

**The Paradoxes of Industrial Strategies:
Neoliberal Reform and State Intervention in Argentine Industry
From ISI to Martínez de Hoz**

by

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Abstract

This thesis argues that the neoliberal program implemented in Argentina by Economy Minister J. Martínez de Hoz during the last dictatorship (1976-1983) changed, rather than reduced, the parameters of state intervention in industry.

It will show that the neoliberal administration not only did not promote any state withdrawal, but also ended up generating a double paradox. On the one hand, contrary to its own theoretical prescriptions and the official propaganda, it changed, rather than suppressed, state intervention in industry. On the other hand, it was not only interventionist, but also proved to be more successful in doing so than the very champions of interventionism.

In other words, Martínez de Hoz's "neoliberal" intervention achieved one of the long-term dreams of the dethroned ISI strategy; the political creation of a powerful domestic industrial bourgeoisie.

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Introduction

Do neoliberal industrial restructuring policies require state intervention? The emphatic answer of neoliberals to this question is “no”. They not only believe in the state withdrawal from industry, but also they strongly advocate the disappearance of specific tools like industrial policy. Since Bauer’s criticisms of state intervention in the early 1970s, they have increasingly questioned the role of the state in industry, and they end up, ultimately, promoting its radical withdrawal from economic activities (Shapiro and Taylor, 1990; 863).

This thesis attempts to deal with the neoliberal statement against state interventionism in light of a specific case: the neoliberal reform implemented in Argentina by Economy Minister J. Martínez de Hoz during the last dictatorship that governed the country between 1976 and 1983. It will show that during that historical experience the neoliberal administration not only did not promote any state withdrawal, but also ended up generating a double paradox.

On the one hand, contrary to its own theoretical prescriptions and official propaganda, the neoliberal experiment in Argentina under Martínez de Hoz changed, rather than suppressed, state intervention in industry. Intervention under neoliberalism remained more or less the same in financial terms, but it proved to be more diversified in terms of the tools it used and more targeted in terms of the main beneficiaries, as compared with the most interventionist administration of the ISI

(Import Substitution Industrialization) period, namely that of the second Peronism in 1973-76.

On the other hand, Martínez de Hoz's neoliberal experiment was not only paradoxical for generating a crude interventionism, but also for achieving (through that intervention) one of the long-term dreams of the dethroned ISI strategy, namely the public "carving out" of a powerful domestic industrial bourgeoisie. The big domestic industrial groups that dominate Argentine economy are in part the outcome of that double paradox: a neoliberal state that not only intervened but also proved to be more successful in doing so (at least in relation with the sponsoring of a domestic bourgeoisie) than the very champions of interventionism.

Martínez de Hoz's neoliberalism. A historical antecedent of the Washington Consensus

Martínez de Hoz's program did not differ very much from contemporary recipes recommended by the IMF and the World Bank, the so-called "Washington Consensus" (WC). Although implemented almost fifteen years before Williamson's seminal contribution summarizing the core ideas of the WC approach (Williamson, 1990), Argentina's neoliberal strategy (together with those launched by the contemporary dictatorships of Chile and Uruguay) stressed the same objectives and proposed almost the same tools¹.

¹ The Washington Consensus approach (WC), where neoliberal claims finally turned into a policy blueprint, recommends a similar drastic reform of the traditional ISI strategy. However, perhaps the lessons learned from experiences like those of the Southern Cone in the 1970s led those policy-makers to somewhat reorganize the strategy. According to Williamson (1990), the WC includes not only the

As the WC lately would prescribe, Martínez de Hoz's proposal combined an anti-inflationary stabilization program focused on the abrupt reduction of the "three deficits" (fiscal, external, and monetary), with a set of policies aimed at restructuring the relationship between the state and the economy. Although the "stabilization" part of the program did not differ much from previous liberal attempts of reducing inflation (Argentina had a long experience with traditionalist *inflation-busters*), the "restructuring" part constituted a true revolution, even by liberal standards. Unlike previous liberal policy-makers (committed to fight solely macro disequilibria), for the first time Martínez de Hoz deeply attacked the three pillars of the ISI strategy: state intervention, discretionary policy-making and isolated protectionism². He proposed:

- Liberalization of prices in the markets of goods, capital (interest rate) and currencies (exchange rate) which implied reform in both domestic and external markets.
- Abrupt reduction of state-regulated *over-prices* such as tariffs and taxes.
- Promotion of the domestic capital market through liberalization of interest rates and the removal of access barriers to both domestic and foreign capital.

traditional neoclassical recommendations for fighting inflation and "getting the prices right", and a true redefinition of the relation between state, market, and industry; but also a sequential strategy of implementation. One of the main neoliberal criticisms of Martínez de Hoz was that he prematurely implemented a financial liberalization before having achieved the "needed" price stabilization. (Cf., for instance, UN, 1991.) Thus, according to the WC, only after stabilization has been achieved (Step I) and business expectations have improved, is the economy prepared for a major surgical operation. This is the *mise en scène* of Step II of the WC recipe (namely structural adjustment) which implies, first, a deep transformation of the role of the state (through privatization, and the drastic reduction of both public expenses and regulatory powers) and, second, a market liberalization that finally exposes local actors to both internal and external competition.

² For a further description of this structural transformation, cf. among others Kosacoff et al., 1993; Lewis, 1990; Smith, 1989; Katz and Kosacoff, 1989; Hastings, 1993; Di Tella and Dornbusch, 1989; and Ramos, 1986.

- Replacement of discretionary policies (such as quantitative restrictions, export taxes or licenses) by generic, less disruptive tools with “automatic” means of implementation, such as tariffs.

In particular, the program stipulated a new role for both the state and economic policy regarding industrial development:

- First, it proposed to delink macroeconomic policy tools from any objective other than economic stability. For the minister, the anti-inflationary battle was an exclusive priority, and every other macro goal (namely, industrialization) was subordinate.
- Second, it proposed to end the old ISI practice of redistributing national income through state manipulation of fiscal, external, welfare and monetary policies.
- Third, and finally, it fiercely attacked the role of the state as the leading sector of development, and proposed and fostered the market as its new engine. By eliminating the state as the main engine of growth, Martínez de Hoz aimed at avoiding “picking” winners or losers according to political criteria.

Neoliberal interventionism and the “orthodox paradox”

Nevertheless, neoliberal policy-makers have to use the state as the instrument for changing policy in a less statist direction. As neo-institutionalists have emphasized, this *orthodox paradox* undermines the alleged neoliberal immunity to state interference (Kahler, 1990; p. 55). On the one hand, only by empowering state’s bureaucratic capabilities, informational networks and monitoring capacities, can policy-makers ensure the implementation of complex reforms such as those recommended by neoliberals (Haggard and Kaufman, 1992; p. 25; idem, 1992b; p. 222; and Evans, 1992; p. 141). On the other hand, the need for compensating adjustment’s losers through

targeted policies does not allow the state to withdraw so easily from its interventionist policies and even its discretionary powers (Waterbury, 1992; p. 194). Moreover, neoliberal states need to reinforce their political strength to neutralize social opponents of the reform (namely, the working class and discarded private firms). Thus, the state must be able to maintain and enhance its consensual capabilities (or its repressive apparatus, under a dictatorship), at least during the reform period (Acuña and Smith, 1994; p. 51).

In other words, in a neoliberal restructuring the “root of the problem” (namely the state) has to become “the solution” through the successful implementation of an adjustment program that, paradoxically, is aimed at cutting its own prerogatives (Evans, 1992; p. 140). This theoretical dilemma proved to be, at least in the Martínez de Hoz’s case, also a practical one. That neoliberal experiment of the 1970s showed that the Argentine state was not willing to commit this sort of “suicide.” Far from withdrawing the state from the economy in general and from industry in particular, Martínez de Hoz ended up by shaping a new interventionism of its own that even surpassed the extent of Kahler’s orthodox paradox. The neoliberal state not only enhanced its organizational and political capabilities for better playing its new “deconstructive” role (Kahler, 1990; p. 47 and Haggard and Kauffman, 1992c; p. 25), but, as the following pages will show, it also began to play a leadership role that deeply transformed the industrial structure of the country.

Organization of the thesis

This thesis is organized in four sections. The first section assesses the transformations in the role of the state vis-à-vis the industrial sector by comparing changes in macroeconomic policy in the ISI and neoliberal periods. I include the analysis of macro policies since I consider that state intervention in industry cannot be defined only by those policy tools that recognize industry as the main target. As Schvarzer suggests, several macroeconomic policy tools implemented in Argentina during the last decades have contributed to shape the present industrial profile, despite the fact that their main objectives were not directly related to industry (Schvarzer, 1987; p. 9). Moreover, until the 1970s fiscal, monetary, income and exchange rate policies have influenced Argentina's industrial path more than the weaker and sometimes underutilized industrial policy of the time (Katz and Kosacoff; 1989; p. 19-20). Therefore, the section will stress the way in which governments' macro tools fostered industrial change. In the case of the ISI period, I will show that the state's strong commitment to industrialization almost hindered any other macroeconomic concern such as macro stability. In the case of the neoliberal period, I will show that state interventionism, through its capability of rewarding or punishing agents, continued to be a functional tool for achieving macro goals, in this case orthodox stabilization. Moreover, I will show that the "discretionary" use of macro tools for fostering stability allowed specific firms to enjoy protection and leniency, leaving them partially isolated from the crisis that shocked the rest of the industry.

The second section compares the industrial policy of both periods, not only at the federal level but also at the regional and sectoral ones. Regarding the ISI period, I

will show that industrial policy acquired greater economic significance in the beginning of the 1970s, once other sources of financing industry (welfare, inflation and export taxes) showed signs of exhaustion. In addition, I will emphasize that this significant change did not seem to be related to the type of regime, since both military (Levingston and Lanusse) and civilian (Perón) ISI governments greatly enhanced the content and scope of industrial promotion during the 1970s. Regarding the neoliberal period, I will show that Martínez de Hoz not only nearly matched the high level of industrial promotion inherited from the Peronist government but even enhanced it by significantly increasing sectoral and firm aid.

The third section seeks to identify the main sectors benefited and excluded by industrial promotion, as well as the winners and losers (as gauged by their economic performance). Industrial promotion was not only highly relevant during neoliberal years but was also concentrated on a smaller number of beneficiaries than during the ISI period. That select group was mainly composed of big domestic firms and some transnational corporations (TNCs) that decided to expand their activities, especially through the development of financial branches and production lines linked to public firms' activities. Mainly, they were producers of intermediate goods like steel, cement, petrochemicals and oil, or they were linked to public construction. They maintained strong ties with the government through subcontracting activities or as buyers of privatized firms. The section will show that those sectors, perhaps not surprisingly, were the only ones that evinced a positive economic performance in the middle of an industrial crisis that almost knocked out the old ISI champions, namely the producers of durable and capital goods.

I will conclude by reviewing some of the above statements in light of the thesis' central hypothesis. The Martínez de Hoz experience shows that the "orthodox paradox" of the neoliberal restructuring may not only be accurate but also broader than proposed by neo-institutionalism. On the one hand, neoliberal intervention in Argentina was not aimed at ending state activism in industry but at re-founding it. On the other hand, the immediate outcome of this restructuring was the appearance of a powerful but highly concentrated group of domestic and transnational industries that profited both from the "discretionality" of the macroeconomic policy and from the special care received through industrial promotion, in the middle of the deepest crisis ever for the rest of Argentine industry.

Finally, some caveats have to be stated. First, although the thesis is attempting to compare the neoliberal experience with the ISI strategy as a whole, I focused the analysis of the ISI experience on the period that starts in 1955 with the coup that threw out Juan Perón out of the presidency and finishes in 1976 with another military coup, this time against his wife Isabel Perón. Although somewhat varying in the determination of the starting point (1955 or 1960), this is the period that ECLA structuralists consider the consolidation of ISI (Kosacoff, 1993a; p. 23; Katz and Kosacoff, 1989; p. 45, among others). Second, this thesis is aware of the limits imposed by the study of a specific case. The Martínez de Hoz experiment is not only limited in time and space (Argentina between 1976 and 1983), but also framed by a particular type of regime (a military dictatorship). Therefore, both the hypotheses and conclusions are not suitable to demonstrate neoliberal interventionism in abstract and general terms, but instead to highlight an experience where the so-called

orthodox paradox did appear under specific circumstances. Last but not least, the thesis leaves many questions for further research. Its main purpose was to show that a neoliberal strategy may intervene in industry, although by using somewhat different policy tools. However, this statement constitutes only a first step. It has to be complemented with further investigation of the causes that lay behind of such paradoxical behavior. Although some hints are provided (particularly by following the guidelines of ECLA's and Hastings' recent works), it is still necessary to deepen our understanding on the motives that pushed Martínez de Hoz to pursue such strategy and, moreover, to pick up specific sectors and lead them to shore in the middle of the most severe wreck ever of Argentine industrial history.

Finally, for those not familiar with the recent history of Argentina (which includes in the last three decades nineteen presidents and more than forty economy ministers), an appendix at the end of the thesis gives a chronological list of the civilian and military governments that ruled the country since the fall of Perón in 1955, the year in which we start our story.

Macroeconomic Policy Tools and State Intervention in Industry

I. THE ISI PERIOD: STATE LEADERSHIP REGARDLESS OF DISEQUILIBRIA

From 1955 to 1976 fiscal, monetary and external economic policies oscillated like an unbalanced pendulum between expansion and astringency, with a clear preeminence of the former. On the one hand developmentalist, ECLA-oriented and *dependentista* administrations tended to use macroeconomic tools for fostering economic growth, industrialization, and sometimes even income redistribution. Most of the time economic policies were active and expansionist, and they tended to selectively foster internal demand for domestic goods. Tariff and non-tariff protection filtered external competition, favoring heavily subsidized producers of final goods. Multiple exchange rate policies allowed domestic firms to buy cheaper inputs abroad, without losing their high protection on the final goods they produced. Last but not least, policy-makers tried also to soften economic recessions by regulating economic cycles through expansionary fiscal and monetary policies.

