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In the midst of the current global slowdown it is worth revisiting Argentina's dismal experience in the 1990s with a complete embrace of globalisation, the crisis of 2001-02 and its subsequent recovery.

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In the implementation of the recipes prepared by the Washington Consensus (WC) in the early 1990s, Argentina was much admired by the metropolis as an example of a successful developing country on the periphery that had chosen to take the turnpike of market-friendly policies rather than the old cobblestone road of pro-industrialist strategies and state intervention.

The allegiance with free-market tenets and globalisation was so completely met by Argentina that at the 1998 annual meeting of the International Monetary Fund (IMF), held in the wake of the Russian crisis, the then Argentine President Carlos Menem was invited to address the gathering (an accord usually reserved only for US presidents). Menem remarked:

> We must wipe out the last vestiges of protectionism and production subsides (…) This is the time for all to defend the principles of globalisation (…) We are convinced that in order to address the serious problems facing the world, the Argentinian program, adapted to the special circumstances of each nation, is the path that leads us out of the current crisis (6 October 1998, presidential address at the 53rd IMF annual meeting of the board of governors; *Summary Proceedings*, pp 11-12).

In that address Menem craftily hid the high social costs implied in "the Argentinian programme". That programme, which was completely based on financial capital flows, took a heavy toll on many, but none both inside and outside the country at that time warned Argentina of the perils of tying the economy to the "currency board". Ten years of the peg of the Argentine peso (the national currency) to the US dollar at the rate of 1:1, coupled with the "commandments" of the Washington Consensus, led Argentina to its worst economic and political crisis ever experienced by the people of the country. Almost a decade has since then elapsed, and maybe it is a good occasion, in the light of the current downturn, to revisit the main events of one of the deepest crisis in a developing country.

1 Background

On 27 March 1991, the Argentine government enacted a law establishing an exchange rate fixed by the peg of the national peso to the US dollar at a 1:1 rate. The experiences of the previous years with hyperinflation (a monthly price inflation touching 96% over the second quarter of 1989), had convinced the new administration (Menem took office in advance in July 1989) that only a fixed exchange rate could stabilise the economy. The first important implication of the currency board arrangement was the surrender of the role of the central bank as a last-resort lender – the ability of monetary policy to vary money supply base was now tied to the entry of US dollars. But this policy also implied, although more subtly, a total policy conditionality. In fact, to restore credibility and confidence in the system the government complemented the exchange rate policy with market-friendly economic policies directly derived from the Washington Consensus – opening up of trade and financial flows (elimination of import barriers and capital controls), structural reforms (privatisation of public services, reform of the state), privatisation of the pension system, fiscal austerity (budget cuts) and total deregulation of the economy.

The whole architecture was tied to a permanent currency inflow. The privatisation of public utilities (the national oil company, natural gas, railways, electricity, telecommunications, the national commercial airline, water supply, postal services, and government banks), which was carried out steadily from 1991 onwards, was paramount in that regard, as almost every public service was sold to foreign capital – mostly under very weak regulatory conditions – and the tariffs of the services were dollarised. Behind the propaganda of private efficiency over public action, the fact that there was a low exchange rate benefited these foreign privately-owned companies because the proceeds in pesos from their main activities (mostly services devoted to the domestic market) could be exchanged "cheaply" for dollars and then repatriated.

The initial "good" results enthused many. Financial liberalisation permitted sizeable capital inflows ($71.9 billion during 1992-2000),[1] which certainly helped to back up the peg. The inflation rate fell from 84% in 1991 to 17.5% in 1992, meanwhile the gross domestic product (GDP) rose steadily between 1991 and 1995 at high rates (e g, 10.6% in 1991). The overvalued exchange rate implied not only a lag in exports (Argentina's exports priced in US dollars turned out to be not very competitive) but also a marked spurt in imports, which eventually led to a de industrialisation of the economy. Moreover, credit expanded. The drop in inflation implied a monetisation of the economy, which allowed for a rise in consumption, particularly of imported items (conspicuous consumption, mostly hi-tech goods). Low inflation rates, GDP growth,[2] credit expansion, bimonetarisation of the economy, a rise in consumption, and capital inflows paved the way for the idea that the turnpike to the "first world", as president Menem liked to put it, was within the country's reach. This idea became popular with the Argentina of the 1990s thanks to the rise of neoliberal ideas which ended up being predominant in Latin America (Palma 2008).

