgrading or carrying out actions to that end. Support includes subsidies for up to US\$400,000 to form such corporations.¹⁸

¹⁸Resolution SIC 126/93.

- ❑ Extending support for participating companies in making sound use of the subsidized credits provided for in the three-year promotion programme for SMEs to purchase capital goods, secure working capital, acquire technology or finance exports at subsidized rates.
- ❑ Coordinating INTI's human resources to provide courses to improve business management (management courses) and organization (advisory services on management systems, quality control, improving the layout of business premises etc.).

A private-sector goal for several of the productive development areas that signed on to the programme (or are studying the possibility of doing so) is foreign-market penetration and positioning. Given that most of the firms are located in Argentina's interior, where they face difficulties and costs in gathering information, the Industry Secretariat (assisted by Export-Ar) will create a database to raise awareness among productive development area entrepreneurs. The database indicates business opportunities for their products and assists with foreign trade procedures.

Efforts are also being made to establish cooperation agreements with the Secretariat of Agriculture, Livestock and Fisheries and INTA, in order to include the commodity-producing sector in the development of productive areas. The aim is to develop jointly the potential of industrial sectors that are integrated into commodity-producing activities.

SME Window

In order to provide small and medium-sized industries with information and advisory services on the *modus operandi* of various SME instruments, the Industry Secretariat, the Argentinean Industrial Union, the General Confederation of Industry and the Argentinean Board of Industry signed an *Assistance and Consultancy Agreement for Small and Medium-Sized Industries*, thereby creating the SME Window. It assists SME entrepreneurs by furnishing information on the following topics:

- ❑ Credit lines in the sphere of the public sector (Three-year Programme, Global Programme of Credits for Microenterprises etc.)
- ❑ Antidumping regulations

- ❑ Conditions for joining the Industrial Specialization System, the System of Refunds for Capital Goods Producers, and other Industry Secretariat instruments
- ❑ Negotiable Bonds for SMEs
- ❑ Instruments for small and medium-sized businesses (Rural Mortgage Bonds etc.).

The commitments undertaken by the Industry Secretariat as part of the Agreement were to:

- ❑ Create a Window for SMEs staffed by Industry Secretariat personnel and an official hired by each of the organizations included in the Agreement
- ❑ Invite the financial entities included in the Three-Year Programme to form part of the Window
- ❑ Provide the infrastructure and equipment needed to operate the Window.
- ❑ Form a Follow-Up Committee to establish appropriate controls over the intended use and application of funds and propose any adjustments needed to ensure the efficient operation of the Window.

For their part, the firms included in the agreement took on the following responsibilities:

- ❑ Promote and ensure good communications between the Window and their associates, and between the latter, the Window and the Secretariat authorities
- ❑ Organize seminars in the interior of the country, and extend the Window's services to seminar participants in each venue.

A Complaints Department was also created within the framework of the agreement, as a means of following up on the Three-Year Programme and receiving feedback on problems arising from the Programme's implementation.

National Institute for Cooperative Action (INAC)¹⁹

The National Institute for Cooperative Action, which is currently responsible to the Industry Secretariat, is the State agency in charge of establishing instruments for the cooperative sector. It conducts the following activities:

- Granting authorization for the establishment and operation of cooperatives
- Registration
- Financial aid
- Coordinating the organization of cooperatives
- Training and promotion activities.

¹⁹Law 20.337, regulated through Decree 1644/90.

IX. Other support and advisory agencies and support actions

Export-Ar

Export-Ar Foundation undertakes training, organizes international fairs, arranges trade missions and provides broad assistance to exporters. A joint government-private sector agency, the Foundation's strength and appropriateness as an instrument for trade promotion reside in its incorporation of entrepreneurs at the management level. Its design also took into account the different reasons behind efforts that previously frustrated export promotion—the need for continuity of its execution (particularly in a country with weak links to international trade flows) and the paradigm shift in world trade from raw material-intensive to knowledge- and technology-intensive goods.

The Export-Ar initiative is therefore based on a strategic approach to the new trends in trade. It actively supports modernization and the specialization processes that the country's firms are currently undertaking—helping overcome technological, financial and cultural limitations, cutting out red tape and functioning as an effective tool for tackling the obstacles that hinder the different steps involved in true development.

Objectives and services

- ❑ Examining and researching all aspects of foreign trade, including interventions designed to promote exports stemming from local production in general, particularly actions that encourage the growth of small and medium-sized enterprises.
- ❑ Facilitating provision of technical support in all fields and activities pertaining to the foreign-trade system and Argentinean products, in order to promote, increase and develop exports.

In this respect, the Exporters' Centre at the Ministry of Foreign Affairs provides information on all the basic aspects of export-related matters—trade opportunities, international fairs, business trips, trade missions and international bids, trade regulations, tariff treatments, transport routes and trade statistics.

Together with financial bodies, the Foundation helps to ensure that banks both extend the credits needed to enable companies to finance placement of products abroad, and that they actively cooperate in disseminating information that businesses need to strengthen their export potential.

Export-Ar also works actively with Argentina's promotion centres abroad. Ideal instruments for promoting Argentinean exports and boosting the growth potential of the country's small and medium-sized enterprises, these centres are strategically located: in Frankfurt (Germany), Sao Paulo (Brazil), Barcelona (Spain), Milan (Italy), and Los Angeles and New York (United States). In addition, the Export-Ar office offers firms the opportunity to join the Business Cooperation Network (BC-NET), which links potential partners in 36 countries in an expeditious and confidential manner. Such contacts facilitate commercial and industrial projects, regardless of the size and line of business of the companies concerned.

Invert-Ir

Taking on the increasing international competition to attract long-term productive investment, the Invert-Ir Argentina Foundation is an innovative instrument built on joint efforts by the public and private sectors to promote investment in Argentina. Established under private law, its foremost feature is its mobilization entrepreneurs who are committed to Argentina and to investing in their country.²⁰

Objectives

- ❑ To promote investment by residents and non-residents, particularly in productive activities in the goods and services sectors, as a means to help strengthen Argentina's economic and social development.

²⁰Set up on 26 August 1993, INVERT-IR's founding members were the Ministry of Economy and Public Works and Services, the Ministry of Foreign Affairs and International Trade, other public institutions and a broad representation of Argentina's foremost entrepreneurs.

- ❑ To increase understanding of the factors influencing investors' decisions, by providing information to the competent authorities in each field so that they can take appropriate actions.
- ❑ To foster links between Argentinean and foreign investors—to strengthen the formers' competitiveness, while encouraging the latter to enrich their experience by forming part of Argentina's economic and social environment.
- ❑ To facilitate Argentinean companies' access to international financial markets, especially those of lesser relative size.
- ❑ To assist Argentinean firms with their foreign investments.
- ❑ To encourage participation in international events that promote the growing inter-relationship between investment and foreign trade.
- ❑ To act as a forum for continuous, intensive exchanges of views on investment issues—between entrepreneurs, authorities and experts on Argentina's and the international situation.

Main activities

- ❑ Disseminating information on Argentina as a place in which to invest.
- ❑ Designing campaigns to promote existing investment opportunities in Argentina.
- ❑ Organizing meetings with potential investors.
- ❑ Preparing reports on the factors decisive for investment decisions.
- ❑ Organizing seminars and conferences to examine matters related to investment promotion in Argentina.

Investment Promotion Centre (CPI)

Set up to assist and advise entrepreneurs on how to launch new productive projects and to make structural improvements to those already initiated, the Investment Promotion Centre (CPI) was created under an agreement between the Government and the United Nations Industrial Development Organization (UNIDO). It helps entrepreneurs formulate and evaluate projects, prepares pre-feasibility studies and carries out promotion activities in developed countries in cases where foreign financing is required.

X. Industrial policy results

Evolution of Argentina's industrial GDP

Argentina's domestic industrial output began expanding in 1990 and showed the highest growth rates for the period in 1992 and 1993 (table 12).