On the other hand, several liberal policy-makers tried to implement astringent policies to cut down the macro deficits left by the “expansionary” governments. Among others, both Krieger Vasena under Onganía’s dictatorship and Alsogaray under Frondizi’s presidency implemented policy austerity as a way of diminish macro deficits. As the technocratic “counter-balance” of ISI developers, they cut fiscal

expenses, bureaucratized industrial promotion, and reduced the “pumping power” of both fiscal and monetary policies (Hastings, 1993; p. 52).

Nevertheless, and besides the frequency of the pendulum’s oscillation, the fact is that ISI objectives permeated macro economic policy implementation throughout the period by linking it to aims of economic development. In particular, three key features of the ISI strategy remained almost untouched despite the liberal intermissions: the leading role of the state in industrialization and development, the “cost-no-object” approach to the question of development, and the use of economic policy for ensuring enough funds for industrialization.

First, although there were liberals in charge of the economic office, none of them tried to question the leading role of the state. During those years nobody seriously dared to criticize the state commitment to build a domestic industry, capable of fulfilling the needs of a developed internal market. All in all, when criticizing ISI developers, liberal policy-makers followed at most the diagnosis developed at that time by the International Monetary Fund (IMF), which somewhat isolated domestic disequilibria from structural features. As a UN report remarks, this vision emphasized “macroeconomic excesses” rather than structural mistakes:

The fundamental problem was “excess government spending” which was at the root of both the international reserve losses and the domestic inflationary pressures.... This view paid little attention to the existence of domestic structural problems and adverse external environments. The first, as manifested by slow price responses, foreign exchange shortages, and reduced domestic savings, were according to the Fund doctrine the consequences of an overambitious State-led import substitution industrialization (United Nations, 1991, p. 5).

Second, and despite the liberal critiques, ISI developers certainly fostered expansionist policies almost without pondering their negative effects on macroeconomic balance.

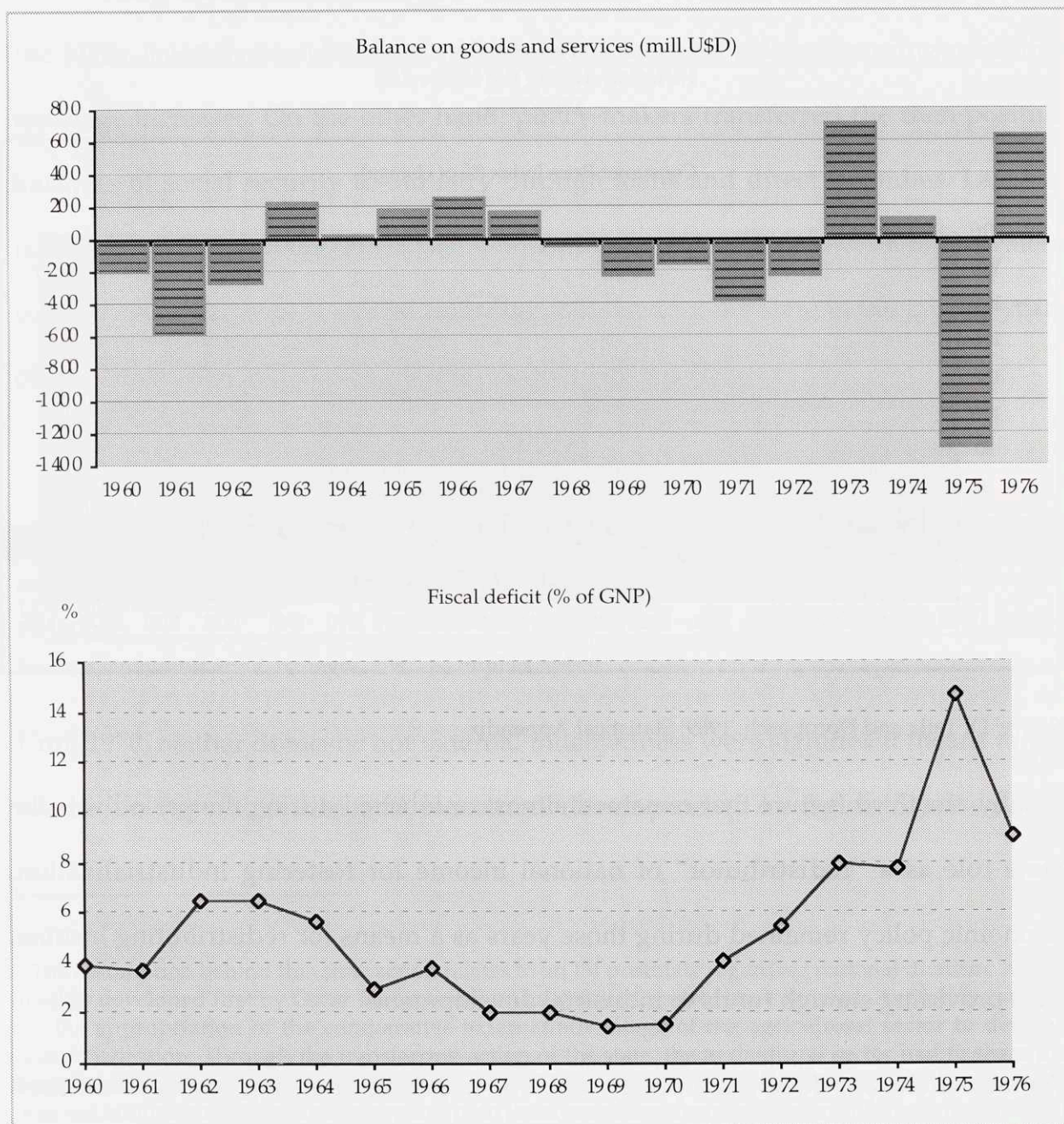
Two reasons were at stake for justifying that “careless” behavior. First, as Lustig says, there was a theoretical justification. Up to the middle of the 1970s, ISI defenders were relatively complacent regarding rising prices and external deficits since they considered those disequilibria as inherent to the growth process (Lustig, 1991, p. 33-4). For them, external imbalance and inflation had structural origins, so they could not be removed through short-run stabilization policies *à la* IMF. External imbalance was considered as *intrinsic* to the process of industrialization, since the majority of needed imports were expensive intermediate or capital goods (Lustig, 1991, p. 32). Thus, balance of payment disequilibrium could be overcome only in the long run, once the import-substitution process were completed and firms were able to export manufactures competitively.

Inflation, in turn, was also a product of structural bottlenecks. Its growth related to the chronic absence of a supply capable of fulfilling the additional demand derived from higher income levels (Manzetti, 1991, p. 3). Therefore, policies that recommended demand cuts were considered not only recessive (they deteriorate growth prospects) and regressive (they concentrate income distribution), but also vain since they left untouched the structural bottlenecks that created disequilibria.

The second reason that explains the relative lack of concern about macro disequilibria pertains to the period’s economic performance. The relative lack of concern was to

some extent understandable given the relatively low level of imbalances. As figure 1 shows, only during the second Peronist government (1973-76), did both external and fiscal disequilibria achieve critical significance.

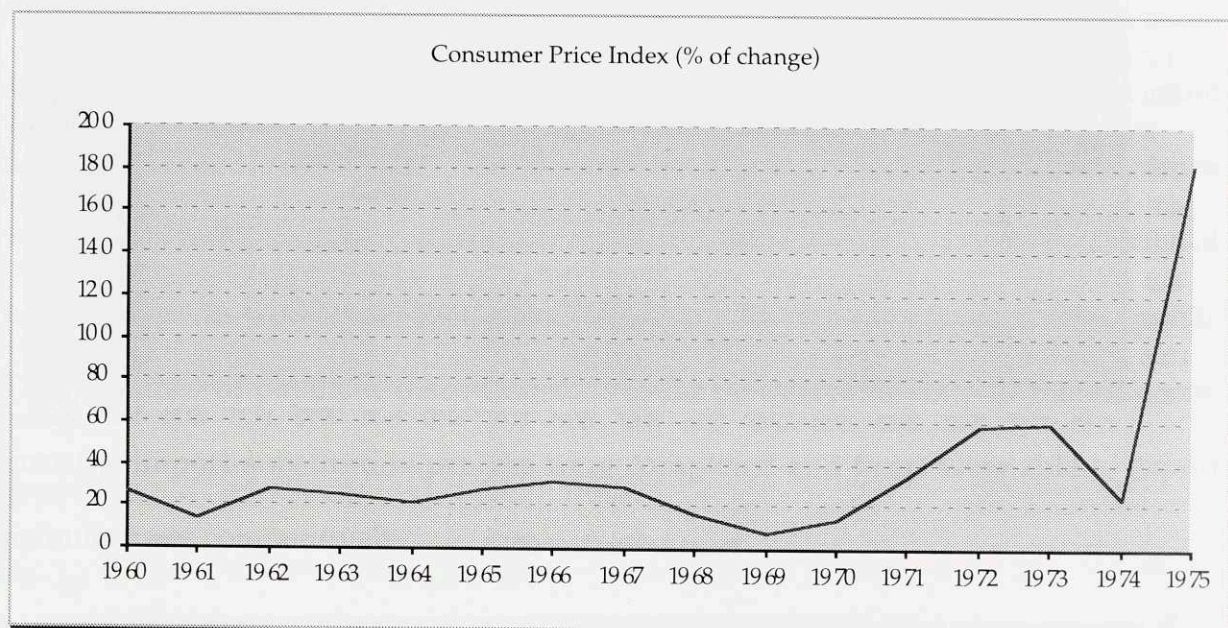
Figure 1
External and Fiscal Imbalances
1960-1975



Source: Di Tella and Dornbusch, 1989; Statistical Appendix.

Inflation was not a big problem either. As figure 2 shows, the Consumer Price Index never surpassed 30% during the 1960s, this being a relatively acceptable level by developing countries' standards. Again, only during the 1970s, and especially at the end of the Peronist government in 1975, did inflation skyrocket to unprecedented three-digit levels.

Figure 2
Inflation during the ISI period
1960-1975



Source: Di Tella and Dornbusch, 1989; Statistical Appendix.

Finally, the third feature that remained almost untouched during the period was the state role as a “redistributor” of national income for fostering industrialization. Economic policy remained during those years as a means for redistributing income, thus providing enough funds to industrial development.

As table 1 shows, three main policy tools for targeting financing sources remained active until the crisis of the 1970s. First, the state used fiscal policy to appropriate the

agricultural exports' profits and channel them to industry. Through different mechanisms (export duties, direct taxes, multiple exchange rates) the state transferred a sometimes politically negotiated share of those profits to industry, in order to finance its growth³. Second, the state relied on the growing welfare system for fostering industrial firms in two ways. On the one hand, since its foundation in the 1950s, it acted as a substantial *addenda* to the workers' salary, lowering pressures for wage increases. On the other hand, policy-makers transferred the then positive balances of social security to industry through loans and direct subsidies. Last but not least, the inflation tax (the capacity of the state to print money without equivalent currency reserves) was the third financing tool used by the state in the golden years of ISI (Gerchunoff and Guadagni, 1987; Sachs; 1989; p. 47).

Table 1
Evolution of the State's Financing Sources
(as a percentage of GDP)

<i>Income Source</i>	<i>Circa 1950</i>	<i>1970</i>	<i>1986</i>
Social Security	4.0	1.0	-1.5
Taxes on agricultural income	3.0	1.0	0.5
Inflation tax	5.0	5.0	1.5

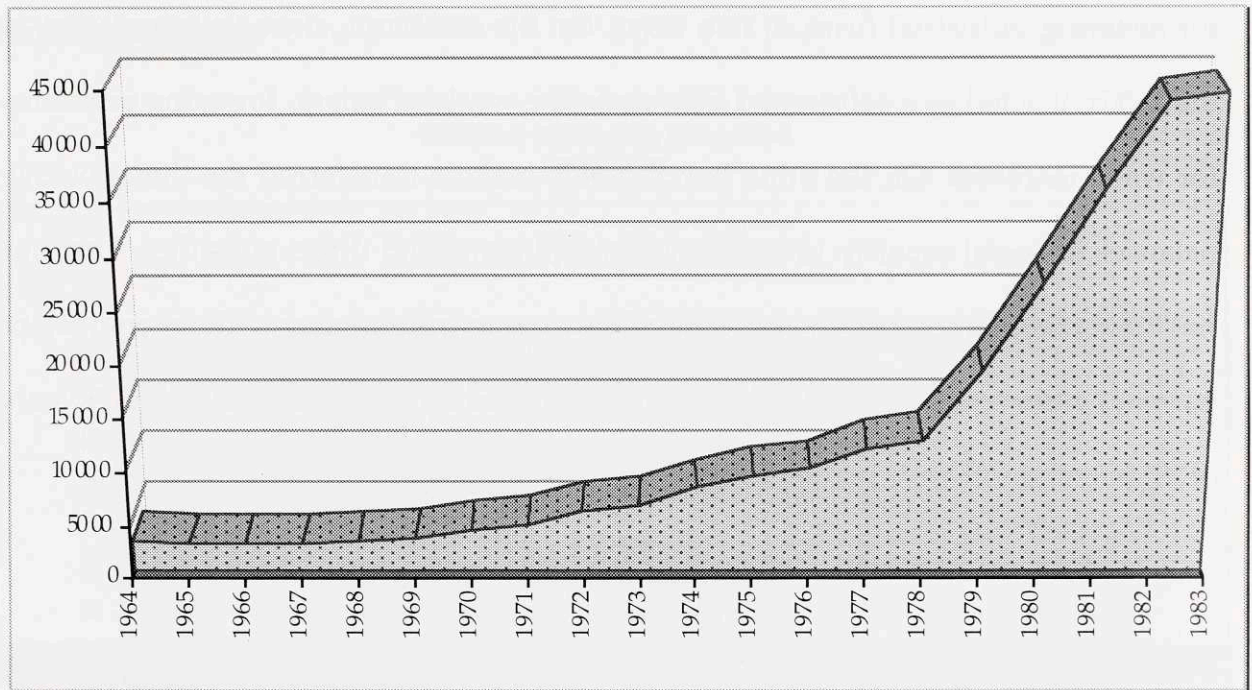
Source: Gerchunoff and Guadagni, 1987. (-) implies deficit.