2 Current Account Deficit

Reliance on financial capital inflows made the economy much more sensitive to the repercussions of the 1990s international financial crises (e g, the 1995 Mexican crisis with the consequent "Tequila" effect) which eventually undermined the basis of this architecture. The current account ultimately turned into a large deficit. This deficit amounted to $85 billion for 1992-2000. It is worth noting that whereas in 1994 were equivalent to interest payments and profit remittances, one-third of that deficit, in 1999 they were equivalent to half the deficit. Profit remittances for 1992-2000 ($72.9 billion) more than offset the currency inflows. This unsustainable situation gave rise to an external imbalance in the economy (O'Connell 2002). With inadequate exports after 1995 in the context of international financial turmoil, (recall the 1997 Asian crisis), the way out to maintain the currency board was to increase foreign debt.

Moreover, once almost all the state-owned public utilities had been sold, there was no possibility of obtaining the necessary currency to back the plan – hence the persistent indebtedness on the part of the government, and both local and foreign privately-owned banks hit the jackpot by lending the currency needed to overcome the deficit. Consequently, the interest payments on public debt became large – by 2001 it accounted for 20% of public revenues, thus giving rise to a persistent public deficit since the state's revenues shrank as a by-product of the recession that set in during 1998 (Ocampo 2003). Yet, the refinancing programmes and borrowing from the IMF and World Bank demanded the public sector make further budget cuts, and often imposed on the country more stringent conditions on capital requirements than those recommended by Basel standards. Thus, it is significant that the total foreign debt which was $62.2 billion in 1992 grew to $ 147 billion in 2000. The official policy was to sustain the peg at whatever cost.

3 Social Consequences

Free-market policies, hard money and persistent foreign indebtedness disrupted the social tissue of Argentina. Deindustrialisation brought about by the high incentives to import, the structural reforms in the government sphere (which, besides the privatisations, involved reducing its size in the economy) and stagnation gave rise to an unemployment rate of 21% in 2001. From July 1998 onwards, a 45-month long recession hit the economy; the public accounts were damaged, and the recipe continued to be budget cuts. The neo-liberal motto that market forces alone would have balanced "excessive state intrusion" had not worked. Together with unemployment, poverty soared, reaching an incredible 50% of the population by 2001-02.

The last days of the currency board were characterised by a dramatic development. The "snowballing" of foreign debt to sustain the peg had inflated itself. During 2001, capital started fleeing the economy, hastily in the last months. Capital flight during the crisis had an impact on the population. On 1 December 2001 the national government decreed a (partial) bank deposit freeze. That measure not only covered bank deposits nominated both in pesos and US dollars, but also the bank accounts of the wages of employees and workers. It only allowed a withdrawal of a maximum of 250 pesos, then equal to $250. Most of the population's savings and wage accounts were, literally, locked in the so-called *corralito* (farmyard). Not surprisingly, this policy was pursued to ensure the continuity of the banking system and to honour the foreign debt at the expense of the majority of the population. So usurious lending to the public sector was complemented by safe capital flight, guaranteed by the government's measures, which, both the IMF and the World Bank applauded in the name of safeguarding the currency board.

The decisions taken between the last days of president Fernando De la Rúa (19 and 20 December 2001), until former senator Eduardo Duhalde was sworn in as executive chief (January 2002), i e, during the period when three different presidents were appointed, were ineffective to overcome the crash. That is why in early January 2002 the national currency was devalued, exchange controls were set up and both banks' credits and deposits were "pesified" at the rate 1:1. Argentina, as in 1998 but for very different reasons, once again drew the attention of the international financial institutions – default on public debt was declared after the social protests of December 2001, and a series of renegotiations with the IMF and other creditors had to be set up.

4 Crisis and People's Resistance

The crisis affected the majority of the population, not only its poorest layers but also middle class and even some upper middle class households. Widespread discontent boiled over. Although one of the most evident manifestations of the crash was the protest of deposit holders, which gave rise to a movement of "savers" who organised themselves to get back their deposits in US dollars, the crisis hit mostly the lower strata. Upon devaluation the latter groups had to bear the burden of inflation of prices of basic goods. Certainly, unemployment (23% by 2002) led the country to widespread poverty. Half the population (total population being 38 million) fell below the poverty line and an extensive 25% which was not able to afford a basic food basket fell below the indigence threshold. The year 2002 will be remembered as one of the most dreadful years in Argentina's history, the GDP fell by 11%.

The strategies undertaken to cope with the crisis depended to a great extent on the mechanisms that the social groups concerned could identify as their best available means. There was a huge and broad social movement, mostly encompassing the unemployed people – the so-called "picketers". This group, which protested against the neoliberal reforms and stood up for state and social aid, together with former workers who took over the firms that had shut down, constituted the basis of the protests after the crash.