Table 12. Argentina's industrial output

<i>Year</i>	<i>Industry GDP*</i> <i>(pesos)</i>	<i>Index**</i>	<i>Variation</i> <i>(%)</i>	<i>Industry share</i> <i>GDP (%)</i>
1980	2 890 375	105.58		27.98
1981	2 544 095	92.93	-11.98	26.13
1982	2 475 823	90.44	-2.68	26.25
1983	2 658 321	97.10	7.37	27.17
1984	2 728 595	99.67	2.64	27.39
1985	2 458 386	89.80	-9.90	26.43
1986	2 737 580	100.00	11.36	27.42
1987	2 780 211	101.56	1.56	27.20
1988	2 639 649	96.42	-5.06	26.37
1989	2 448 117	89.43	-7.26	26.12
1990	2 491 341	91.01	1.77	26.63
1991	2 733 303	99.84	9.71	27.37
1992	3 031 649	110.74	10.92	27.04
1993	3 168 073	115.73	4.50	26.78
1994	3 421 519***	124.99	8.00	26.93

*Constant 1986 pesos.

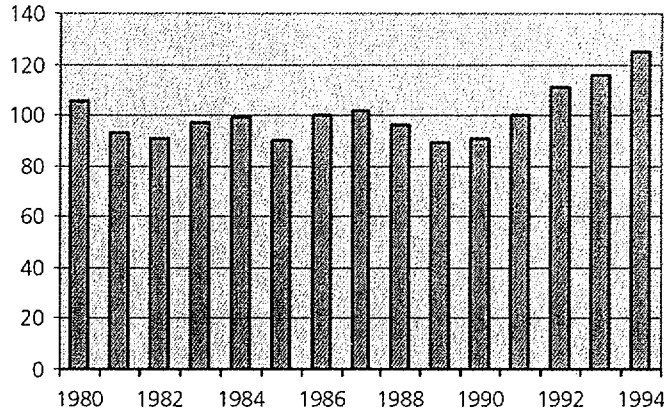
**1986 = 100.

***Estimated.

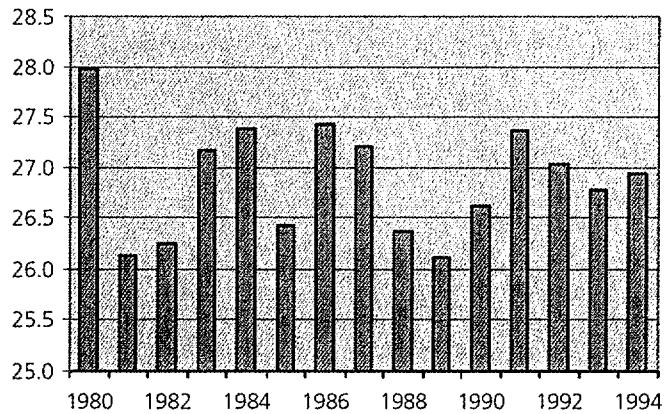
Highest industrial output was in 1994, representing a cumulative increase of 39.8 per cent compared to 1989. Cumulative industrial growth following the launch of the Convertibility Plan amounted to 37.3 per cent. With the exception of 1984 and 1987, the aggregate values

shown by the industrial sector from 1981 to 1990 were lower than those recorded in 1986 (chart 1). Industry's contribution to total GDP performed more consistently, however, remaining within the 26 to 28 per cent band throughout the period (chart 2).

**Chart 1—Gross Industrial Product
(1986 = 100)**



**Chart 2—Industry share in GDP
(Per cent)**

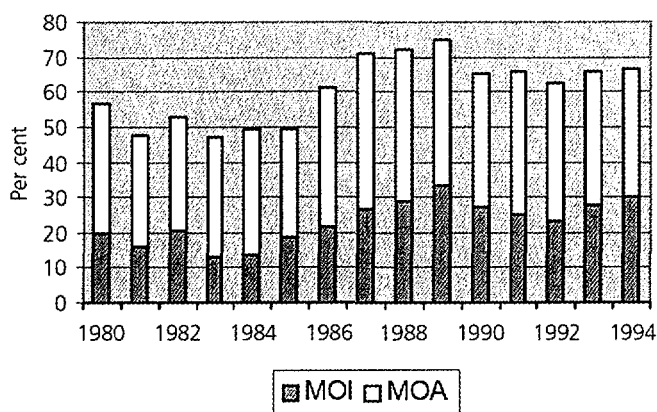


Evolution and composition of foreign trade

Taken as a whole, manufactured exports of industrial, agricultural and livestock origin showed strong growth (42.2 per cent) during the

1991-1994 period. They totalled over US\$8.6 billion in 1993 and more than US\$10.2 billion in 1994 (table 13). This coincided with even greater growth in Argentina's total foreign sales, manufactured exports' share of which in that year accounted for 66 per cent (chart 3).

Chart 3—Share of manufactures in total exports



Industrial manufactures (MOI) reached over US\$4.6 billion in 1994, i.e. almost 30 per cent of total exports. Between 1992 and 1994 they also enjoyed a highly dynamic growth rate—over 60 per cent (see table 13). For comparison, agricultural and livestock manufactures (MOA) totalled approximately US\$5.6 billion in 1994, an increase of 16.6 per cent over 1992. This meant that industrial manufactures now account for a higher share of Argentina's exports, i.e. 45 per cent of the total in 1994.

The major increase in Argentina's imports since 1990—reaching US\$20.3 billion in 1994—has been strongly driven by purchases of capital goods abroad (table 14). This was a side effect of the dynamic process of investment that has taken place in Argentina's economy during the 1990s. Industrial policy has had the effect of strengthening this process through the capital goods system mentioned in previous chapters.

Imports of capital goods have therefore risen more dynamically than total imports (chart 4). Between 1989 to 1994, imports (including component parts) for investment purposes increased by 510 per cent, thus raising their share of total imports from 34.5 per cent to 43.5 per cent.

Table 13. Manufacturing's share of total exports
(Millions of US dollars)

Year	MOA*	MOI**	Total manufactures	Total exports
1980	2 951.0	1 596.0	4 547.0	8 021.0
1981	2 886.0	1 469.0	4 355.0	9 139.0
1982	2 487.0	1 555.0	4 042.0	7 625.0
1983	2 639.0	1 039.0	3 678.0	7 837.0
1984	2 867.6	1 122.7	3 990.3	8 107.3
1985	2 596.7	1 556.6	4 153.2	8 396.4
1986	2 686.0	1 495.0	4 181.0	6 851.0
1987	2 825.6	1 694.7	4 520.3	6 360.2
1988	3 943.7	2 632.5	6 576.1	9 134.6
1989	4 005.7	3 185.9	7 191.6	9 579.2
1990	4 663.9	3 364.4	8 028.8	12 352.6
1991	4 927.5	2 983.4	7 910.9	11 977.8
1992	4 829.4	2 823.4	7 652.8	12 234.9
1993	4 925.0	3 678.9	8 603.9	13 117.8
1994	5 631.8	4 592.5	10 224.3	15 393.0

*Agricultural and livestock manufactures.

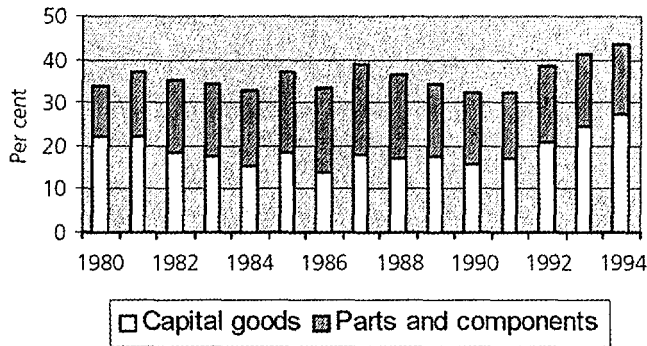
**Industrial manufactures.

***Estimated.

Table 14. Imports of capital goods
(Millions of US dollars)

Year	Capital goods	Parts and components	Total capital goods and parts	Total imports
1980	2 323.1	1 255.0	3 578.1	10 540.6
1981	2 096.9	1 395.2	3 492.1	9 430.2
1982	982.3	888.7	1 871.0	5 336.9
1983	786.7	746.9	1 533.6	4 504.1
1984	691.9	810.2	1 502.1	4 584.7
1985	701.5	718.5	1 420.0	3 814.1
1986	663.4	920.2	1 583.6	4 724.1
1987	1 041.0	1 217.1	2 258.1	5 817.8
1988	904.4	1 052.7	1 957.1	5 321.5
1989	745.0	700.5	1 445.5	4 203.3
1990	635.6	690.9	1 326.5	4 076.6
1991	1 435.0	1 236.7	2 671.7	8 275.9
1992	3 095.0	2 591.1	5 686.1	14 871.7
1993	4 114.9	2 808.8	6 923.7	16 783.0
1994	5 559.6	3 276.5	8 836.1	20 317.3

**Chart 4—Share of capital goods and components
in total imports
(Percentage)**



Modernization and the Industrial Specialization System (REI)

From the time the Industrial Specialization System was launched (December 1992) through to January 1995, over 90 tax relief certificates were granted for a total of nearly 300 company programmes pertaining to different industrial sectors located throughout much of the country. The base value of exports for 1992 for certificate programmes amounted to US\$404.3 million, while the increase value accomplished up to 17 January 1995 was US\$154.4 million—the equivalent of a 38 per cent growth rate in exports.