Until 1970, neither domestic nor external indebtedness were significant means to get funds for state activities and industrial development. As figure 3 shows, the

³ The assumption behind this state action relates to an ISI postulate regarding national dualism. As the models developed first by Oscar Braun and then by Adolfo Canitrot have showed, Argentina counted on the appropriation of the comparative external advantage of the agricultural sector to develop industrialization. Through the transferring action of the state, the agricultural sector had to share the benefits of its external efficiency with the industrial one. Since the agricultural comparative advantage was not enough to sustain a development path (because of the structural decline of the terms of trade) the profits derived from the export activity of that sector were diverted by the state to other areas. Those areas, namely industry, were the only ones that would guarantee, in the long run, not only a

Argentine foreign debt remained particularly low during the 1960s. Moreover, even by the first half of the 1975 it did not surpass the \$10 billion limit⁴.

Figure 3
Argentine Foreign Debt
1964-1983
(million dollars)



Source: Di Tella and Dornbusch, 1989; Statistical Appendix.

In sum, during the 1950s and 1960s macroeconomic policies aligned with the objectives of industrialization. Within this framework, the state exerted its undisputed role of “development shaper” in two ways. On the one hand, it pumped up internal demand for domestic goods through active fiscal, monetary, income and

technological catching-up but also self-sustained development (Braun and Joy, 1968; and Canitrot, 1975).

⁴ Certainly, the low level of indebtedness during that period is not only an Argentine feature. Almost no Latin American country counted on foreign debt as a financing resource until the mid-1970s simply because there was not enough international credit supply at hand at that moment.

external policies, macroeconomic deficits notwithstanding. On the other, it redistributed national income through fiscal, welfare and monetary policies and thus created an available supply of financing sources for industrial efforts. Certainly, there were several liberal exceptions to the rule. Yet none of them radically questioned either state interventionism or the linkage between macroeconomic policy and industrial growth. Instead, they concentrated on macro equilibrium rather than attempting to change structural performance.

II. NEOLIBERAL MACROECONOMIC REGULATION: ADJUSTMENT AS A PRIORITY

The last military dictatorship (1976-1983) will not only be recalled for being the bloodiest one in all of Argentine history, but also for abruptly dethroning the ISI strategy implemented in the country since the beginning of the century. In its place, José Alfredo Martínez de Hoz --the economy minister who came to power by the hand of *de facto* President Jorge R. Videla in 1976-- proposed a neoliberal economic restructuring that would transform the country's industrial profile.

Far from just attempting to eliminate through liberal stabilization the economic chaos inherited from civilian President Isabel Perón, the new administration sought to provoke a deep change in the economic and industrial structure of the country. For the first time, neoliberal recipes were implemented in Argentina as a way of transforming past industrial strategies and the role of the state in the economy. As Martínez de Hoz said in 1981,

It was necessary to modify Argentine economic structures, both the state and the private sector. The proposed change was very extreme; a mere process of reorganization was not enough. Institutional,

administrative, and business frameworks; norms; policies, methods, habits and even the very own mentality of the private and public economic agents had to be transformed (Martínez de Hoz, 1981; p. 236)

Such a radical proposal, needless to say, abruptly submerged Argentine industry in a sequence of transformations that, after almost twenty years, has not ended yet. In particular, there were four macroeconomic measures that deeply affected industry's behavior: trade liberalization, deregulation of the financial market, income policy, and nationalization of the private external debt.

1. Trade liberalization

The dismantling of protectionist barriers and the liberalization of trade involved at least the transformation of both the tariff and non-tariff systems, in a framework signaled by a strong revaluation of the exchange rate.

(a) The tariff reform

The tariff reform was mainly an attempt at equalizing and lowering the tariff structure. The average nominal-tariff level dropped from 94 percent in 1976 to 44 percent in 1978 and to 35% in 1981 (Ramos, 1986; p. 128).

However, the parameters that were used for implementing that reduction were only partially related to industrial concerns. Although the reform was officially propagandized as a major attempt at increasing industrial competitiveness by exposing domestic firms to the international market, its utilization as an *ad hoc* anti-inflationary tool often eroded that purpose. As Martínez de Hoz himself has recognized,

The implementation of the industrial policy had to live with an anti-inflationary policy which was considered top-priority. At that moment, public opinion often confused the structural principles of

industrial policy (as in the case of the tariff strategy) with those of the anti-inflationary policy. That led many to question the industrial policy in itself, without realizing that certain undesirable negative effects were related to the fight against inflation (Martínez de Hoz, 1981; p. 166; the translation is mine).

This “deflationary character” of the tariff reduction even increased once the whole anti-inflationary strategy began to sink⁵. When there was no price alignment, inflation was not halted, and instead external disequilibria tended to rise, the implementation of the tariff reduction began to lose its “automatic” character. More and more frequently, the secretary of commerce threatened entrepreneurs with accelerating or amplifying the tariff cuts as a retaliation for not limiting price increases (Nogués, 1986; p. 29).

Moreover, that significant drop did not uniformly affect the different segments of production. Due to their traditionally high level of protection, consumer goods were among the most influenced by the tariff decrease. Between 1979 and 1980 the imports of this type of goods increased almost seven times, while total imports doubled in value (*ibid.*; p. 129). Conversely, the tariff decrease did not significantly change the level of imports of capital and basic goods. Most authors agree that this relative inflexibility reflects the “redundant water” included in the tariff (Nogués, 1986; p. 27; Sourroille, 1985; p. 72; and Katz and Kosacoff, 1989; p. 26 among others). In other words, the relative immobility of those imports showed that the overpricing of

⁵ The removal of protectionist barriers, such as tariffs, has strong anti-inflationary consequences in a liberal perspective. According to the Law of One Price, the withdrawal of trade barriers should lead the prices of tradable goods to equalize with those of the international market (non-tradable goods, in turn, are supposed to stop their price increase too, although the reasoning is not as straightforward) (Canitrot, 1994; p. 79). Thus, trade liberalization should stop inflation and discipline price-shapers in the internal market.

imported goods due to the tariff greatly had exceeded (and still exceeded, after the reform) the level at which firms would have been willing to buy foreign products instead of domestic ones.

Within this context, it is not surprising that the effects on industry were more perverse than beneficial. As stated by Katz and Kosacoff (1989; pp. 26-27) the dismantling of the previous tariff structure (by itself an anachronistic puzzle, but at least built around industrial needs) did not lead to a new tariff *rationale*. On the contrary, the new structure undermined the possibility of building up a system of protection in accordance with the level of competitiveness of the domestic industry.

This was so for several reasons: first, the subordination of tariff policy to macroeconomic objectives rewarded those firms that complied with stabilization aims instead of those that tried to foster efficiency. Second, tariff policy did not take into account the “redundant water” included in the previous structure, thus fostering imports that were not related to productive goals. And finally, those that received regional, sectoral or individual promotion (namely, some producers of intermediate goods) were left in a better position than their competitors, since they were able to almost ignore the new tariff structure (paradoxically perhaps, the most heavily subsidized were also the less regulated).

(b) Non-tariff restrictions and export taxes

Alongside the reduction of tariffs, non-tariff restrictions (NTRs) also dropped, although with some important exceptions. In particular, there were drastic

reductions (or removals) of NTRs in the tractor, timber, textile, chemical, metallic-goods and capital-goods industries.

Conversely, the steel, and to a lesser extent, the paper and automobile industries kept and even enhanced their non-tariff barriers (CEPAL, 1993; p. 116) through the management of import licenses. As Nogués said, "The military [major administrators of the steel plants] reserved for themselves an economic instrument --licenses-- to protect their industry. Recall that during 1979 and 1980, protection to all other import substitution industries was granted exclusively through tariffs." (Nogués, 1986; pp. 44-5)

Finally, export taxes (levies) almost disappeared during the Martínez de Hoz period. Although this drastic reduction strongly fostered agricultural exports (especially during 1976-78) it also eliminated one of the main sources of state arbitrage for redirecting the differential rent of the highly efficient countryside towards the less efficient industrial sector (export taxes had reached, during the ISI period, almost 50% of total traditional exports).

(c) Exchange rate policy and financial reform

As in the case of the previously summarized tools, exchange rate policy did not count among its priorities the restructuring of the industrial sector. However, its influence was determinant in two main ways. First, it drastically cheapened imports and obliged traditionally protected industrial sectors to face external competition; and second, it strongly reduced domestic manufactured exports.

One of the first measures adopted by Martínez de Hoz was the unification of the exchange rate, thus totally de-linking the tool from previous purposes of using it as a means of industrial policy. Until 1978, however, the minister allowed a freely floating exchange rate after a significant devaluation in 1976. Despite the drop of tariffs and the disappearance of “subsidized” exchange rates, during those two years industry was able to increase both its production (specially of durables and capital goods) and its level of exports, thanks to rising investment and a regressive distribution of income (Kosacoff, 1993a; 22).

This still favorable situation abruptly disappeared in 1978, when the minister adopted the monetarist approach to the balance of payments and installed the exchange rate as the macroeconomic anchor of the whole stabilization package. According to the monetarist approach, an excessive demand for monetary balances in a closed economy raises the interest rate and provokes inflation. In this context, the best solution is to open the economy, thus allowing incoming external capital to raise the monetary supply and lower the interest rate. As a result, inflation should decrease and demand should clear supply. That diagnosis guided the implementation of the new policy, although with some modifications derived from the specific Argentine situation.

Under the new free-trade conditions installed by Martínez de Hoz, the currently high interest rate would attract capital from abroad. This inflow would in turn lower the domestic interest rate until it reached international levels, thus provoking a drop of internal prices and adjusting them (again, under free-trade conditions) to

international levels of inflation. In a developed country, according to Argentine neoliberals, the exchange rate would have been allowed to float, acting only as a sort of automatic valve regulated by changes in reserves. However, given the “point of departure” of the Argentine economy (high inflation, high risk) the exchange rate had to be “artificially” shaped, namely by an econometric extrapolation of expected rates of inflation.

The final result of this policy was a sort of devaluation schedule (the so-called *tablita*) that assumed a certain delay for internal and international markets to clear. Or, in other words, the policy turned into a monetarist “planning” of the exchange rate, for gradually allowing internal demand to adjust with decreasing inflation to a now open (and formally, unlimited) supply of both capital and goods. However, the supposed clearing effect never occurred. Neither the prices of tradables, nor those of non-tradables, nor the interest rate, adjusted to the international level. The only expected outcome that certainly occurred was the flood of short-term speculative capital and consumption goods to a now predictable economy, and consequently, a huge rise of the trade deficit.

In short, and besides other macroeconomic consequences, the strong and persistent overvaluation of the peso (alongside the tariff reductions) substantially increased the external trade deficit by rising imports and reducing exports. However, the huge imbalance was disguised in accounting terms by the significant inflow of speculative

capital, attracted by the high interest rate and the free operation of the financial market⁶.

In addition to the effects derived from the exchange rate policy, industry was also trapped by the 1977 financial reform. It mainly comprised liberalization of the capital market, free determination of the interest rate and removal of barriers to the operation of foreign capital. As Kosacoff asserts, this new financial context framed the deepest crisis of Argentine industry, which was shocked by the abrupt contraction of the both the internal and external demand for domestic goods.

Internally, domestic goods were crushed because they not only were unable to compete with cheaper imports but also had to face a violent drop of the internal demand due to significantly lower real wages. Externally, they lost markets because the strong overvaluation of the peso eroded their competitiveness. Last but not least, their production was jeopardized by the new conditions imposed by the financial reform. The high interest rates not only turned credits and loans into luxury goods, but also fostered a giant transfer of cash-flow from the productive to the speculative market (Kosacoff; 1993a; p. 24).

However, as happened with the tariff reform, the changes in the financial market and in exchange rate policy did not affect every industrial branch equally.

⁶ Although more than 15 years have passed since the first implementation of neoliberal recipes in Latin America, it is astonishing to realize that their negative consequences are still ignored by free-market defenders all over the continent. The Mexican crisis of 1994 serves as an example of such a recurrent blindness.

First, size and links with international financial markets were determinant. Those that were big and well-known enough to access credit lines in hard currencies abroad were able not only to survive but also to strongly profit from the new context. These firms were able to borrow at substantially lower interest rates and then reinvest in production, or, more often, they might enter the speculative market by lending, at an expensive price, money that cost them only a fraction to get in (thanks to the favorable exchange rate). This speculative activity, known as *la bicicleta financiera* ("the financial bicycle"), not only proved to be substantially more profitable than productive investment, but also allowed for the diversification of the big domestic industrial groups. In the shadow of the new financial and openness conditions, they grew rapidly by spreading banks, credit houses, insurance companies, brokerage firms, and import distribution agencies throughout Argentina.

Second, the persistence and even enhancement of promotion policies also divided the waters between winners and losers. As will be summarized below, the state served as a firm's guarantor in some promoted sectors such as steel, petrochemical or cement, thus allowing those companies to get loans abroad more easily and under better financial conditions than the non-promoted ones.

These neoliberal policies greatly helped, in sum, to restructure the Argentine profile, although they were never designed to perform such a task (their stated concerns, again, were with stabilization). Aside from the "winners", a significant number of firms went into a process of take-over, bankruptcy, or transformation into commercial representatives for foreign producers.

On the one hand, small-and-medium size firms were not able to access the cheaper international credit market. Since the state cut off every source of subsidized loans, they had to face the new flood of external imports by dangerously borrowing in the expensive domestic market, replacing productive by import activities, or directly going into bankruptcy.

On the other hand, those big firms (domestic and foreign as well) that were mainly producing final goods for the domestic market (either durables or not), with a low level of diversification and little interest in external markets, were also trapped by the new rules of the game. Either they invested strongly in diversification, which had to include a powerful financial branch with probably null state aid, or they abandoned the market (Azpiazu, Basualdo et al., 1986; p. 196). Some big transnationals such as General Motors, Olivetti, Chrysler, or the tractor producers chose the second option, and they preferred to either sell their patents and know-how to domestic firms or remain at most as import agencies.

2. Income policy

The strong financial weight carried by the industrial firms during the period was somewhat compensated for by a tight income policy that alleviated their fixed costs of production. This contributed to reducing both the real wage and the wage cost more than 20% from 1974 to 1983 (Azpiazu, Basualdo et al., 1986; p. 103). At the same time, employment in industry dropped by more than one third (34.3% in the same period) while labor productivity rose in 37.6%. Thus, the relative productivity/wage cost, or in other words the internal distribution of the industrial product, increased

during the same period 69%, thus revealing a rise of the surplus appropriated by capital (1986; p. 103).