But employment and poverty problems were also experienced by the middle class. This heterogeneous social group followed a broad range of occupations (skilled workers, farmers with small/medium sized land, services employees, etc) and had jobs with a certain status (bank clerks, teachers, etc). Many, if not most, of these social layers experienced unemployment, underemployment, and the distress of the downturn. In the Argentina of the 1990s it was not difficult to meet with graduates driving taxis. Quite likely, significant pockets of middle class members participated in social protests. This group was named the "banging pots", because they reacted by banging their cooking pots against the national curfew decreed on the evening of 19 December 2001. Out of this outburst many organisations were born, most of them without any actual experience/working in, with political parties and the like. The "banging pots" and the picketers fused under the banner of anti-neoliberalism and threw themselves on to the streets. It was this political event, this social union that not only forced the government to lift the curfew, but also swept the whole cabinet out of power, the president included. The government's agenda was now filled with social demands rather than with endless requirements of finance as before.

5 Halfway between Direct and Indirect Democracy

Formal representative democracy had to bend to listen to the grass root movements' demands. The relationship in Argentina between the grass root movements and representative democracy has long been at odds. Let us take a step back, if only briefly. In October 2001, a handful of months prior to the upheaval, political discontent became apparent. In the elections for deputies and senators, more than 50% of the population either chose not to go to the polls or expressed their rejection by voting blank. This phenomenon, regarded as the "wrath vote", expressed the widespread discontent towards representative democracy. It anticipated the forthcoming social turmoil – to crowd streets, to occupy public offices, to protest against the banks (the institutions which perhaps best depicted modern capitalism), to take over firms, and to block commodity transportation by picketers. The formal institutions were put in jeopardy and so the formal government understood it: in June 2002 the executive chief Duhalde was forced to anticipate the call for national elections, which would take place in April 2003 and lead Néstor Kirchner to office one month later.

Expectations of the new administration grew. The social movement had broken down the long-standing bipartisan system, and its fight against the neoliberal policies was so deep that the new president grasped that message. The Kirchner administration inaugurated a series of democratic policies (to send to court former military chiefs during the dictatorships); it kept and increased social aid and state-introduced employment programmes in 2001-02; it renationalised some public utilities; it set up a competitive exchange policy; it introduced progressive taxation on primary goods exports. Since mid-2003 Argentina has been going through a notable process of economic growth (around an 8.8% average rate of growth for 2003-07; 7.8% for the first half of 2008)[3] mostly driven by primary resource-based goods exports. The unemployment rate has fallen to 8-9% today. And certainly considerable pockets of citizens living below the poverty threshold have improved their condition.

Whilst it is true that a kind of return to a normal status quo business took place, it is also true that despite many attempts neither the IMF nor the World Bank has so far succeeded in meddling in the country's affairs. Moreover, a compromise of the government is "not to pay debt at the expense of people's hunger" was initially rejected by the financial world. Later, however, a huge accumulation of reserves helped by the boom of primary goods international prices permitted Argentina to cancel out its total debt with IMF.

6 Lessons

In hindsight, one can grasp that although the targets of the protests in Argentina were often not very clear, the rejection of neoliberal policies was the main result. True, the social movement lacked the worker unions. During the protests and assemblies, the absence of coordination between the most active elements led the movement ultimately to a standstill. But what also needs to be admitted is that despite both the heterogeneity and the lack of coordination, picketers, together with "the banging pots", obtained in 2002 a job programme for the unemployed, and their active participatory action decidedly called into question the institutions.

The dramatic events in Argentina have not only warned developing countries that neo-liberal pro-market policies can dazzle the majorities with a false light of would-be benefits, but only for a while until the harsh sunlight of reality breaks out. They also showed how representative parliamentary democracy without offering real choices can become hollow, until a crisis erupts to force into the open the real choices. The experience has shown that only an effective participation in the political scenario of the most affected can influence the actual state of affairs and steer it in another direction. So far, neoliberal alternatives under a "new garb" have been rejected not only in the elections held since then but also, and more importantly, by the collective memory of the people, who have learnt how to curb reckless pro-market economic guidelines. If this endeavour can be maintained, Argentina's tears will not have been in vain.

NOTES

1 The economic data used are taken from O'Connell (2002) and the Argentine Ministry of Economy (www.mecon.gov.ar).

2 The average growth rate for 1987-98, peak to peak, was 3.2%, but this is not so high a figure indeed if compared with the 4.4% average growth rate recorded in the 1950s and 1960s, i e, during the "golden age" of Argentine industrialist policies and state intervention.

3 According to ECLAC, Argentina will grow by around 1.5 % in 2009 during the current downturn, whereas, both Mexico and Brazil will see a contraction of output.

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