Examining company performance according to their size (table 15), shows that:

- ❑ The System had the greatest impact on the SME group, whose share in the number of certificates amounted to 70 per cent.
- ❑ SMEs showed the most dynamic export growth rates of all the firms registered in the System—their exports grew 84 per cent in comparison to the base year, whereas larger enterprises registered a 34 per cent increase overall.
- ❑ Smaller enterprises similarly accounted for the largest share of programmes in which firms began exporting as a direct consequence of joining the System.

- ❑ SMEs incorporated in the System were those that showed the strongest tendency to develop new production and sales profiles focusing on foreign markets as a result of their export emphasis.

Table 15. Export growth by size of certified company
(Millions of US dollars)

<i>Company size</i>	<i>Base exports December 1992</i>	<i>New level January 1995</i>	<i>Growth (percentage increase)</i>
SMEs	35.2	64.6	83.8
Large firms	369.2	494.1	33.9
Total	404.3	558.7	38.2

In total, the commitment to increase exports from 1995 to 1999 established in the 298 programmes granted favourable administrative treatment amounts to US\$1.37 billion—a pledge to increase foreign sales of 218 per cent (table 16). Of those, 138 pertained to companies located in the province of Buenos Aires with a total pledge of US\$565.8 million. The capital itself is the site of 92 programmes with a combined commitment to increase exports by US\$580.6 million. Together with the Province of Santa Fe (15 programmes, export pledges US\$44.3 million) and Tierra del Fuego (US\$60.6 million), these regions make up 91 per cent of the total national commitment. Some 86 per cent of the programmes are located in four districts: Province of Buenos Aires, the Federal Capital, Santa Fe and Córdoba.

Sectoral analysis (table 17) of the different programmes shows that:

- ❑ Textiles (46 programmes), autoparts (36), domestic appliances and chemicals (34 each) sectors account for almost 60 per cent of the programmes involved.
- ❑ Domestic appliances (US\$224 million), chemicals (US\$197 million), basic metals (US\$188 million), autoparts (US\$159 million) and textiles (US\$141 million) represent 66 per cent of the total export commitment during the 1995-1999 period.

Table 16. Geographical distribution of programmes offering favourable administrative treatment
(Millions of US dollars)

<i>Province</i>	<i>Number</i>	<i>Base value</i>	<i>Increment 1995-1999</i>
Buenos Aires	138	464.8	565.8
Federal Capital	92	130.5	580.5
Santa Fe	15	19.7	44.3
Mendoza	5	5.2	1 897.6
San Luis	8	3.0	43.7
Córdoba	13	2.5	14.7
Chubut	5	1.7	117.5
Tucumán	11	0.8	6.9
Tierra de Fuego	6	0.2	60.6
Entre Ríos	1	0.1	367.2
Sant. del Estero	1	0.0	5.4
La Rioja	1	0.0	0.0
La Pampa	2	0.0	977.1
Total	298	628.7	1 371.5

Table 17. Increases pledged by programmes
(By sector)

<i>Sector</i>	<i>Number</i>	<i>Base value</i>	<i>Increment 1995-1999</i>
Base metals	9	350.3	188.49
Non-ferrous metals	6	715.6	160.94
Chemicals	34	57.4	197.34
Textiles	46	27.5	140.56
Food, beverages, tobacco	10	19.7	186.91
Automotive parts	36	16.0	159.22
Prof. and science equipment	6	13.07	48.01
Non-metallic minerals	6	11.54	206.24
Footwear	10	10.96	66.13
Metal goods	15	10.65	131.35
Tyres	10	9.79	95.07
Electrical machinery	23	50.88	268.65
Paper and printing	6	4.78	43.03
Domestic appliances	34	4.50	22.37
Cables	2	4.33	48.65
Non-electrical machinery	7	3.68	9.24
Transport materials	2	3.22	127.05

Table 17. (continued)

<i>Sector</i>	<i>Number</i>	<i>Base value</i>	<i>Increment 1995-1999</i>
Hides and leather	3	1.51	2.86
Plastics	9	1.13	135.05
Other manuf. industry	7	0.60	274.60
Railway equipment	1	0.57	0.00
Toys	7	0.33	11.54
Rubber goods	2	0.20	1.85
Motorcycles, cycles	6	0.94	31.58
Timber and furniture	1	0.01	0.19
Total	298	628.65	1 371.58

Automobile regime

The goals of the automobile regime include higher levels of specialization and an increase in the scale of production of models with higher technological content. Production reached 409,000 units in 1994—a significant increase over the 99,600 units produced in 1990 (table 18). Looking ahead, the establishment of new terminal assembly plants (Toyota, for example) will have significant impact in terms of higher employment levels and production improvements.

Table 18. Apparent automobile consumption
(units)

<i>Year</i>	<i>Production</i>	<i>Imports</i>	<i>Exports</i>	<i>Apparent consumption</i>
1990	99 639	1 173	1 126	99 686
1991	138 958	28 631	5 205	162 384
1992	262 022	105 882	16 353	351 551
1993	370 000	109 637	29 976	449 661
1994*	409 000	139 000	40 000	508 000
Total	1 279 619	384 323	92 660	1 571 282

*Estimated.

The breakdown of apparent consumption shows the following improvements for the period 1991-1994:

- Growth of apparent consumption (number of units): 212.8 per cent.

- ❑ Growth of production: 194.3 per cent.
- ❑ Growth of exports: 66.5 per cent.
- ❑ Growth of imports: 385.5 per cent.

The Argentinean automobile sector's total trade turnover for the period 1992-1994 reached US\$6.6 billion, comprising US\$4.4 billion in imports and US\$2.2 billion in exports (table 19). Auto sector exports rose from US\$166 million in 1990 to US\$940 million in 1994, and currently account for 20.5 per cent of industrial manufactures exported, as against 4.94 per cent when the automobile regime was initiated (table 20). Exports are expected to rise to approximately US\$ 1.3 billion per annum, and imports to account for one quarter of the market.

Table 19. Automobile industry exports
(Millions of US dollars)

<i>Year</i>	<i>Exports</i>	<i>Per cent increase</i>
1990	166.1	
1991	242.9	46.2
1992	450.1	85.3
1993	791.9	76.0
1994*	940.6	18.8
Total	2 425.6	

*Projected.

Table 20. Automotive industry share of total manufactures exported

<i>Year</i>	<i>Per cent share</i>
1990	4.9
1994*	20.5

*First 10 months.

Between 1991 and 1994, a total of over US\$848 million was invested in the automobile industry (table 21). At the same time, 7,167 new jobs were created, representing a 39 per cent increase in employment levels (table 22). Car prices, moreover, are expected to continue to fall: already the price of the cheapest car in the country has dropped from 17 to 11 times the minimum annual wage.

Table 21. Investment in the automobile industry
(Millions of US dollars)

<i>Year</i>	<i>Investment</i>	<i>Per cent change</i>
1991	110	
1992	145	31.8
1993	220	71.7
1994*	373	69.6
Total	848	

*Estimated.

Table 22. Employment in auto assembly plants

<i>Year</i>	<i>Terminals</i>	<i>Per cent change</i>
1991	18 317	
1992	22 160	21.0
1993	23 027	3.9
1994	25 484	10.7

Another important factor to be considered on studying the automobile sector is its multiplier effect on the sector's suppliers. In this regard, the auto components sector increased exports as shown in table 23. Employment levels rose from 30,000 to 36,500 employees, an increase of 21.6 per cent (table 24). Component manufacturers invested US\$300 million from 1991 to 1994 (table 25).