However, this compensation in terms of costs was somewhat overshadowed by the macroeconomic effect of the salary decrease. In particular, those firms that produced wage goods were trapped between falling demand and stiffer competition from abroad.

Last but not least, this new scenario for labor was not only related to astringent income policies (sporadic salary freezes, cuts of welfare services and indirect wages, etc.) but also to the bloody repression implemented by the military against both unions and popular parties. Workers' union and party representatives were drastically expelled from both the political and industrial scene, often by directly killing them or forcing them to exile. "Labor discipline" was thus abruptly reinstated, and wage negotiations no longer appeared as a way of fixing income during the period (they were directly prohibited by decree).

III. THE GOLDEN SEAL OF THE RESTRUCTURING: THE NATIONALIZATION OF PRIVATE DEBTS

By 1981, when Videla's mandate was terminated and, consequently, Martínez de Hoz had to leave the Ministry of Economics, a large part of the industrial/financial sector was on the edge of financial bankruptcy. The level of indebtedness grew to sometimes 100% of a firm's turnover volume. Real domestic interest rates oscillated in 1981 between 0% and 60% per year, according to the risk premium of each firm (Kosacoff and Azpiazu, 1989; p. 17).

Some large financial institutions that grew up under the shadow of the speculative market went into bankruptcy in 1980 (including the banks Intercambio Regional, Alas, Los Andes, Oddone and 72 smaller institutions that were taken over or closed by the central bank). Even some of those that followed the diversification strategy and were able to borrow abroad were trapped by the increasing level of bankruptcies of their smaller financial clients (Hastings, 1993; p. 170).

In 1982 Sasetru, a large Argentine conglomerate and one of the biggest agricultural exporters, collapsed and left an unpaid debt of more than \$1 billion (Smith, 1991; p. 242). In the middle of increasing social discontent (unemployment rates doubled in six months, reaching 15 percent in 1981), rumors of devaluation and internal military struggles over designating Videla's successor, about \$11 billion left the country in 1981 (Petrei and De Melo, 1985; p. 38) and private external debt climbed from \$4.405 billion dollars in 1976 to \$14.790 billion in 1981 (World Tables, 1994; p. 102)⁷.

The new military authorities that overthrew Videla took charge of the crisis by reestablishing a higher level of tariffs, implementing several maxi-devaluations, and trying to depress the interest rate through an active monetary policy. But besides other measures undertaken by the new military junta, the most significant decision was the so-called "*licuación de pasivos*" (melting of liabilities) implemented by the then president of the central bank, Domingo Cavallo.

⁷ For a thorough description of those years' financial chaos, cf. Hastings, 1993; particularly pp. 197-203.

On the one hand, in 1982 the Bank established a medium-term loan system with regulated interest rates for clearing the deep indebtedness of private firms. Those rates soon became not only negative but ridiculously low in relation to inflation. On the other hand, Cavallo also implemented a system of “exchange securities” that allowed the private sector to pay its external debt at exchange rates that were substantially below the real level (Hastings, 1993; p. 210). According to estimates, no less than 40% of total private debt was transferred to the state by these mechanisms (Smith, 1991; p. 247, and Kosacoff and Azpiazu, 1989; p. 15). Thus, both financial institutions and industrial firms that managed to survive until the end of the neoliberal experience were able to alleviate their financial burden through a forced socialization of their private debts.

In sum, Martínez de Hoz’s neoliberal attempt at redefining the development model showed different outcomes than originally expected. Far from generating a true delinking of the state from the economic activity, the neoliberal program recreated under new parameters the old means of state intervention via macroeconomic policy.

First, macro policies remained as a major interventionist means for fostering the program’s objectives. Although the administration certainly went forward in its stated task of delinking those tools from industry’s fate, it ended up by replacing the old ISI way of intervention with one of its own vintage. Far from just using macro policies to fight inflation (namely, by repressing internal demand through fiscal and monetary cuts at the macro level), the government actively intervened in markets searching for firms that did not comply with the price policy. Brandishing macro

tools in hand, such as tariffs and interest rates, Martínez de Hoz searched for economic stability regardless of its cost and without caring about the interventionist character of his policies.

Second, the state role as both a “redistributor” of national income and a financing source for industrial development also underwent big reforms without disappearing. On the one hand, the measures adopted in the financial and external markets allowed for the concentration of income in hands of a new pole of powerful firms (some agri-industrial exporters and the big and newly diversified domestic and transnational firms). On the other hand, the old financing sources were dismissed not because the neoliberals avoided using them but just because they were exhausted at the time when they took office. This disappearance of the traditional sources, however, was more than overcome by the increase of external debt, a process in which the state took a major part not only as a big borrower but also as a partner, intermediate or supplier of selected private firms.

Finally, the neoliberal experiment ended up (in the aftermath of Martínez de Hoz) with the nationalization of the private external debt, in a supposed attempt to turn back the scene to previous stages. However, as the following sections will show, neither the economic actors nor the state that emerged from those neoliberal turbulent times would be the same anymore.

Industrial Policy

I. THE POLICY-MAKING PROCESS OF INDUSTRIAL PROMOTION: A METHODOLOGICAL WARNING

Throughout the last five decades there were three ways of promulgating laws in Argentina: by Congressional approval in a democratic environment, by decree in a democratic environment, or by decree under authoritarian rule. Despite the form of promulgation, no law may be implemented in Argentina if it does not have the corresponding bylaw (*reglamento*) delivered by the executive after promulgation. Therefore, legislation that is either approved by both chambers (Senate and Representatives) or promulgated by decree tends to be vague and full of formal objectives, and sometimes self-contradictory. The bulk of the legal procedures and tools tend to appear in the chapters of the executive bylaws.

This two-step system not only obviously concentrates a huge amount of power in the hands of the executive but also opens a temporal gap between the promulgation and implementation of a law that has proved to be crucial for political manipulation. This gap allowed economic and political actors to concentrate their lobbying activities around the offices of the president and of ministers, whose technical teams are in fact the ultimate writers of the bylaws' chapters.

As a result, in the traditionally unstable political scenario of Argentina, it is not surprising that (a) the bylaw might be finished and implemented years after the promulgation of the original law (b) the bylaw might never reach its final version or

(c) the bylaw might be implemented once a new law about the same subject is already promulgated. This confusing scenario obviously has obscured the functioning of the implementation stage. In the case of industrial policies, it has permitted the manipulation of the contents of laws, allowing major executive officers to almost freely implement state aid to firm, in accordance with their own political perspectives or interests.

II. THE ISI PERIOD

1. *The federal industrial promotion laws*

After the overthrow of president Perón in 1955 by a military coup, both civilian and military governments developed several policy tools for fostering industrial development⁸, although until the 1970s they never constituted the bulk of industrial aid (in quantitative terms, until 1971 they never surpassed the 4-billion-dollars threshold; see figure 8).

In 1959 the civilian government of Frondizi launched Law 14781 of industrial promotion, together with Law 14780 related to foreign investments. The new regulation aimed at fostering the “harmonic balance of industrialization,”

⁸ The first official measure aimed at fostering industrial activities was launched in 1944 by the military government that preceded the first Perón presidency. It included tariff protection, quantitative restrictions on imports and promises for subsidies to “strategic” (from a military perspective) sectors. Paradoxically, during the Perón administration that started in 1946 (and lasted until the 1955 coup) neither specific industrial policies nor special loans for the industrial sector were launched. The state only approved several loans to the state-owned firms (Schvarzer, 1987; 14) and established direct negotiations with particular firms at the highest level of political power (as in the case of the agreements with the automobile firm Kaiser during the 1950s).

equilibrium of the balance of payments, decentralization of industry, and the technological development of the country. Although it acknowledged the leading role of the state in the industrialization effort, the law also reflected the particular conception of Argentine developmentalism promoted by President Frondizi. For him, the leading role of the state did not imply either the abandonment of economic equilibrium as a major goal, nor the rejection of foreign capital as a major actor. On the contrary, Argentine developmentalists did not conceive industrialization without the presence of the latter⁹.

As table 2 shows, Law 14781 included the following tools: tariff exemption for 10 years; import restrictions on similar products; reduction of corporate income and capital taxes for 10 years; subsidized loans; preferential public procurement; subsidized energy inputs and accelerated depreciation. Foreign firms might apply for inclusion, although they had to be represented by an Argentine firm to be eligible (Lindeboim, 1987; p. 21).

Although the 1959 regulation clearly determined both the type of industrial incentives to be used and the generic objectives to be fostered, it did not identify either the sectors or the regions of application. Thus, the law was able to be implemented only through the subsequent bylaws that started to appear about thirty months later. Only after the withdrawal of the liberal Alvaro Alsogaray from the

⁹ Argentine developmentalists believed that only foreign investment could foster industrialization since domestic savings were not only scarce but also highly volatile. Therefore, it is perhaps not surprising that Law 14780 of foreign investment was immediately implemented, while Law 14781 of

ministry of economy in 1961 did the law start to be regulated. After then, up to 1963, both the Frondizi administration and the military that threw him out of the presidency launched 21 decrees for regulating Law 14781. Most of those bylaws extended the benefits to new regions or sectors, without establishing any priorities beforehand.

industrial promotion had to wait almost thirty months until the government launched its correspondent bylaw (Schvarzer, 1987; p. 26).

Table 2
The Four Major Laws of Industrial Promotion during the ISI Period

	<i>Law 14781/1959</i>	<i>Law 18587/1970</i>	<i>Law 19904/1973</i>	<i>Law 20560/1973</i>
Ruling President	Fronzizi (civilian)	Levingston (military)	Lanusse (military)	Cámpora (civilian)
Duration	Ten years	Two years	Three months	At least three years
Beneficiaries	Domestic capital Foreign capital with some restrictions	Domestic capital	Domestic capital	Domestic capital
Main Tools				
<i>1. State Revenue</i>				
<i>a) Tax exemptions</i>				
- Direct taxes	• Yes (since 1961; either to investors or to corporation). Up to 10 years.	• Yes (to investors and corporation). Up to 10 years	• Yes. Up to 15 years in special cases	• Yes. Up to 15 years
- Indirect taxes	• No	• No	• No	• Yes
<i>b) Accelerated depreciation</i>	• No	• Yes	• Yes	• N/A
<i>c) Tariff/duty exemptions</i>				
- Import duties on capital goods.	• Yes	• Yes	• Yes	• Yes
- Import duties on inputs.	• Yes	• Yes	• Yes	• Yes
- Import restrictions on similar products.	• Yes	• Yes	• Yes	• Yes
- Export incentives	• Yes. Subsidized exchange rate for exports	• N/A	• Yes	• Yes
<i>d) Subsidized goods and services provided by the state</i>	• Yes. Specific goods, transport, electricity & gas .	• Yes	• Yes	• Yes
<i>e) Transfer of public real-estate properties</i>	• No	• No	• No	• Yes. subsidized rent and sale price
<i>2. State Expenditure</i>				
<i>a) Direct subsidies</i>	• No	• Yes	• Yes	• Yes
<i>b) Subsidized loans</i>	• Yes.	• Yes	• Yes	• Yes
<i>c) Shareholder</i>	• No	• Yes	• Yes	• Yes
<i>d) Technical aid</i>	• No	• Yes	• No	• Yes
<i>3. Non-budgetary Tools</i>				
<i>a) Procurement preferences</i>	• Yes	• Yes	• Yes	• Yes
<i>b) State as a guarantor of external credit.</i>	• No	• N/A	• Yes	• Yes

Source: CFI, 1986 and Lindeboim, 1987.

In 1963 the new civilian government of President Illia derogated all the bylaws that allowed for the implementation of Law 14781, arguing that the state was not able to maintain that level of expenses in “such a particularly difficult moment” (CFI, 1986; p. 20). The new bylaw, implemented in 1964, allowed for tariff exemption in the case

of the steel industry only. As table 2 shows, tax incentives became now an “exclusionary” option. Investors had to decide whether to deduct their investment from their individual income tax return or from the corporate tax return of the promoted firm. In addition, the decree subsidized energy costs for the firms being promoted and accepted accelerated depreciation of capital assets (the latter only in the case of the steel industry).

Between 1966 and 1973 the military ruled the country again after overthrowing president Illia by a *coup d'état*. Three *de facto* presidents (Onganía, Levingston, and Lanusse) governed Argentina during that period, also known as *La Revolución Argentina* (The Argentine Revolution).

During the presidency of Onganía (1966-69) industrial promotion was almost ignored by the liberals in charge of the ministry of Economy, who promoted “free-market efficiency” and a greater attention to macro disequilibria (Lindeboim, 1987; p. 28). Thus, it is not surprising that both Frondizi’s law and Illia’s bylaw remained untouched and scarcely used. Besides some enlargements of the pre-existing zones of promotion and the promulgation of specific decree for fishery, Onganía’s main contribution to the industrial promotion was the promulgation of a specific decree for the province of Tucumán, in the northwestern part of the country.

In the midst of increasing social turmoil, urban riots, economic instability and the appearance of guerrilla movements, the military replaced Mr. Onganía through an internal coup in 1970.

One of the main consequences of this change was a drastic transformation of economic strategy. As a consequence, industrial promotion was a priority again in the agenda of the government, which replaced the Frondizi Law with Law-decree 18587 in 1970 and then Decree 19904 in 1973.

First, as table 2 shows, those new regulations reinforced the nationalistic character of the industrialization process. On the one hand, they included more restrictive rules for the operation of foreign capital. They explicitly forbade “foreign monopolistic activities” (Lindeboim, 1987; p. 35) and stated that foreign capital might receive promotional benefits only if acting as a minor partner of domestic firms. On the other hand the laws explicitly underlined, for the first time, the importance of both domestic savings in the formation of capital stock and of economic planning.

Moreover, both Levingston’s and Lanusse’s laws coupled nationalistic (á la ECLA) economic objectives with strategic and militaristic aims. The integration of the production chain was not only a matter of economic convenience but also a question of national security. Thus, firms that produced or intended to produce “defense-and-security goods” (defined case by case by the military authorities) would receive special treatment, together with those firms related to so-called “heavy industries.”