Table 23. Exports of automotive components
(Millions of US dollars)

<i>Year</i>	<i>Exports</i>	<i>Per cent change</i>
1991	115	
1992	190	65.2
1993	320	68.4
1994*	400	25.0
Total	1 025	

*Estimated.

Table 24. Employment in automotive components

Year	Terminals	Per cent change
1991	30 000	
1992	34 500	15.0
1993	37 800	9.6
1994	36 500	-3.4

Table 25. Investment in automotive components industry
(Millions of US dollars)

1991-1994*	300
------------	-----

*Estimated.

Capital goods

The capital goods industry has responded favourably to the incentives in the support structure based on trade liberalization and refunds. Since it came into force on 12 January 1995, the refund system for producers of capital goods featured the following:

- ❑ 1,344 companies registered as producers of capital goods by the Industry Secretariat.
- ❑ 761 (more than half of those enrolled in the system) collected the refunds provided for under Decree 937/93.
- ❑ These totalled US\$298.8 million—the equivalent of a sales turnover of approximately 1.992 billion pesos.

The sector's evolution in recent years (table 26) featured growth in production of capital goods by over 28 per cent since the implementation of the Convertibility Plan.

Table 26. Gross production value of the capital goods industry
(Constant 1986 pesos)

Year	Machinery	Transport equipment	Total	Per cent change
1989	260 845	158 731	419 576	
1990	295 334	133 730	429 064	2.3
1991	337 901	154 359	492 260	14.7
1992	398 048	181 836	579 884	17.8
1993	413 571	209 126	622 697	7.4
1994*	394 547	237 609	632 156	1.5

*Estimated.

Three-Year SME Promotion and Development Programme

During the two years it has been in operation, some US\$1.95 billion of the US\$2.05 billion initially earmarked for the Programme has been allocated. The funds were made available to SME entrepreneurs throughout the country by assigning them to the national financial system. Table 27 shows the amounts that has been extended through the bank as of 18 January 1995. Distribution was through 28,750 credits. Adding the credit applications yet to be approved, the programme has involved nearly 30,000 credits worth a total of over US\$1,053 billion, extended both in local currency and in US dollars.

Table 27. SME funding

	Amount*
Capital goods	359.1
Working capital (US dollars)	474.9
Working capital (pesos)	152.3
Investment and upgrading	12.0
Export financing	0.7
Total	999.1

*In millions of US dollars.

Microenterprises

During its first year in operation (1994), the Microenterprise Programme earmarked US\$29 million for the sector. The entire amount will be distributed during the first quarter of 1995 by means of 3,000 credits allocated

through 20 participating banks in different provinces. Some 76 per cent of the credits are concentrated in the country's *pampa* region (Buenos Aires, Córdoba, La Pampa, Santa Fe and Entre Ríos). The percentage rises to more than 85 per cent when the Federal Capital and Greater Buenos Aires are included.

Over 85 per cent of all credits were allocated to the services, commerce and industrial sectors (table 28). Some 75 per cent were for working capital, and the rest to the acquisition of fixed assets.

Table 28. Allocation of credits

<i>Sector</i>	<i>Amount*</i>	<i>Per cent share</i>
Services	5.6	32.7
Commerce	4.9	28.5
Industry	4.4	25.9
Agriculture and livestock	1.2	7.2
Transport materials	0.8	4.4
Others	0.2	1.3
Total	17.1	100.0

*Millions of US dollars.

National Institute of Industrial Technology (INTI) Supplier Development Programme

The expected results as of May 1995 were:

- Review and final selection of suppliers
- Preparation of a contracting plan for the attainment of objectives by the public and private sectors
- Definition of contracting terms by industrial branch (indicators, standards, stages etc.)
- Generation of significant management or quality control changes in the first beneficiary companies.

The 1995-1999 action plan featured:

- Incorporation of new supplier SMEs into the programme

- ❑ Seminars and training courses for SME entrepreneurs and staff in each of the programme's modules
- ❑ Preparation of industrial modernization plans for supplier companies
- ❑ Signing of private agreements between promoters and suppliers
- ❑ Monitoring and verifying of agreements by the authorities in charge of executing the programme (Industry Secretariat)
- ❑ ISO 9000 certification.

Information and Industrial Statistics Centre (CIEI)

The results of the activities conducted by the Information and Industrial Statistics Centre can be summarized as follows:

Decentralization of the National Industrial Register—In 1994 (the procedure had not yet been completed) approximately 25,000 firms had been registered; the target for 1995 was 40,000.

Business Directory—Seven thousand SMEs were incorporated in 1994; the total was expected to double that number in 1995.

Information system—specific consultations—More than 900 entrepreneurs had requested information services in 1994; 1,800 requests were expected in 1995.

Credit information and assistance—A total of 800 companies benefited from these services in 1994; 1,500 were expected to put in requests in 1995.

Topographic surveys of regional economies—A total of 22 provinces were surveyed in 1994, and reports on 20 were completed. The task will be finalized in 1995 with surveys of the two remaining provinces completing a map of the entire Republic.

System to strengthen support structures for SMEs—Since the programme was initiated (October 1994), 110 SMEs were visited and diagnosed throughout the country. Half the companies were in the Province of Buenos Aires, the remainder mostly located in the Federal Capital and the provinces of Córdoba, Chaco, Corrientes, Catamarca, Santa Fe, La Pampa,

La Rioja, Mendoza and San Juan. The aim is to extend assistance to another 700 companies in 1995, acting in conjunction with the Programme of Productive Development Regions.

Training—Thirteen courses for SMEs were carried out in 1994. They mainly addressed the following topics:

- Total quality and management
- Internal management and control of administrative accounting
- Managing family-run businesses in times of crisis
- SME costs
- ISO 9000 total quality.

Productive development areas

During the two years that the programme of productive development areas has been in operation, 16 agreements concerning different sectors and regions of the country have been signed. The following qualitative results have been attained within the programme framework:

- Support for the formation of consortia (in most of the agreements signed).
- Assistance in securing credits (in the majority of cases).
- Greater production efficiency in all participating companies.
- Better utilization of raw materials.
- In the Machagai Productive Development Region, participating companies were encouraged to move into the industrial park, and 30 per cent of all machinery older than 10 years was renewed (an investment of approximately US\$300,000 a year).
- In the fruit and vegetable productive development area in the province of Mendoza, a commitment was made to increase manufacturing exports from 50 to 200 million pesos over a five-year period, raise tomato production to 500,000 tons a year, and invest US\$40 million in capital goods in two years.
- In the olive-growing sector in Aimogasta, Province of La Rioja, the annual olive-harvest volume was stabilized, the sector was supplied

with new equipment. The target is to increase production to 22,000 tons during the 1995-1996 biennium, with proportional increases in exports.

- ❑ Under the agreement signed in San Jerónimo, Province of Santa Fe, the number of employees grew 40 per cent, installed capacity was expanded and production increased 150 per cent. A total of 6 million pesos was also invested as part of this process.
- ❑ The signing of an agreement with the wine-making sector in Chilecito, Province of La Rioja, secured a commitment for US\$25 million in private investment.
- ❑ In the olive-growing region near Cruz del Eje, Province of Córdoba, the industrial sector increased biannual olive production to 20,000 tons, with an export potential of 2,500 tons of olive oil.

The impact of eleven agreements signed as part of the programme is shown in table 29.

Table 29. Impact of Productive Development Area Programme

<i>Development zone</i>	<i>Sector</i>	<i>No. of companies</i>	<i>No. of Employees</i>	<i>Invoicing*</i>
Pirane, Formosa	Carob furniture	56	458	26.04
Machagai, Chaco	Carob furniture	46	303	13.83
Rio Negro y Neuquén	Juice concentrates	12	840	65.00
Esquel, Chubut	Lenga lumber	17	200	2.42
Eldorado, Misiones	Citrus fruits	30	344	2.00
Las Parejas, Santa Fe	Agricult. machinery	46	1 800	80.00
Chilecito, La Rioja	Wine	3	300	1.77
Córdoba	Lumber	20	528	2.08
Santa Fe	Furniture	67	778	2.84
Castelli, Chaco	Honey	50	75	0.01
Cruz del Eje, Córdoba	Olive oil	44	887	0.47
Total		391	6 513	261.06

*Annual invoice in millions of current US dollars.

XI. Conclusions

The idea of writing a book on the role of the State arose in 1989 when Argentina's economy and its social organization in general were passing through deep crisis. At the time, many public opinion shapers viewed the Argentinean State as a Kafkaesque surreality responsible for all social ills. Thus, elimination of the State or some its functions would be, paradoxically, the key to solving society's organizational problems.

But, as we have sought to demonstrate in this book, the State both reflects the spirit of society and takes on the role of ensuring social survival. For this it has a number of instruments. Privatization or nationalization, creation or elimination of taxes are just some of the tools it can use to greater or lesser effect. Nevertheless, regardless of the instruments, the State must fulfil its role in each sphere of social activity. And, as stated at the outset, the State is much more than just an administrative system.

In chapter I, we developed our ideas using the materialist approach of the US anthropologist, Marvin Harris. Harris invariably provides a practical, worldly point of view—thanks to the concise manner with which he addresses the very complex issues contained in the theory of social organization. His approach to social events and the historical evolution of culture strikes us as being extraordinarily pertinent. Our own brief but intensive experience in government affairs taught us to value the ability to translate complex ideas into solutions that benefit people. The best laws, the most imaginative decrees and the most creative government programmes are no use if they do not solve—or at least help to solve—the concrete, daily problems facing society throughout the country.

We therefore believed it necessary to accompany our views on the role of the State in the 1990s with a summary of the results of the actions taken by the Government. One cannot pretend, at last not from our

position, to write about this subject without also taking on the obligation to render an account of what has been done.

Which leads us to our first conclusion: *the value of an instrument or a State action depends, not on theoretical considerations, but rather on their impact on the day-to-day life of society.*

Although the role of the State has political and philosophical foundations, government actions must be sufficiently flexible to adapt these foundations to society's possibilities and to its needs at a given historical period. Thus, we agree with Nozick that, in principle, a market economy and unrestricted competition are today's most suitable form of economic organization—essentially because they benefit people. But they clearly have to be applied in accordance with a country's possibilities and capacities, and in keeping with restrictions imposed by international circumstances. This, we believe, has been the key to the success of the programme of economic reforms implemented in Argentina.

Now, to make it more effective, the programme of structural economic reform has been supplemented with a set of specific *sectoral* programmes—among them the labour retraining, technological innovation and supplier development programmes.

This takes us to our second conclusion: *these specific measures and programmes have proved effective, but their scope is obviously limited.*

There can be no doubt that the instruments used are good ones, necessary for the State to fulfil its role consistently. Their limitations depend as much on economic resources (fiscal or others) as on the management capacity to implement and develop them. Management capacity is understood here to mean the existence of experts and technicians charged with coordination, training and assistance. We therefore believe that, as far as possible, it is now more advisable to embark on wide-ranging programmes for dealing with public structures that are in a crisis, as is the case with Argentina. Tax reductions, deregulation etc. are the quickest and most effective means of achieving results across the board.

Our third conclusion is that experience shows that *if there is a need to implement sectoral and specific programmes, decisive efforts must be made to strengthen coordination in the public sector.*

In our view, improving management systems should do this. Perhaps as never before, the Argentinean State now has a wide range of specific instruments and programmes with which to improve its performance and coordination between government offices. These systems are the key to dovetailing different programmes and reaching a critical mass of impact on target sectors.

Our fourth and final conclusion is that *no sectoral policy (industrial, agricultural, mining, transport etc.) can be successful unless it is based on a general framework of political and economic stability.*

Argentina was only able to launch its case-by-case policy of industrial specialization once it had established stable, well-defined macroeconomic conditions. Otherwise, sectoral policy merely becomes a means of transferring resources without the results being accountable. It is no coincidence that the only time in Argentina's economic history that economic penalties have been applied to companies benefiting from a programme of incentives (such as the automobile regime) has been during the enforcement of the economic convertibility programme.

That situation provided unprecedented prospects for industrial policy-setting in Argentina. Our goal was nothing less than instilling the concepts of long-term commitment and social benefit into the business culture. That, in the final analysis, is the aim of industrial growth.

We are convinced that Argentina has "grown" during the past few years. We also believe that it is one of the few instances—if not the first—where Government and society have advanced more rapidly together than they have through intermediary leadership (unions, business organizations, etc.).

That is why Argentines should be proud of what their society has accomplished in recent years. None of the deep-seated structural changes and transformations would have taken place without the decisive participation of society. From our point of view this, and this alone, is what now makes it necessary to focus all our efforts, determination and will on continuing what we have begun: consolidating our achievements, correcting our mistakes and continuing along the road to economic and social progress on which we have embarked.

It is essential to work within the broader framework of solutions that our culture offers. Completing and extending the process of transforming Argentina's economy and other areas is a task that cannot be postponed. In the same way that a company's competitiveness does not depend on the efforts of individual businesses alone. It also requires a competitive environment, changes in education, health services etc. Improving and raising national standards of living depend on our capacity to link and integrate our reform programmes by extending them to all the spheres of community life.

We will conclude by quoting José Ortega y Gasset (and also Carlos Fuentes in his latest book): life is a set of challenges to which we respond with a set of solutions that we call "culture". What has never existed is an absolute culture capable of providing solutions to all problems.

In our view, we must choose and develop a culture involving all our people, a culture that will enable us and our children to lead decent lives, and, above all, make it possible for us to imagine our future.

APPENDIX
Structural reforms

Introduction

In the view of Argentina's current administration, reform of the State apparatus and market deregulation are the basic pillars of changes that had to be made to regenerate the country's economic links with international markets.

The point of departure for industrial success necessarily lay in the establishment of a predictable macroeconomic environment and the operation of market mechanisms to stimulate growth through both domestic and international competition. For this it was essential to shift the focus of economic policy. This was hitherto based on different types of subsidies—without, however, offering counterpart benefits for society.

But, as a consequence of growing fiscal imbalances and the expansion of the remunerated domestic debt, the organizational problems of Argentina's economy came to a head in 1989 in the form of hyperinflation. Efforts therefore initially aimed at establishing an overall balance in public accounts. This in turn made it possible to re-establish a solvent monetary unit. The Convertibility Law made it obligatory for the Central Bank to back the money stock with gold, foreign currency or other assets held abroad. The State thus ceased being affected by inflation tax. Thus in 1993, for the first time in decades, Argentina's public sector registered a consolidated surplus—after interest payments and without taking capital resources into account.

Balancing public accounts meant comprehensive reform of the State administration and public expenditure. The changes included:

- Strict adherence to the budget—previously approved by the National Congress
- Simplifying and strengthening the tax system
- Reform of the civil service
- Privatizing all government-owned enterprises
- Restructuring the nationally-owned banking system and part of the provincial banking system

- ❑ Redefining the relationship between the national government and provincial governments
- ❑ Comprehensive reform of the social security system
- ❑ Consolidating and restructuring the domestic and foreign public debt.

The State thus took on a subsidiary role characterized by defence of competition, transparent regulation of monopoly activities, and protection of labour and other social rights provided for under the Constitution.

1. Deregulation and privatization

Deregulation of markets and other activities

Deregulation policy focuses on establishing an open market economy, promoting restructuring of production by renewing the terms of competition, encouraging lower production and marketing costs, and improving product quality.

The starting point was the freeing up of all prices and markets by suspending the law (Law 20.680 on Supply) that had established controls on many of them. The policy took on an organic, systematic character when the Decree on Deregulation (Decree 2284/91) came into force in December 1991. Its wide-ranging measures covered the following areas.

Domestic market for goods and services

Measures to curb the upward trend in prices of selected non-tradable goods and services having a strong impact on family budgets and business costs (stemming from the lack of competition in the market) were:

- ❑ Deregulation of the main agricultural and mining markets (and the corresponding wholesale and export markets) through elimination of marketing monopolies in bulk markets; authorized establishment of new wholesale markets in the country's main urban areas.
- ❑ Elimination of constraints on the development of retail trade through removal of requirements for rigid working hours that prevented growth of new forms of organization in the sector (e.g. shopping malls), and barriers that limited access to certain business activities (e.g. retail pharmacies).
- ❑ Free competition in markets for professional services—previously subject to regulations on the amount charged for services, the way such fees were charged, and business entry conditions for new professionals.
- ❑ Elimination of all promotion systems and franchises for capital-intensive activities (e.g. iron and steel, shipbuilding and aeronautics).