Second, Levingston and Lanusse laws emphasized full-employment, growth, internal market consolidation and export promotion over economic equilibrium. As a result, both laws withdrew the “balance of payments equilibrium” as a requisite for industrialization.

Finally, the laws deeply strengthened the role of the state as the leader of the industrialization process. On the one hand, not only might the state be a partner of the domestic capital in joint venture activities, but also (and for the first time) it might implement direct subsidies for promoting regional decentralization. On the other hand, the laws required the mandatory presence of the state in several economic activities for either economic or security reasons. State-owned firms related to steel, forestry, copper, oil, gas, uranium, water, electricity, gas, railways, ships, telephones and telecommunications could not be sold under any circumstance.

The second of these laws, decreed in 1973 under the administration of Lanusse, went even further in its *considerandi*. It not only allowed the state to directly promote industrial projects “of national interest” with foreign or domestic firms, but it also spoke about “nationalization of the economy” as a path for economic development (Lindeboim, 1987; p. 35). However, this law only lasted for five months, since the new civilian government that came to power in 1973 soon replaced it with Law 20560.

In addition to the above mentioned federal laws, in 1972 the Lanusse administration also mandated an *ad hoc* regulation for the benefit of a single state, Law 19375 for industrial development of the province of San Juan (the so-called “*Plan Huarpes*”).

With the advent of democracy in 1973 both industrial Law 19375 and the specific decrees for San Juan and Tucumán were annulled. The Peronist Party in power implemented the Congress-passed Law 20560 of industrial promotion that would replace all the pre-existing regulations.

The Peronist law of 1973 emphasized the industrialization process both from a nationalistic and a distributive perspective. Deeply embedded in a *dependentista* framework, on the one hand it sought Argentina's economic and technological independence from imperialism. Therefore it not only excluded TNCs from its promotional benefits, but it also discriminated against domestic big firms. On the other hand, it aimed at converting the industrialization process into a source of employment, income distribution, and workers' participation in the decision-making process. Thus it explicitly fostered small-and-medium size firms, cooperative ventures and new technological developments.

In sum, under the conditions of Law 20560 of 1973, the state had to play the main role in the industrialization effort in various ways. As an entrepreneur, it developed new firms by itself or associated with private firms as a shareholder. As a financial agent, it delivered subsidized loans and acted as a guarantor for external credit. As a fiscal authority, it developed a wide range of tax and tariff deductions, although it reduced the protectionist tariffs against foreign competitors (Lindeboim, 1987; p. 35). As a developmental agency, it supplied technological consultancy through its own agencies or through third-parties. Finally, as a supplier and a buyer, it subsidized the acquisition of public goods (mainly electricity, transportation, and gas) and ensured preferential treatment for promoted firms to sell their products to the state.

2. Regional promotion

In addition to the federal laws summarized above, there was a complete and increasingly complex set of laws and decrees related to specific regional promotion.

Sometimes the “regional aspect” of industrial regulation was covered via specific bylaws of the general rules, but at other times administrations sanctioned *ad hoc* legislation for dealing with individual regions or states.

The industrialization process in Argentina was deeply centralized around the big urban conglomerates of Buenos Aires, Greater Buenos Aires, Córdoba, and Rosario. Still in 1980, 69.6% of total industrial production was located in the surroundings of Buenos Aires; if one includes Córdoba and Rosario that share increases to 85.3% of the total. Therefore, it is not surprising that successive governments tried to decentralize industry through specific legislation. Those laws aimed mainly at developing the poorest states and they included special benefits to firms willing to locate their plants beyond the traditional sites.

Throughout the ISI period, several regional incentives were sanctioned to help private firms relocate their plants in less developed regions. The first one was launched in 1956 by the military government of Aramburu, declaring Patagonia (the region below parallel 42) a duty-free zone. However, the first piece of legislation that included a whole strategy of decentralization was Frondizi’s above mentioned Law of Industrial Promotion of 1959 (14781/59). Its subsequent bylaws designed for the first time promotional zones for industrial location.

Figure 4
Law 14781/59
Regional Promotion and Specific Laws for Provinces until 1971



Source: CFI, 1986; FIEL, 1988; and Lindeboim, 1987.

As figure 4 shows, Patagonia and several adjacent zones, the Northeast, the Northwest and the state of Corrientes, were the regions that profited from those benefits.

In 1964, the Radical government of President Illia derogated all the previous bylaws of Rule 14781 and cut some of the special benefits derived from the special decree for Patagonia. In its place, the administration passed Decree 3113/64, which included a chapter on regional industrialization. Unlike previous regulations, the one passed in

1964 was the first that formally excluded the city of Buenos Aires and its environs from the benefits of the promotion. However, other industrial areas like the state of Buenos Aires, Córdoba or Rosario were still eligible to receive industrial aid.

As noted above, the government of Onganía was the first one that introduced a specific set of regulations for a sole state, Tucumán (see figure 4). After 1966 that government passed several laws and bylaws that offered additional incentives to those willing to locate their firms in that province. For example, investors did not have to opt between deductions on corporate or personal incomes; the import regime was more flexible and open; and even sales tax was exempted for short periods of time.

To some extent, it is surprising that an administration not especially prone to state interventionism inaugurated this “special treatment” for specific states. However, there were not only economic but also political reasons. By alleging fiscal and “efficiency” reasons, the government had closed down the state-owned sugar mills (Tucumán’s main economic activity), thus sharply increasing unemployment levels. In an authoritarian environment, the resulting economic crisis would not have been enough motive, perhaps, to unfold such a level of assistance. However, the crisis not only generated a latent social unrest, but it also had fostered the activities of rural guerrilla groups that were starting to operate in the woodland areas of the province¹⁰.

¹⁰ During those years Che Guevara was leading a guerrilla group in Bolivia, and a branch of the movement was operating in the Northern part of Argentina, namely Tucumán and its environs.

After the withdrawal of Onganía in 1969, the military persisted in that practice. In 1972 the military government of Lanusse passed another *ad hoc* decree, this time for the province of San Juan (see figure 4). According to Schvarzer, this launching was, again, due more to political reasons than economic ones, since the dictatorship was trying to strengthen its civilian allies in power (the *Bloquista* party) for the upcoming democratic elections of 1973 (Schvarzer, 1987; p. 70).

The two industrial laws passed by the dictatorship after the internal coup against Gen. Onganía (18587/70 and 19904/73) included special chapters related to regional decentralization, although this time the economic objectives were somewhat superseded by “security aims.” Firms were invited to relocate their plants in the newly formed and never defined “national areas of development and security.” (CFI, 1986; p. 27)

In addition, those two military laws also introduced some innovations related to regional promotion. The excluded zones were enhanced and better defined. Neither the federal district of Buenos Aires nor the industrial areas of the states of Buenos Aires, Córdoba and Santa Fe (around the city of Rosario, see figure 4) would be eligible for the promotion. Moreover, those firms that wanted to develop new investments in those zones would have to pay a special tax of about 50% of their total investment. Finally, Law 19904/73 included for the first time provincial representatives in the decision-making process, although they had only a subordinate role.

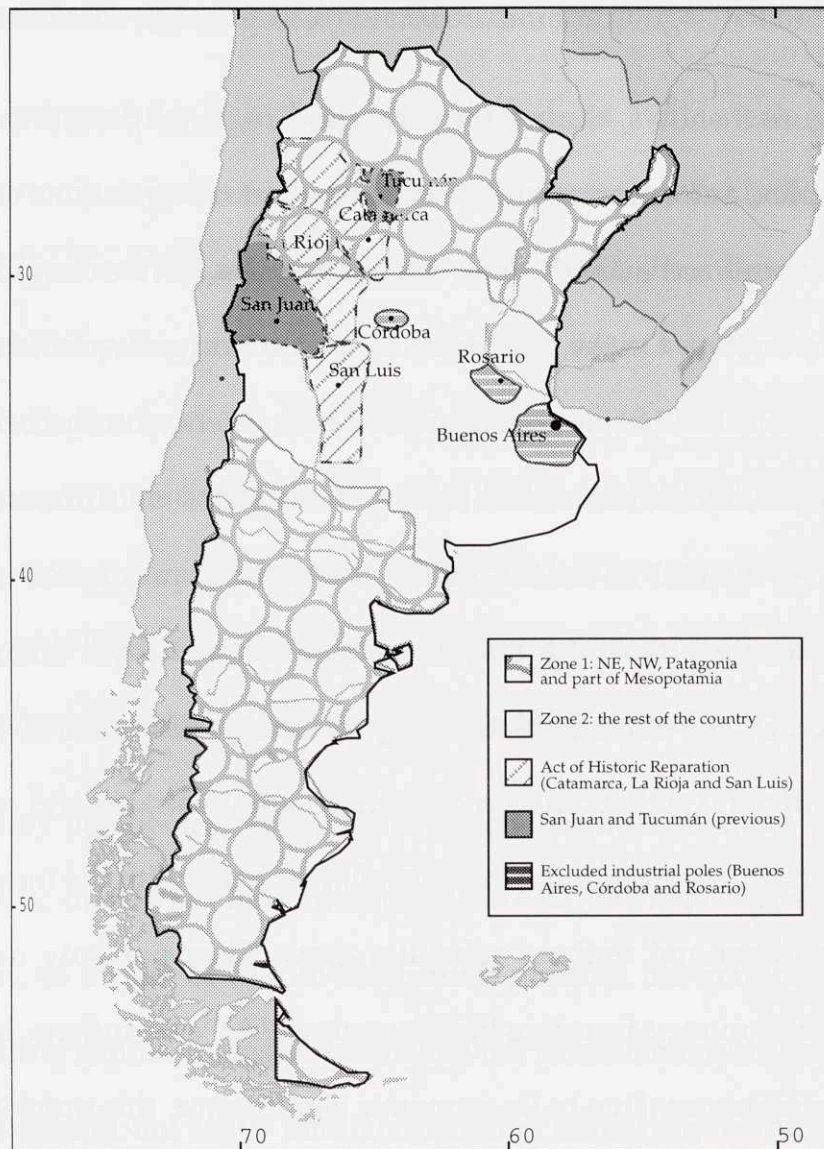
The last civilian government before the military coup of 1976 would develop the most complete regulation of regional industrial promotion of the ISI period. Under the legal jurisdiction of Law 20560 sanctioned in 1973, the Peronism of the 1970s developed a set of tools that not only profited from previous experiences (both democratic and authoritarian) but also incorporated innovations of its own. On the one hand, the 1973-76 Peronist administration strengthened the role of the state and of national firms in regional development. On the other hand, the government reorganized the criteria for classifying promotional zones, although its new classification was so extended that almost no region (besides the big industrial areas) was off the map of industrial promotion. In 1974 the provinces of San Luis, La Rioja and Catamarca signed the *Acta de Reparación Histórica* (Act of Historical Reparation), that allowed those states to receive a particularly generous industrial promotion¹¹ (see figure 5).

This kind of *ad hoc* legislation (as in the previous cases of Patagonia, San Juan and Tucumán) was not only significant for being so specifically tailored, but also for including generous exemptions from the sales and, later, for the Value Added Tax (VAT). These taxes, by far, constituted the bulk of state revenue in Argentina and the heaviest fiscal burden on the business sector¹².

¹¹ According to the Act, the nation was indebted to those poorer regions for their sacrifices during the Independence wars in the Nineteenth century, and their historic economic backwardness. Therefore, now the country would have to pay the historic debt by strongly helping those regions to develop an industry of equal or superior strength to what existed in the rest of the states.

¹² In 1972 direct taxes (income, profit, and capital gains) represented 12.5% of the total current revenue. Although already very low, this sum still fell to an almost ridiculous 3.1% in 1985, this being the world record of the year according to the World Bank tables (World Bank, 1987; p. 249)

Figure 5
Regional Promotion, 1972-1976



Source: CFI, 1986; FIEL, 1988; and Lindeboim, 1987.

In the same year, the existing regulations of regional promotion for Patagonia, the Northeast, the Northwest, and Mesopotamia (the region surrounded by Paraná and Uruguay rivers) were classified as “Zone 1”, which implied maximum priority. The rest of the country, with the exception of Buenos Aires and its surroundings and the

industrial areas of Córdoba and Rosario, was considered as “Zone 2”, which involved less but still significant industrial aid (see figure 5).

In sum, as figure 5 shows, during the ISI period regional promotion grew until it became a complex, autonomous, and disorganized set of regulations that rested more and more on centralized management, direct subsidies, VAT exemptions, and *ad hoc* legislation by province. On the one hand, the promotion grew until it became a web of superimposed rules that not only justified its existence on the basis of previous laws but also profited from several legal sources based on different geographical subdivisions. At the end of the ISI period, the regional promotion covered almost every inch of territory that was not previously occupied by a factory, sometimes more than once. On the other hand, these layers of regulations increasingly enhanced the role of the federal state both as a centralized administrator and as a provider of substantial aid for provinces and firms as well. *Pari passu* with the increasing number of rules, both direct and indirect subsidies grew. They not only delivered larger amounts of direct money transfers but also more VAT exemptions, by far the main source of state revenues. Due to its economic significance, this quickly proved to be the most appealing (and expensive) tool for fostering regional decentralization.

3. Promotion by sector

Since the beginning of industrial legislation, state priorities for sectors were organized around two objectives. On the one hand, the state fostered the development of regional industries (e.g., wine in Mendoza, sugar in Tucumán, timber in Chaco, soybeans in the Pampa region, etc.). On the other hand, the

production of intermediate inputs through capital-intensive industries became almost an obsession for almost every government, military and civilian.

After the launching of the first sectoral regulations in 1961, steel, petrochemical, cellulose-paper, and cement-construction industries received the bulk of the sectoral state aid. This focus was not accidental. On the one hand, the industrialization effort had failed to develop the production of expensive basic inputs, which had to be imported. This dependence on basic imports disrupted the internal productive sequence (from raw materials to final goods) and restrained the integration of the import-substitution process. (Kosacoff, 1993a; p. 20; Schvarzer, 1987; p. 43) On the other hand, most of those commodity plants were controlled by *Fabricaciones Militares* (Military Manufactures), the industrial cartel owned by the military.