Foreign trade

Measures to facilitate exports and prevent middlemen from absorbing the lower costs and prices resulting from liberalization included:

- ❑ Abolition of all quantitative restrictions, permits, authorizations and prior administrative procedures (more than 120) that governed exports of goods and services.
- ❑ Elimination of all quantitative restrictions on imports, except those pertaining to the automobile system, and of all clauses granting preference to national entities in public contracts and limitations concerning origin or source.
- ❑ Simplification of customs procedures with regard to tax assessment and adoption of the principle of direct dispatch of imported goods to their destination.
- ❑ Allowing entry of foreign capital into the transport sector in order to lower costs and broaden the supply of services for persons and goods.
- ❑ Deregulation of ports, inland water and sea-going transport, freight and passenger transport.
- ❑ Liberalization of international and local air-transport markets, and of regulations governing ship charters.

Inland water and sea-going transport

Deregulation measures in the inland water and sea-going transport sector aim to improve its operational organization, streamline and increase the supply of services, and reduce the costs of sea-borne trade, the tariffs and the port import and export expenses. They included:

- ❑ *Economic measures*—deregulation of pilotage and towing services, freeing the setting of freight charges and rates, ensuring charges only for duly provided services, authorizing and privatizing secondary customs areas, and transferring fiscal deposits.
- ❑ *Technical and organizational measures*—redefining the port authorities (including liquidation of the General Port Administration and dissolution of the Office of the Harbourmaster General), extending hours of business, and moderating conditions for navigation and ship classification; suspension of regulations governing inland water and sea-borne trade while they are redrafted in keeping with the new rules.
- ❑ *Labour relations measures*—Free hiring of stowage services and ships' crews—as part of new negotiations for collective labour contracts.

Insurance

Through a series of decisions, the Government modified State involvement in the insurance market and returned the State to its fundamental role as economic and financial controller of insurance entities:

- ❑ Liberalization of commercial insurance
- ❑ Abolition of minimum and standard rates
- ❑ Establishment of a system of tacit approval of insurance plans—in order to promote competitive insurance services
- ❑ Full dismantling of the monopoly on reinsurance and liquidation of the National Reinsurance Institute (INDER)
- ❑ Privatization of the National Savings and Insurance Fund—Argentina's foremost insurance company, accounting for 12 per cent of all premiums.

To that end, the Superintendent's Office was included in the plan to strengthen supervisory agencies, thus providing it with adequate staff, incorporating it into the National System of Professional Administrative Employees, and significantly improving salary levels.

Disbandment of regulatory bodies

Eliminating unnecessary agencies and subsidies helped re-convert sectors that had traditionally been highly protected and regulated (e.g. regional crops, capital-intensive industries), thereby reducing the fiscal burden on productive activities, and favourably impacting on public accounts by means of:

- ❑ Eliminating the following regulatory bodies: National Grain Board, National Meat Board, National Forestry Institute, Fisheries Bulk Market, National Institute for Equine Activities, Argentine Meat Producers' Corporation, National Hacienda de Liniers Market, Regulatory Commission for Yerba Mate Production and Trade, National Yerba Mate Brokerage Market, National Sugar Directorate, Milk Policy Consensus-Reaching Commission (COCOPOLE), and the Milk Industry Promotion Fund (FOPAL).
- ❑ Confining the powers of the National Vineyard and Wine-Making Institute exclusively to controlling the quality of grape and wine products.
- ❑ Eliminating 12 obligatory taxes and contributions that were levied on regulated activities allocated to promotion funds or used to cover the expenses of regulatory bodies. (This transferred US\$500 million a year to the private sector.)
- ❑ Abolition of consular tariffs, the export promotion fund and taxes levied on the merchant navy.

Privatization

As a basic component of the State reform process, the Government implemented a wide-ranging programme to privatize most of the country's State-owned enterprises between 1989 and 1993.

The process depended on three fundamental pillars: deregulation, availability of a substantial flow of long-term financing funds, and incorporation of an efficient management bureaucracy. Nevertheless, the major advances achieved under deregulation were by no means sufficient to make up for the enormous difficulties facing the public sector in securing loans for long-term investments—and the equally problematic task of developing efficient management teams.

Privatization programme

The privatization programme therefore focused on the following objectives:

- ❑ Reducing the fiscal deficit by eliminating or cutting back transfers to companies and services in the process of being privatized, and through the revenue derived from taxes paid by them after being privatized.
- ❑ Promoting capital flows to modernize technology, which became outdated due to the lack of investment in previous years. (New investment leads to higher productivity and improves the quality of services.)
- ❑ Reducing the cost of basic services having an important bearing on production costs in the productive sector and on the family shopping basket.
- ❑ Helping strengthen the financial market by selling shares of privatized companies on the stock market and implementing common-ownership programmes.

Of course, transferring public assets to the private sector does not merely mean transferring a set of freely available assets. What is essentially being transferred is a concession to make specific use of that set of assets to provide certain goods and/or services in a particular potential market over a given period. Correctly estimating the flow of income and designing a suitable regulatory framework for rates and services are therefore the most appropriate means of ensuring that public services continue to be provided in an efficient and equitable manner.

The privatization programme was therefore subject to a series of important steps prior to its execution:

- ❑ Declaration by the national parliament that government-owned companies were “subject to privatization”, prior to their sale or concession of some or all their assets.

- ❑ Determination of the most suitable means of dividing a company into economic units, of creating new companies stemming from that division, of transforming State-owned companies into corporations and of separating saleable assets from the rest of the company.
- ❑ Establishing regulatory frameworks and regulatory agencies charged with supervising the different public-services sectors that were being privatized.
- ❑ Implementing voluntary-retirement programmes in order to reduce companies to a more appropriate size.
- ❑ Consolidating liabilities, cancellation of debts between government-owned companies, and transfer of balances to the national treasury.
- ❑ Launching a wide-ranging promotion and information campaign to spark interest, both in Argentina and abroad, in the companies being privatized.

The process basically concluded in 1993 with the privatization of the country's main hydroelectric and nuclear plants, the ports and the remaining railway lines, and with the concessions (through the toll systems) for access roads to the city of Buenos Aires. Provincial energy, public works and sanitation companies were also privatized that year, as were other services.

The privatization process thus encompassed most State-owned enterprises and a large number of economic sectors—telephone, electricity, water and gas services, the petrochemical, naval and steel industries and the concessions of air transport, railway, port and road services. These were transferred in different ways. Sale of shares, concessions and partnership contracts provided substantial funds to the public sector. They also made it possible to retire a significant portion of the public debt (US\$9.3 billion in cash, the cash equivalent of US\$6.1 billion in public stock certificates and US\$2.6 billion in liabilities transferred to new owners or concession holders).

A large number of Argentinean and foreign economic concerns took part in the programme. Nevertheless, a significant portion of capital stock remains in the hands of the national and provincial governments, of company workers (as part of common-ownership programmes and of the public in general—through share bids and exchanges of YPF shares to original and non-original BOCON reserve holders).

Regulatory agencies

The characteristics of each of the markets where there has been privatization—the existence of natural monopolies in particular, or the possibility of a few producers reaching self-interest agreements—has made it advisable for the

Government to continue regulating price levels and structures, service quality, free entry and departure access, and so on. A mechanism without precedent in Argentina has also been created—that of public hearings—to solve conflicts of interest between consumers and producers.

The following agencies have thus been established to regulate public services:

- National Telecommunications Commission
- National Electricity Regulating Agency
- Tripartite Sanitary Works and Services Agency
- Control Authority for Buenos Aires Access Road Concessions
- Road Concessions Control Authority
- National Automobile Transport Commission
- National Commercial Air Services Commission
- Santa Fe Océano Control Authority
- National Agricultural Services Control Directorate, and
- National Post Office and Telegraph Commission.

2. Labour reform and employment policy

Argentina's labour reforms aim to bring labour regulations into line with current international criteria and standards, and to reduce or eliminate their negative impact on the productive sector's competitiveness.

They initiated the following changes:

- More flexible norms governing labour contracts. They concerned:
 - duration of shifts, breaks and rests, vacations and other forms of leave;
 - suspensions made necessary by *force majeure*, economic circumstances or absence or insufficiency of business.
- Reduction of lay-off costs, especially with respect to short-term hiring.
- Cost reduction through reduced social-security contributions.
- Elimination of "solidarity" liability stemming from social security and labour legislation covering segmentation of production or marketing processes and assignment, contracting or subcontracting of auxiliary or subsidiary activities.
- Making company transfers more flexible.

Labour regulations

National Law on Employment

The National Law on Employment (sanctioned in November 1991) modified labour market rules by making working conditions more flexible. The most relevant aspects are as follows:

- Promotion of new job creation through incentives that reduce the direct and indirect costs of hiring labour—such as reducing or eliminating severance pay, making employers totally or partly exempt from social-security payments and special contracts for young workers.
- Incentives to workers and employers to legalize their labour status.
- Comprehensive compensation system for workers who lose their jobs involuntarily.

Productivity bonuses (Decree 1334/91)

Under Decree 1334/91, parties must agree the basis for calculating wage bonuses and the method used to measure productivity. The Ministry of Labour and Social Security then submits these for consideration. Agreements may be applied by sector, branch of activity or company.

Wage increments must be approved on the basis of effective increases in labour productivity, which is either verified or based on reasonable estimates. Higher work yields are recognized as a consequence of the application of efficiency systems, sound management schemes, better productive organization or incorporation of new forms of technology.

Decentralization of collective negotiations (Decree 470/93)

The provisions of Decree 470/93 are designed to break down the immobility of centralized collective negotiations and to institutionalize the fluid, inorganic negotiations that already feature at the decentralized level. It thus provides for decentralized collective bargaining through discussions carried out in smaller units when the parties concerned fail to reach an agreement. It then allows contracts to be coordinated on the basis of the most decentralized agreement.

In keeping with that criterion, signatory parties may change the level of negotiation at the individual request of any employer or group of employers. Agreements may contain provisions referring both to working conditions and to wage scales. They contain a general section on obligations to be fulfilled by each branch of activity, sector or company, and a specific section that may be modified, eliminated or established once only, depending on the pace of activity in each establishment.

Amendments under way

As part of Argentina's reform of labour legislation, the Government, trade unions and entrepreneurs signed a Framework Agreement on Employment, Productivity and Social Equity.

The agreement led to the establishment of a negotiation forum—the Advisory Board of the National Employment Fund—to discuss special arrangements regarding wage contracts, the Law on Work Accidents, the Law on Social Works, and the management of collective negotiations. Such negotiations will pave the way for a new, deregulated framework against which to reconsider employer-employee relations in a spirit of “flexibility”.

Employment policy

Intensive Labour Programme (PIT)

PIT is a special, labour-intensive employment programme designed to provide temporary jobs to the unemployed through execution of projects for public and social purposes. Projects are to be designed *in situ*, subject to approval by the Technical Unit for Programme Execution (UTEPE). The Unit maintains offices in the capital of each province and is coordinated by the provincial labour-administration agency and the head of the Provincial Employment Unit.

The National Employment Fund finances the wages and social costs up to the amount approved for each project. The provinces and/or municipalities concerned are responsible for directing and supervising the work, providing tools, materials and inputs, covering transport expenses and paying special wage-related costs (e.g. costs for work-related accidents and illnesses).

Provincial and/or municipal governments are responsible for hiring labour, using labour contracts as a means of promoting employment and selecting beneficiaries on the basis of the following criteria: heads of households, those with greater family burdens and those who have been unemployed the longest.

Regional agreements and the Productive Modernization Support Programme (PARP)

As part of the commitments undertaken by the Government (together with trade union and business representatives under the Framework Agreement on Employment, Productivity and Social Equity), a decision was made to create regional agreements to promote employment. The first agreements are due to be signed in the northern part of the country,¹ which has high rates of unemployment and underemployment. The aim is to create 100,000 new jobs and train 200,000 workers in 18 months.

A complementary programme with a training structure rather than direct promotion of hiring is known as the *Productive Modernization Support Programme* (PARP). Its main component is the *Youth Project*, under which 200,000 young people from all over the country will be trained and receive in-service training in companies over a four-year period, at a cost of US\$12,000 each. The plan was created and financed with US\$400 million (made up of a US\$250 million loan extended by the IDB and a treasury contribution of US\$100 million).

¹These agreements include the provinces of Jujuy, Salta, Chaco, Formosa, Santiago del Estero, Catamarca, La Rioja and Tucumán. The second batch of agreements will include the Patagonian region.

3. Tax reform

The reform and modernization of the Argentinean State called for a deep-rooted transformation of the tax system. The primary aims were to make it efficient and equitable while also eliminating biases in fund allocation. Tax policy therefore focused on achieving a steady increase in the collection of genuine revenue (thereby eliminating inflation tax as a source of financing) within a framework of greater efficiency and equitable taxation.

Taxes that cause distortions (bank debits, financial services, export taxes, gross income and revenue stamps) have been eliminated. Collection focuses instead on levies having more neutral effects on fund allocation (e.g. value-added taxes, corporate taxes on profits and personal income and assets taxes).

Thus, tax policy so far has centred on the following aspects:

- Eliminating more than 20 taxes
- Combating tax evasion
- Broadening the tax base
- Simplifying the system
- Making the tax system more efficient (eliminating biases)
- Ensuring stable, lasting tax regulations.

Given Argentina's Federal form of government, maximizing the impact of tax policy demanded particularly close coordination between the national and provincial governments. One of the most important instruments has therefore been the Federal Pact for Employment, Production and Growth.

Federal Pact for Employment, Production and Growth

Principal aims

The main aim of the Federal Pact is to promote employment, production and growth in different regions of the country. The Pact was signed by the national

government and by all the provincial states (with the sole exception of Córdoba). It essentially seeks consensus on basic guidelines through which economic activities in the provinces will benefit as a result of national, provincial and municipal economic reforms.

The specific aim in regard to the tax system is to eliminate biased taxes that affect the competitiveness of the productive sector. This includes amending gross income tax, reducing employer contributions and abolishing specific taxes (revenue stamps, energy, financial operations etc.). Another objective is to make the control and supervision exercised by tax collection agencies more efficient.

At the same time, the privatization and deregulation policies set by the national government are expected to be extended to the provinces.

Commitments undertaken

By the national government:

- Reducing the tax and social-welfare burden on labour costs
- Eliminating the tax on assets encashed in productive processes (working capital)
- Organizing and implementing the Rural Mortgage Bonds System
- Adjusting regulations on deductions and value-added tax (VAT) payments so that taxpayers do not pay rates higher than 18 per cent
- Transferring provincial retirement funds to the national social welfare system when the province joins the new social welfare system approved by the national government
- Redefining the taxes collected by the Municipality of Buenos Aires in that context, taking account of the terms pledged by the provinces
- Ensuring (through the entities or agencies responsible for privatized public services) that the tax measures to be adopted at the different levels of government for directly or indirectly reducing costs (or increasing the benefits) to companies that provide such services do actually result in the transfer of benefits to users and consumers.

In order to finance possible losses of provincial taxes stemming from the tax reform, the national government will suspend the withholding of Federal revenue sharing surpluses over the 725 million peso guarantee. These surpluses were to be used to guarantee the debt owed by the provinces. As of 1 January 1994, the debt amounted to 740 million pesos.

By provincial governments:

- Modifying gross income tax by exempting a set of economic activities. As of 30 June 1995, it will be replaced by a general tax on consumption. The aim is to avoid the unfavourable economic effects of a "cascade" tax.
- Abolishing the revenue stamp tax on financial and insurance procedures in some productive sectors.
- Abolishing specific provincial taxes on transfers of fuels, gas, electric power and sanitary services. Similarly, municipalities are invited to abolish rates that affect the economic activities covered by the provincial taxes mentioned above.
- Abolishing taxes on fixed-term deposits, savings funds, bank debits, and on payrolls.
- Modifying the real-estate property tax.
- Establishing standard taxes for automobile patents and/or similar patents in all the provinces.
- Strengthening the supervisory and control tasks of provincial tax-collection agencies to make tax collection as effective as possible.
- Privatizing and extending total or partial concessions on services, rendering of services or works carried out by the provinces.
- Eliminating restrictions on the supply of goods and services and their involvement in different markets.

4. Liberalization of the economy

The aims of trade reforms carried out in Argentina as of 1989 have been to further the economy's links with world markets, to strengthen market competitiveness, and to facilitate access to inputs at price and quality conditions similar to international levels. This was to bring about significant improvements to the competitiveness of Argentinean products.