From the military perspective, domestic production of intermediate inputs was not only an economic matter but also an issue of national security. Therefore, it is not surprising that, as a part of the ISI deepening process, the state concentrated its efforts on building capital-intensive plants for the production of basic commodities. During the 1960s and the 1970s both civilian and military governments launched regulations fostering the production of basic commodities like petrochemical, steel, and cellulose products. They included the usual direct and indirect tools already present in the regional and generic laws, namely tax and tariff reductions or exemptions, subsidized energy inputs, and state guarantees among other things.

4. Increasing industrial promotion and the role of the state

In sum, after more than thirty years of ISI industrial promotion, federal, regional and sectoral incentives to industry tended, first, to proliferate until becoming a significant state expenditure in the beginning of the 1970s (see table 8). As table 2 shows, the “Yes” grayed cells (which denotes the inclusion of a promotional tool in a particular law) grows in number if one moves from the oldest regulations to the newest ones. Second, this increasing presence of the state as the main industrial promoter shows that, despite some important exceptions, both military and civilian governments were committed to the industrialization efforts, although perhaps for different reasons. Third, however, the increasing number of tools did not help to define a set of objectives beyond the traditional general aims. And finally, although every government conceived of the state as a major promoter of industry, there were significant differences throughout the period regarding the limits, contents and reasons of such intervention.

Summarizing, the state played the following roles in accordance with the federal laws sanctioned during the ISI period:

- *The state as the economic leader of industrialization:* generally speaking, civilian and military governments as well kept this role for the state. However, liberal officers pushed for cutting its prerogatives (e.g., Onganía’s period), and developmentalists like Frondizi tried to push both foreign and domestic private capital to assume more responsibility in the industrialization process.
- *The state as entrepreneur:* although the debate about the direct participation of the state in production persisted, both military and civilian governments encouraged the proliferation of publicly owned firms, especially in the so-

called “heavy” and intermediate industries. In the case of the civilians, this role ensured the regulation and control of the industrialization process. In the case of the military, state ownership in some “key” industrial sectors was considered a security issue.

- *The state as a provider of subsidies:* not only did the state begin to use direct subsidies as a tool, but also indirect subsidies rose, including the exemption from the main source of public revenues, namely sales tax or, later, VAT.
- *The state as a financial source for private investors:* soft loans were encouraged throughout the whole period, and the state had to guarantee external private loans as well.
- *The state as a regulation agency:* there were no provisions for either public control or for setting quantitative limits to industrial incentives. The only regulatory mechanisms derived, first, from state administration of the industrial promotion, and second, from strong public engagement in industrial production.

III. INDUSTRIAL POLICY UNDER MARTÍNEZ DE HOZ

1. *The neoliberal approach to industry and the federal law 21608*

In 1977 the military government that overthrew Isabel Perón formally annulled the Peronist industrial legislation and launched its own law-decree, 21608/77. Although this supposedly superseded all previous regulations, the previous ones (and especially 20560/73) subsisted during almost the whole period.

As in the case of the macroeconomic policy, Martínez de Hoz’s proposal regarding industrial policy went far beyond the typical liberal recipes of the 1950s and 1960s. The new neoliberal industrial policy was announced as a “transitional” tool. Its main

objective was to help both the state and private capital to overcome the transition between a protectionist and regulated past and a market-oriented economic future, by gradually diminishing the state involvement in industry (Martínez de Hoz, 1981; p. 160).

However, the law showed the inconsistencies of neoliberal discourse regarding state withdrawal, in fact implying a transformation of the state role rather than a true retraction. Moreover, it evinced not only the neoliberal aims that guided Martínez de Hoz's industrial strategy, but also those of the military, perpetually convinced of keeping or enhancing its industrial power.

(a) Framework and objectives

Although neoliberal by birth, the law of 1977 reflected the unsolved contradiction between the neoliberal approach and the nationalistic ideology of the military, both in its contents and implementation. On the one hand, the law aimed at radically transforming the current parameters of industrialization inherited from the ISI tradition. In typical neoliberal code, it blamed ISI for having generated the isolation of the country, an inefficient class of both workers and entrepreneurs, and a chronic public account deficit (Martínez de Hoz, 1981; pp. 21-29 and 152-159). Thus, it proposed a drastic industrial restructuring aimed at:

- A radical improvement in economic efficiency through the deregulation of markets, both internal and external.
- A replacement of the state as the engine of industrialization by both domestic and international private firms.

- Last but not least, a *rational* (through market mechanisms) specialization of the industrial sector, through a better use of the country's dynamic competitive advantages under free-trade conditions.

To achieve those objectives the law aimed at fostering private capital transformation (regardless of its origin or size) through modernization, fusion, integration, specialization, or changes in the internal structure of the firm.

On the other hand, the military (which hired the neoliberal technocrats, and still enjoyed veto power) imposed its own nationalistic pressures on the neoliberal aims of industrial policy. Far from foreseeing a destiny for their country of being an efficient price-taker (as neoliberals did) the military still dreamt of "*Argentina Potencia*" ("Powerful Argentina"). In other words, they dreamt of a country with solid aspirations to leadership in Latin America and enough economic and political strength to defy even the powers of the First World¹³. In this context, industrialization still had for them a strong security meaning that included a self-sustained economy as a premise for any sort of development. Thus, military engagement in industry was almost considered a non-negotiable matter regardless of any economic reason (whether neoliberal or not). During the years of the dictatorship the military took charge of reminding the neoliberal technocrats of that point of view.

¹³ The extreme version of this feverish military chimera did not take too much time to materialize. In 1982 the dictatorship attempted first to initiate a frontier war with Chile and afterwards to recuperate by military invasion the Malvinas/Falkland islands, under British control.

Table 3
The “Neoliberal” Law 21608/77

	<i>Law 21608/77</i>
Objectives	<ul style="list-style-type: none"> • To foster economic efficiency by modernization, fusion, integration, specialization, economies of scale or changes in the firm’s structure. • To foster the participation of private firms in industrial expansion.
Beneficiaries	<ul style="list-style-type: none"> • All firms are eligible regardless the origin, size, or composition of their capital.
Tools 1. <i>State revenues</i> a) Tax treatment b) Depreciation c) Tariff/duty treatment d) Goods and services provided by the state e) Public real estate 2. <i>State expenditure</i> a) Subsidies b) Financial support (loans) c) Others 3. <i>Non-budgetary tools</i>	<ul style="list-style-type: none"> • Deferral, suspension, reduction, or exemption of direct taxes for up to ten years (fifteen after 1983) . After 1980, the implementation of the VAT exemption was ad hoc. • Accelerated depreciation of fixed capital. • Exemption or reduction of import duties on capital goods. • Exemption or reduction of import duties on inputs. • Import restrictions on similar products. • Export incentives. • N/A • Subsidized leasing and rent and better conditions for buying public property and buildings. • None • None • Public works. • None
Regulations and requisites	<ul style="list-style-type: none"> • Annual fiscal quota. • 20% of a project’s required capital must be invested by the private owner. (this could be reduced to 10%.)

Source: Schvarzer, 1987; CEPAL, 1986; and CFI, 1986.

(b) The role of the state

Law 21608 of 1977 followed the directives of the neoliberal proposal introduced in 1976. Thus, the role of the state in industry was framed by the so-called *principle of subsidiarity* which, according to Martínez de Hoz, states that:

The modern concept of the role of the state in the economy does not imply leaving it aside as a simple spectator of the economic action that occurs in the Nation. On the contrary, it allows the state to intervene directly when a certain activity is required and no private interest wants to pursue it. The private sector is in charge of pursuing productive activity, although this does not prevent the state from undertaking its own function of determining the overall orientation of the economy through the implementation of the main policy tools, both economic and monetary.... The principle of subsidiarity does not include only the concept of the state role vis-à-vis the private sector, but also its function vis-à-vis state governments and municipalities (Martínez de Hoz, 1981; p. 30; the translation is mine).

However, neither this generic definition nor the subsequent implementation of the industrial law help much to define the supposedly new state profile. Certainly, as table 3 shows, some of the main direct expenditures for industrial promotion disappeared. Neither direct subsidies nor soft loans were included as tools in the new law. However, the state enhanced its revenue-related policies like tax and tariff exemptions. And perhaps paradoxically, it not only kept the ownership of those industries considered “strategic” by the military (the so-called “heavy industries”), but also got involved as entrepreneur in the formation of huge industrial development projects, like the petrochemical park of Bahía Blanca.

Finally, regulation mechanisms were tightened. On the one hand, the share of investment asked of private firms for receiving promotion benefits was raised from 10% to 20% of the total investment. On the other hand, the amount of subsidies provided by the state was regulated by an annual fiscal quota that could not surpass a certain percentage of the annual fiscal budget.

(c) The specific tools of promotion

The specific tools summarized in table 3 show that despite the changes, the presence of the state in industrial promotion was significant, although different, during the neoliberal period of Martínez de Hoz. Indirect subsidies, mainly formed by tax and tariff reductions or exemptions, were now the bulk of public aid.

In particular, the indirect-tax benefits were left unchanged until 1980, when a resolution of the Secretary of Industry annulled the VAT reductions as a general benefit (with exceptions included in provincial laws). From then until the Malvinas

war (1982) the dictatorship implemented VAT reduction as an *ad hoc* prerogative (Schvarzer, 1987; p. 63). Thus, as in the case of the tariff reform, the subsidy implementation turned into an erratic way of awarding or punishing specific firms or sectors, according to the preferences of the political authority in charge.

The tariff incentives and the import restrictions on similar products were also maintained, although their effect diminished because of the generalized reduction of protectionist barriers. In addition, at the end of the military government in 1982, export incentives appeared as a way of fostering manufacturing exports.

Regarding the subsidized supply of energy inputs, preferential public procurement, and technological support, the law did not specify anything. However, in practice all of these benefits survived through implementation of more specific decrees related either to regions or sectors. Last but not least, the 1977 regulation again included accelerated depreciation of assets as a way of fostering the renovation of fixed capital.

2. Regional promotion

Martínez de Hoz not only kept the main framework of the previous regional industrial regulation, but he also enhanced its boundaries in terms of beneficiaries, length, targets, and type of benefits. As table 4 shows, the previous set of benefits were expanded to foreign firms and, in some cases, they were extended up to 15 years, instead of the usual period of 10 years used by previous regulations. The practice of developing *ad hoc* rules for specific states was not only maintained but enhanced, on the one hand, by including more provinces (Formosa), and on the other hand by increasing the level of benefits received. San Juan, La Rioja, San Luis,

Patagonia, Tierra del Fuego, Formosa and Catamarca not only managed to extend their prerogatives up to 15 years, but also they profited from an even more generous tax exemption regime (VAT included). In addition, they were now able to evaluate, select, implement, and administer industrial projects in their jurisdictions up to a certain level of investment. Finally table 4 shows that VAT exemption was even more generalized (although with smaller percentages) by including regions previously considered as non-priority zones (such as the province of Buenos Aires, included in the so-called Zone 2).

Table 4
The Regional Promotion in the Neoliberal Period
1976-1983

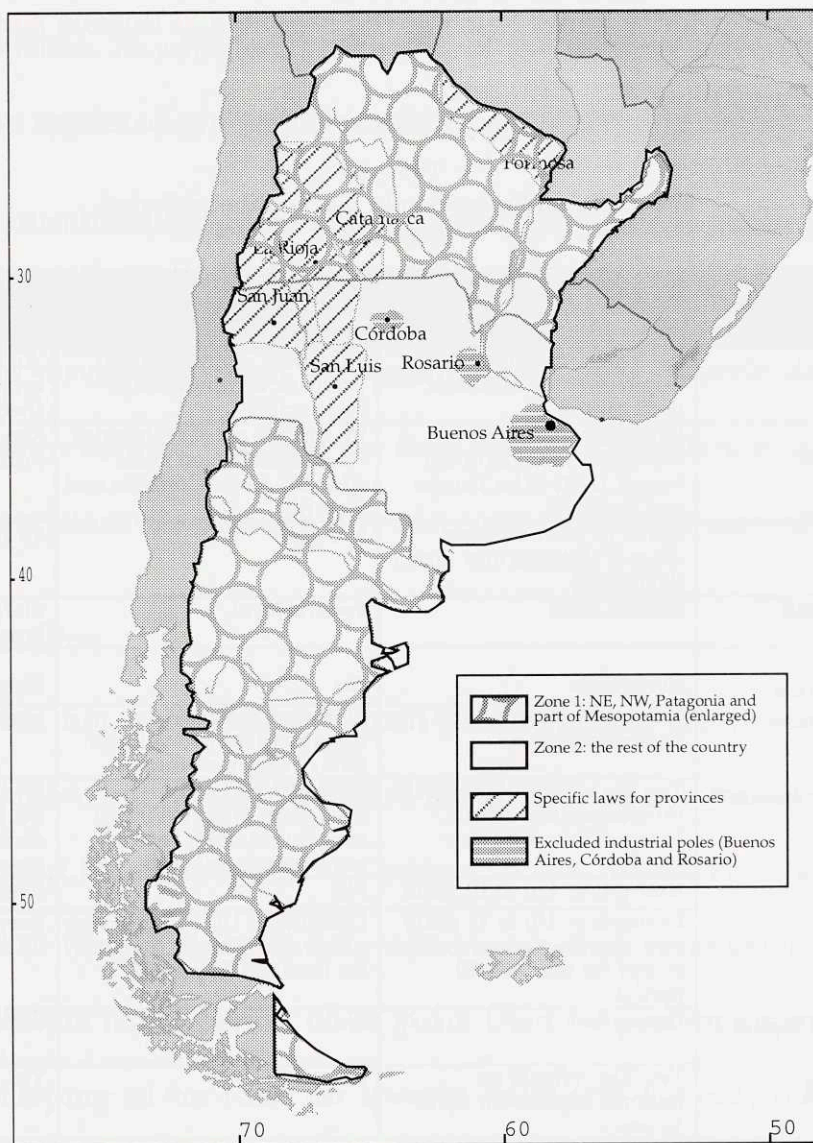
	<i>Zone 1</i>	<i>Zone 2</i>	<i>Specific laws for provinces</i>
Beneficiaries	All firms, regardless the origin or composition of their capital	All firms, regardless the origin or composition of their capital	All firms, regardless the origin or composition of their capital
Regions or states	Patagonia, NE, NW, Mesopotamia, Tierra del Fuego, parts of La Pampa and Santa Fe.	Rest of the country, besides the industrialized areas (Buenos Aires, Córdoba and Rosario)	San Juan, La Rioja, San Luis, Formosa and Catamarca.
Duration	Up to 15 years in some cases (Patagonia and Tierra del Fuego)	Variable	15 years
Implementation and Control	Federal level	Federal level	State level, up to certain level of investment.
Benefits			
• Capital tax for firms	Exemption	No	Exemption. Up to 15 years
• Income tax for firms	Yes. Up to 15 years on a decreasing basis.	Optional. If chosen, deferment up to 5 years of 75% of total investment.	Exemption. Up to 15 years.
• Income tax for investors	Yes. Up to 70% of the total investment deductible. External investors also eligible	Optional. If chosen, deduction of up to 70% of total investment. External investors also eligible	Deduction. Up to 100% of the total investment is deductible. External investors also eligible
• Stamp duties	Exemption. Up to 10 years	No	Exemption. Up to 15 years
• VAT	Exemption. Up to 15 years on a decreasing basis, except for the 1980-82 period.	Deferment. Up to 5 years on a decreasing basis, except for the 1980-82 period.	Exemption. Up to 15 years on a decreasing basis.
• Import duties on capital goods	Exemption	No	Exemption
• Export incentives	Yes. Tax refunds on regional exports for up to 10 years.	No	Yes. Up to 10 years

Note: Although included in the same promotional zone, not all the regions received the same benefits from the promotion. For more detailed information, see the source below.