For many years, Argentina's foreign-trade policy was characterized by a high level of tariff protection (in many cases redundant) and by a complex system of non-tariff barriers. Neither factor spurred competitiveness among local firms. This reflected partly the inherent lack of competitiveness in domestic markets and partly the difficulties experienced by producers in gaining access to inputs at international price and quality conditions.

Trade policy underwent in-depth changes, starting in July 1989. Until then, the highest import tariff was 50 per cent. In addition, there was a tariff surcharge of 15 per cent on all imports. The average tariff stood at 39 per cent. When tariff barriers were reduced significantly as of the middle of the year, the maximum tariff was set at 35 per cent (on a few electronic goods), and the average amounted to 12 per cent.

Non-tariff restrictions in the form of import licences, which in 1988 accounted for 32 per cent of domestic protection, were also almost completely eliminated. They are now applied only to certain makes and models in the automobile industry, and to a few goods used for health or environmental purposes. Such licences had previously been the product of a discretionary, bureaucratic system that provided significant subsidies to a relatively small number of beneficiaries.

Prior to 1989, export duties had been used extensively to lower the cost to local industry of using inputs produced by the primary sector. Only a few goods (e.g. oil-bearing seeds and raw hides) are currently subject to such duties, and revenue collection of this type dropped from 31 per cent of the value of exports in 1985 to 1.8 per cent during the first half of 1992.

At the same time, the process of economic integration was deepening and accelerating—with Brazil in 1990, and Uruguay and Paraguay in 1991. This led to the establishment of MERCOSUR, under which the partners agreed to implement a programme of progressive trade liberalization. Tariffs and non-tariff obstacles would be removed from intra-zonal trade as of 1 January 1995 (see also below).

The liberalization of foreign trade was accompanied by a policy to control the pattern of imports through detection and counteraction towards both abnormal, circumstantial presence of foreign goods in specific markets, and towards acts of unfair competition that could affect domestic production.

Thus, in keeping with that policy, the Government placed quantitative restrictions on certain paper industry imports for a period of 18 months in July 1993. And it established specific duties on imports of a number of textile goods until the end of 1995.

Sectors such as steel production, electric motors and industrial-refrigeration equipment have similarly benefited from antidumping measures. Following the same approach, safeguard clauses have been applied to specific products in various instances, thus temporarily suspending the preferential tariffs established in MERCOSUR.

Structure of tariffs and refunds

Trade liberalization, already an enormous step in the far-reaching transformation of the foreign trade sector, was linked to the tariff reform of October 1992. The aims were to reduce the effect of biased taxes and subsidies on the competitiveness of Argentinean products, to equalize incentives for foreign sales and the domestic market, and to promote an increase in the value added to national exports.

The reform was founded on two basic pillars:

Refund policy

The previous refund policy had little impact on the burden of refundable taxes liable on different productive activities. It was therefore decided to modernize the structure of refunds by bringing it more into line with indirect tax charges on exports.

Thus, the range of the new refunds is now between zero and 20 per cent, compared to zero to 10 per cent in the previous structure. The weighted average

has risen from 3.3 to 6.3 per cent of the total value of exports—a 3 per cent increase that is considered a more suitable way of compensating the burden of indirect taxes on the domestic value added, and which therefore eliminates much of the discrimination suffered by exporters. While the VAT on purchases is fully reimbursed to exporters, import tariffs and the statistics tax on inputs used to manufacture goods for export are either refunded or not collected at all through mechanisms such as drawbacks and temporary entry permits.

Tariff policy

Following the establishment of refunds, import tariffs were brought on a par with them so as not to create imbalances between incentives to export and to sell on the domestic market. This is the *true* purpose of the measure to convert tariffs into a “mirror” of refunds.¹ Thus the maximum tariff has been reduced to 20 per cent, the minimum to zero and the average to 10 per cent as a consequence.

The statistics tax (a type of additional tariff on imports) has been temporarily raised from 3 to 10 per cent. Imports of capital goods, fuels and other goods are exempt however. The increase reflects current circumstantial problems such as the global recession, which is cutting the prices of tradable goods—thus placing local producers of import-substituting goods in an unfavourable position. (At the same time, the increase compensates fiscally the elimination of the tax on heavy fuels, which had placed a heavy burden on the agricultural and transport sectors, and therefore on the competitiveness of exports of regional products.)

In 1993, in order to facilitate productive modernization of the local capital-goods producing sector through policies to reduce its costs and increase its competitiveness, tariffs on the imported inputs used by the sector were reduced to zero. A zero tariff and statistics tax was also established on general imports of capital goods, so as to facilitate investment and encourage local firms to modernize their technology.

MERCOSUR

The Government actively promoted regional integration of the countries of the Southern Cone from the beginning. The process was viewed as an opportunity to

¹Exceptions to this policy are capital goods and automobile engines, the systems for which make provision for higher refunds than the corresponding tariffs (a 15 per cent refund as against a 0 per cent tariff in the case of capital goods, and a 20 per cent refund versus a 2 per cent tariff for automobile engines, imports of which must be compensated for in accordance with the regulations of the automobile sector).

expand the scale of production of the country's productive units and to increase their competitiveness through specialization and regional complementarity.

The Treaty of Asunción on 26 March 1991 signed by the Presidents of the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Eastern Republic of Uruguay initiated the process of establishing a common market.

Its main bases are:

- ❑ *Trade liberalization programme*: progressive, linear and automatic tariff reductions, and elimination of non-tariff other trade restrictions between the States parties, reaching zero tariffs on 31 December 1994 with no restrictions across the entire tariff spectrum.

The programme features:

Tariff preferences set as a percentage reduction on the most favourable levies applied to imports of products from third countries that are not members of ALADI.

From the end of 1991 to 1994 preferences will increase on a six-monthly basis from 47 to 100 per cent. (The reduction percentage currently stands at 89 per cent.)

Products featured on the lists of exceptions are excluded from the reduction schedule, and will gradually diminish, on an annual, automatic basis, until none remain. (Only 20 per cent of the original list remain in force for Argentina and Brazil; 40 per cent of the products excluded remain effective in Paraguay and Uruguay.)

- ❑ *Establishment of a common external tariff or Customs Union*: adopting a common trade policy towards third countries or groups of States; and coordinated positions at regional and international economic and trade forums.
- ❑ *Coordination of macroeconomic (fiscal, monetary, capital and foreign-trade) and sectoral (services, transport, communications, agricultural, industrial, etc.) policies*: establishing appropriate conditions for competition between the States parties.
- ❑ *Sectoral complementarity agreements*: acceleration of the integration and optimum use of production factors to compete effectively in third markets—by taking advantage of economies of scale and favouring intersectoral specialization based on the parties' respective comparative advantages, intra-market complementarity and association.

The commitment undertaken by the governments of the four countries is the best means of competing with the economic and trade blocs that characterize

the new international economic scenario. The agreement will create a market of 200 million people and link an economic region with a GDP amounting to nearly one billion US dollars.

Even though the transition period has not ended yet, Argentina's economic links with its partners have already begun to show positive results. Trade with the region increased notably following the signing of agreements between the States parties. Total imports and exports with the countries of MERCOSUR multiplied several times. The share of intra-zonal trade in the country's total foreign trade has also grown.

Since 1991 partnerships, mergers and acquisitions designed to take advantage of the expanded market have multiplied between companies in the four countries, as have complementarity agreements aimed at penetrating other markets. Initiatives involve both commercial and productive enterprises. Among the latter, complementarity agreements prevail—with transnational companies showing particularly strong growth—followed by investments in new plants.

Customs—María System

The purpose of the changes to the customs system is to speed up administrative procedures, secure daily information on foreign trade movements and to control unfair competition. The number of staff was increased, with priority given to young people with a secondary or university education who could be trained through a series of basic courses. A training-of-trainers programme, particularly in the interior of the country, was promoted so that trainers can pass on their skills to other staff members.

Meanwhile, a definitive contract was signed to implement comprehensive computerization of all customs activities throughout the country. This "María Project" will establish a highly responsive mechanism that will enable all import and export formalities to be effected in a matter of hours. It will provide daily information on foreign trade movements, thus making it easier to control unfair competition and reduce illegal activities through better appraisal and control of goods entering the country.

The implementation of a selective goods-control system for imports—a single system for *a posteriori* appraisal and simplified regulations (so as to minimize the need for customs personnel) will speed up goods dispatching and reduce payments for special services, thus significantly reducing customs costs.

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