Source: CFI, 1986.

In sum, as figure 6 shows, the regional industrial policy of Martínez de Hoz not only increased the geographical extension of the most favored regions (Zone 1 and specific states) but also expanded the benefits, allowing tax exemptions to a larger number of regions. Moreover, the new regulation also enhanced the promotions offered to firms located in Zone 2, traditionally considered as almost a non-priority region.

Figure 6
Map of Regional Promotion under Martínez de Hoz



Source: CFI, 1986; FIEL, 1988; and Lindeboim, 1987.

3. *The targeted sectors*

Perhaps the area of industrial policy where the latent contradiction between the military and the neoliberal technocrats arose most was the one related to sectoral policies.

According to the neoliberal recipe, there were no reasons for maintaining, let alone enhancing, the high level of benefits traditionally assigned to the intermediates' production during the ISI period (Martínez de Hoz, 1981; p.155). In the new context, the attempt to substitute domestic production for imports at any cost was not reasonable, especially if the industries under state protection were either uncompetitive (steel) or had been frozen for years in the preliminary stages of design and organization (e.g., petrochemical and cellulose).

However, as table 5 shows, targeted promotion by sectors not only followed the old ISI paths but also skyrocketed during the neoliberal period of 1976-81. Moreover, not only did the state engage deeply into productive activities (both as a supplier and as a partner with private capital), but also it multiplied other "more hidden" ways of promotion like so-called "peripheral" privatizations, namely the transfer of certain productive and administrative activities previously carried on by public offices to private firms.

Table 5
Promotion by Sector

	Regulation	Benefits to Investors	Benefits to the firm			
			VAT	Income and Capital Taxes	Import duties and tariffs	Others
Petrochemical	Decrees 2674/77 and 814/79	Non-indexed deferral of all taxes (income, capital, assets and VAT) of up to 50% of the total investment.	Indexed deferral of up to 10 years with no interest.	Indexed deferral of both taxes for up to 10 years with no interest. Exemption of stamp duties.	Exemption for input and capital goods. Tariff protection and quantitative restrictions.	Subsidized prices for state-produced inputs. State guarantee for external loans. Access to soft credit lines. Privileged state procurement.
Steel	Decree 5038/61 (used even in 1982) Decree 619/74	Deduction of the 100% of the total investment. Deduction of the 100% of the total investment.		Exemption from both taxes. Exemption from stamp duties. No taxes on technological consultancy. Deferment of both taxes for up to 10 years.	Exemption for input and capital goods. Exemption for capital goods.	Subsidized prices for state-produced inputs (gas, electricity). State guarantee for external loans. Accelerated depreciation. Subsidized prices for state-produced inputs. Subsidies for moving costs. State guarantee for external loans.
Forestry, Cellulose and Paper	Decree 1177/74	Either non-indexed deferral of up to 75% , or deduction of up to 75% of the total investment.	Deferment of up to 10 years.	Income: decreasing reduction for 5 years. Capital: deferral for up to 2 years. Exemption from stamp duties	Exemption for capital goods.	State guarantee for external loans.
Cement	Decree 893/79 Beneficiary: Loma Negra			Income: exemption for 10 years. Capital: decreasing reduction for 10 years.		

Source: FIEL, 1988; Azpiazu and Basualdo, 1989.

Martínez de Hoz himself has tried to explain this contradiction by blaming the military for not allowing him either to disentangle the state from those activities, or

to directly privatize public enterprises. In 1991 he wrote that the military obliged him to develop an interventionist sectoral policy which otherwise would have not been endorsed by his economic team. Martínez de Hoz says he tried in vain to privatize the cartel owned by *Fabricaciones Militares*, which controlled the bulk of the intermediate goods industry: "The biggest difficulty we met was the conceptual confusion [of the military] regarding the need for maintaining ownership in the hands of the state, and more specifically, in the hands of the military, for achieving certain public aims." (Martínez de Hoz, 1991; p. 47). This disclosure, however, does not explain why the state provided significant benefits not only for the military part of the intermediate goods' industrial complex, but also for private firms (some of them international, but mainly owned by big domestic capital) engaged in the same production.

As table 5 shows, there were five sectors that received strong state aid in the last 30 years: petrochemical; steel; forestry, cellulose and paper; and cement. Unlike other kind of benefits, the promotional tools directed to sectors tended to survive the governments that created them. As seen on the table, targeted directives of the 1960s were still used during the 1980s, as in the case of the steel industry.

Last but not least, the sectoral industrial policy under Martínez de Hoz increasingly became a head-to-head negotiation with the firms and groups that were engaged in a selected activity. This trend becomes particularly clear when one turns to the "gray" areas of subcontracting and public procurement involved in the so-called "peripheral" privatization.

As it was stated above, given the political and ideological posture of the military it was almost impossible for Martínez de Hoz to develop a true privatization policy. Therefore, he opted for a less clear path that was defined as “peripheral privatization”. Although this practice was not new (Hastings, 1993; p. 69), there was a significant difference from previous periods in terms of the magnitude of subcontracting. As Schvarzer emphasized at that time, “practically all of the public firms and offices have used some form of subcontracting as a way of aligning themselves with the official strategy” (Schvarzer, 1981; p. 61).

The peripheral privatization involved a particular and very arbitrary way of promoting industries. First, since it was not regulated by any law, it allowed for a highly discretionary procedures. Second, since it was not defined in terms of the activities that it had to cover, it was available for approving any kind of project (from a mere account auditing to the endorsement of mega projects like highway and building construction, parking lots, trash collection, street lighting, or petroleum exploration). Finally, since it did not mandate competition among the possible private applicants, it allowed them to charge “inflated” prices for the goods and services they provided to the state (Schvarzer, 1981; p. 61-63).

Although difficult to quantify, these “promotional” methods helped to create a private supplier network with clientelistic links to the state, baptized by the economist Adolfo Canitrot as *la patria contratista*¹⁴. Not surprisingly, the bigger

¹⁴ The “subcontractor homeland” is a paraphrase of “*la patria peronista*” or “*socialista*”, both widely used political slogans during the 1970s.

contracts promoted by the state through this practice were assigned to existing or *ad hoc* branches of the big and increasingly diversified domestic industrial groups, namely Techint, Pérez Companc, Garavaglio & Zorroaquin, and Bidas among others. Even the minister himself profited from those public benefits through the firm Acindar, a company that counted him as a member of the board of directors.

Favored and Winners, Discarded and Losers: Who Gets What?

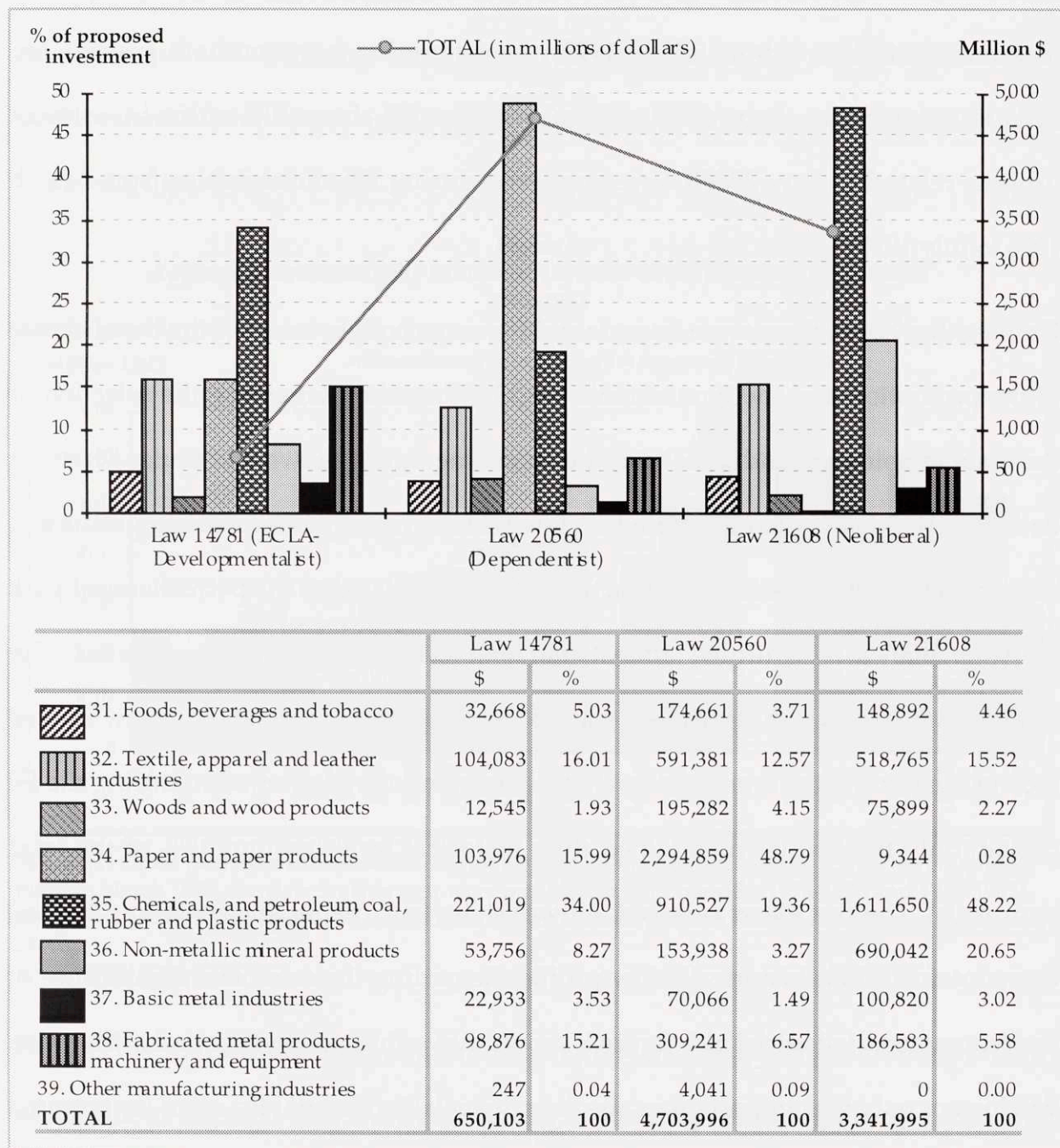
Martínez de Hoz needed only six years to abruptly change an industrial profile shaped throughout more than forty of ISI. Although the new map that emerged from that turbulent and bloody period was far from a consolidated outcome, it already showed the trend that would mark the next stage of Argentine industrial development.

In the next pages I will analyze the industrial reorganization by taking into account both the changes in state industrial aid and the economic behavior of the different industrial sectors during the period. The first set of data will allow me to identify the main sectors favored by the new neoliberal intervention. It will show not only the persistence and enhancement of industrial promotion during the neoliberal period, but also its trend toward selecting targets. The second set of data will show the new “industrial map” of Argentina by identifying the new sets of winners and losers which, not surprisingly, coincide significantly with the neoliberal administration’s industrial choices.

I. THE FAVORED AND DISCARDED SECTORS

The whole package of industrial promotion implemented by Martínez de Hoz showed both similarities to and differences from the one of the ISI period.

Figure 7
Main Beneficiaries of Industrial Promotion and Approved Projects
by Proposed Investment and Industrial law



Source: CFI, 1986.

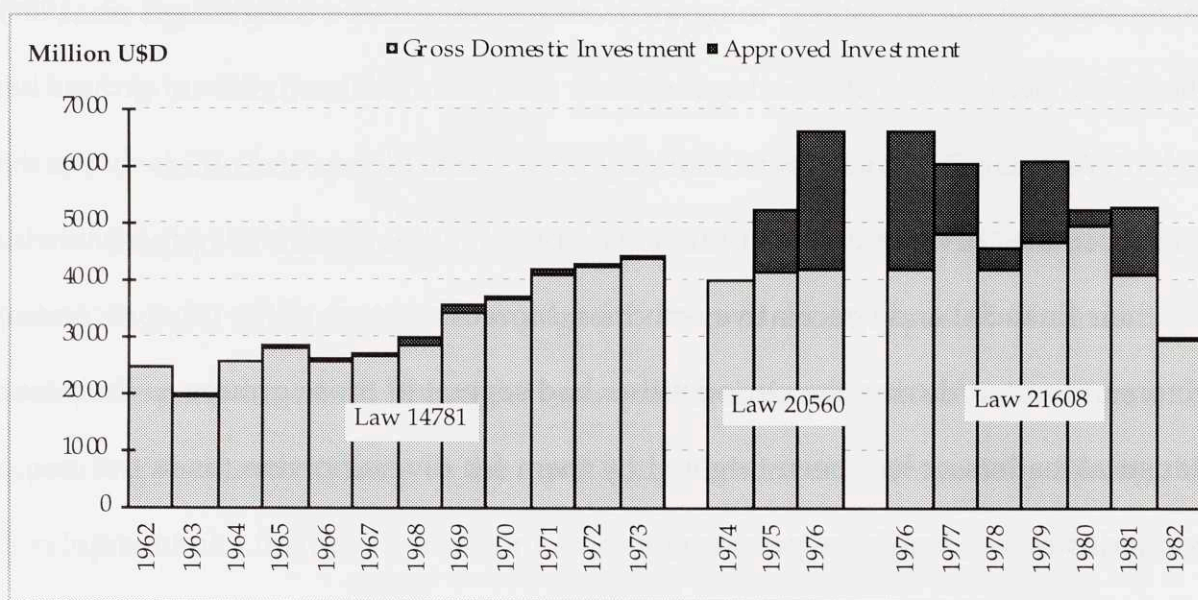
On the one hand, figure 7 shows that the level of industrial aid was almost as significant as it was under Peronist Law 20560 (by far the most generous of the ISI

period) and much greater than under Law 14781. Moreover, if one takes into account that Peronist Law 20560 was in effect during more than one year of the Martínez de Hoz administration (from 1976 to 1977) the differences between both periods are even less significant. According to Cepal (1986; p. 38) about 10% of the investment projects related to Law 20560 were approved during the dictatorship (from March 1976 to July 1977).

On the other hand, there were important differences both in terms of the beneficiaries of the promotion and the type of tools used by the state. Regarding the selection of the main recipients of industrial aid, the preceding figure shows that under Martínez de Hoz it was heavily concentrated on few sectors, namely intermediate producers. The projects of the chemical manufacturers (mainly related to the petrochemical park of Bahía Blanca) constituted almost half of the total approved investment. The cement industry, which previously did not receive substantial benefits, now ranked second. Regarding the other sectors that received industrial promotion during the ISI period, only the textiles maintained their historical level (around 15% of the total approvals). The rest either received a lower share (e.g., paper and metal-mechanics) or maintained their historically low profile. Regarding the economic significance of the reorganized industrial aid, figure 8 shows that public promotion under Martínez de Hoz not only was important in absolute financial terms but also often represented between one quarter and almost one half of domestic investment. During these years between 25 percent and 40 percent of total investment was connected to some form of industrial aid promoted by the neoliberal state. Moreover, the same figure shows the increasing importance that industrial promotion acquired during the 1970s,

especially after the second Peronist government took office in 1973. Surprisingly perhaps (seen in the total amounts shown in figure 7), Martínez de Hoz's involvement with industry bore more resemblance to the extreme version of developmentalism (the *quasi-dependantismo* of the 1970s) than to previous, far less "targeting", periods of the ISI.

Figure 8
Approved Investments by Industrial Law and Gross Domestic Investment
1962-1982



Notes: (1) Gross Domestic Investment does not include Public Construction. (2) Since the coup took place in March 1976, the data for this year were included in both periods (1974-1976 and 1976-1982). (3) In 1976 and 1977 the approved investment figures include projects related to both laws 20560 and 21608.

Source: CFI, 1986.

Finally, the Martínez de Hoz administration preferred targeted promotions (mainly sectoral, but regional too) over generic aid to industry. Although only 4.7% of the total approved projects were related to sectors, they represented almost 44% of total promoted investment (CEPAL, 1986; p. 26). Last but not least, although so far impossible to quantify, the strong links developed with intermediate industries

through subcontracting and privatization strongly reinforce the already described state aid.

In sum, far from accomplishing its “minimalist” objectives, the “neoliberal” industrial policy of Martínez de Hoz instead reorganized the interventionist tools inherited from the ISI period. In particular, it increased targeting by picking up producers of intermediates that happened to be connected with the “core” (á la Katzenstein) of the so-called “integrated” industrial groups (Azpiazu et al., 1986). Chemicals, petrochemicals, steel and cement were the nodal activities of groups like Techint, Acindar, Pérez Companc, Bunge y Born, Loma Negra, and others that at that time chose the “diversification” option and spread out not only their productive but also their financial and speculative activities. Moreover, some of the other secondary sectors promoted during the period either had several of those groups as their main industrial leaders or had been targeted by them for diversification (as in the case of food industries and soybean products).

II. WINNERS AND LOSERS

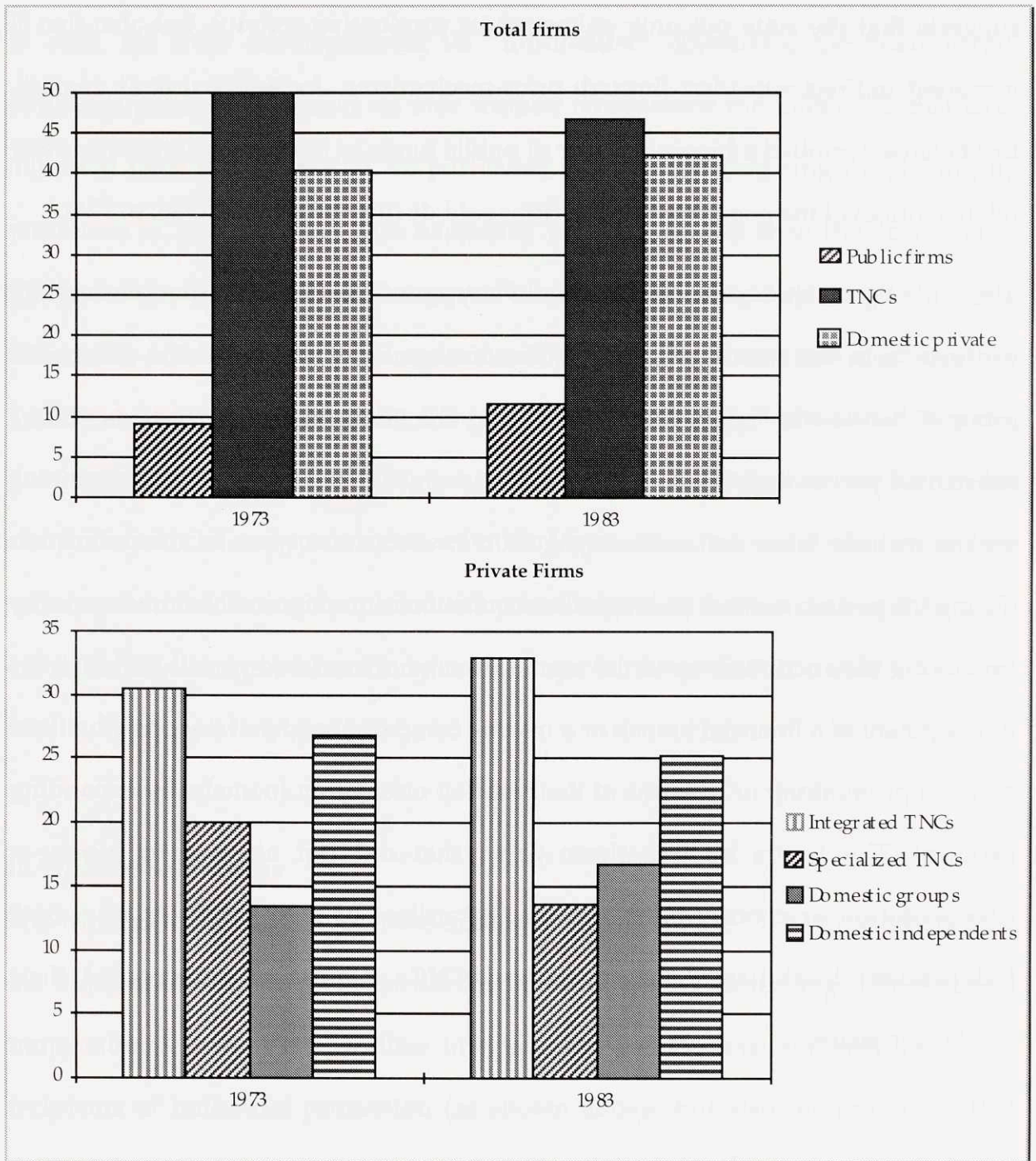
The winners that emerged from the industrial turmoil of the 1970s were others than the old National Champions of the ISI period. The integrated big domestic and transnational firms that produce intermediate goods were not only the main recipients of industrial promotion (as shown above) but also the only ones that showed a positive economic performance during the period. Figure 9 shows that state-owned firms also increased their share of total industrial production, although they diminished their share of total industrial billing from 25.5% in 1973 to 21.7% in

1983. That behavior reflects the fact that during the period public firms increased their production but received less income for their larger sales. In other words, this suggests that the state not only enhanced its productive activity, but also that it increased indirect subsidies through price-mechanisms. As Azpiazu et al. remark, this behavior implied a bigger transfer of public funds to private activities via lower relative prices of the goods that public firms sold during the period (1986; p. 124).

The same figure shows that there were two types of private firms that particularly profited from the new environment, the “integrated TNCs” and the “domestic groups”, while the “specialized TNCs” and the “domestic independents” lost a substantial part of their production share between 1973 and 1983¹⁵. The two winning sectors include firms that were engaged in two or more types of diversification during the period: vertical (through the acquisition of previous subcontractors or by expanding their activities up to the input source); horizontal (especially through the development of a financial branch or a trading company); regional (by profiting from regional promotion); or in terms of their market orientation (namely, by expanding exports). The losers include those firms that did not attempt to pursue a diversification or concentration process, regardless of their origin or size. Both independent local firms and specialized TNCs significantly decreased their production share.

¹⁵ For a detailed analysis of this classification of firms, see Azpiazu et al., 1986.

Figure 9
 Industrial Share by Type of Firm
 1973 and 1983
 (as a percentage of industrial production)



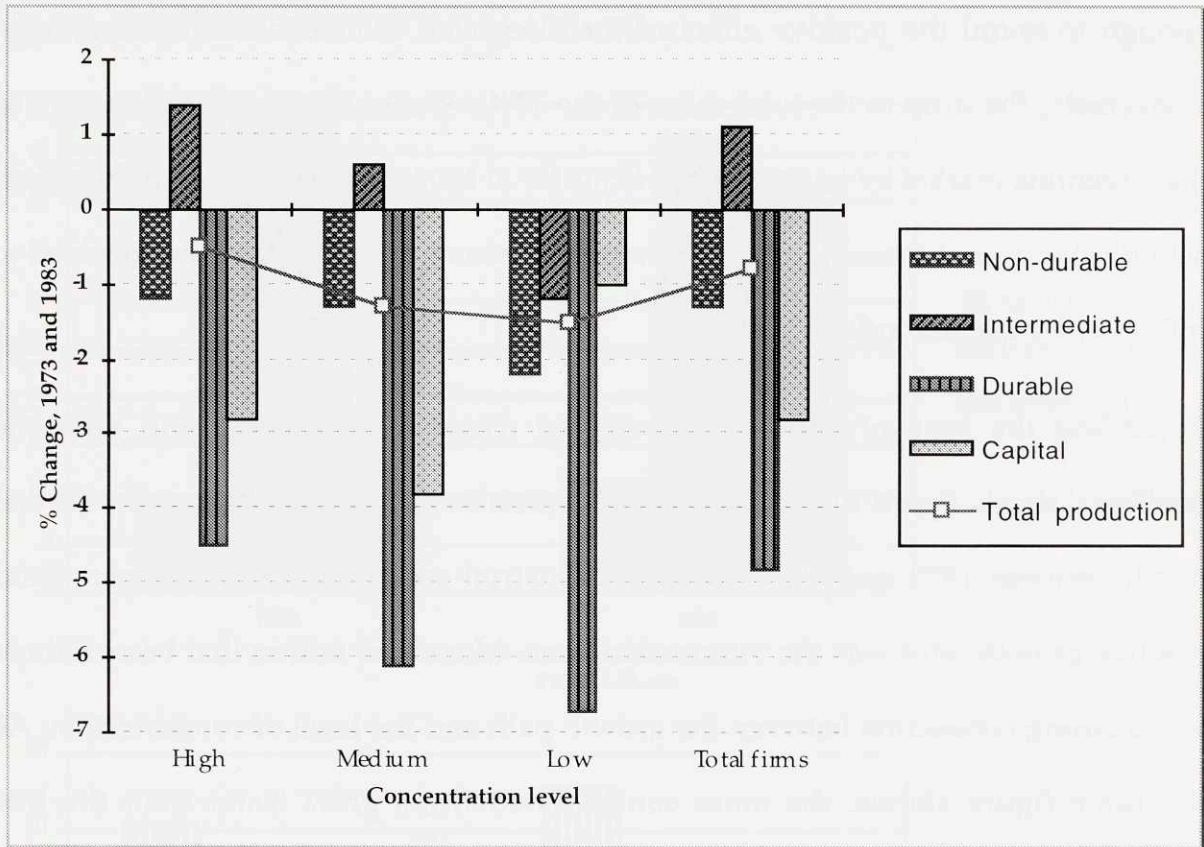
Source: Azpiazu et al., 1986, p. 125, and Kosacoff, 1993; p. 23.

Finally, domestic firms as a whole increased their participation in industrial production during the period, showing that the decrease of the losers was not big enough to annul the positive effect of the integrated domestic economic groups. Conversely, the drop in the total share of the TNCs shows that the abandonment of the Argentine market by important big firms (or at least their decision to reduce their activities) acquired more significance than the restructuring of others that decided to fully play by the new rules of the game.

Regarding the type of goods that behaved dynamically during and after the neoliberal shock, figure 10 shows that there were also significant changes. On the one hand, between 1973 and 1983 the only industrial sector that reflected persistent positive growth rates was the intermediate one. Moreover, within that branch there was a strong connection between the growth path and the level of concentration. As the same figure shows, the more concentrated firms grew faster than the less concentrated, while those with low levels of concentration even showed a negative cumulative growth.

On the other hand, the same figure also shows that the drop in growth rates was especially acute in those sectors that produced both durable and capital goods (namely automobiles, electronics, tractors, and machinery). Moreover, that strong production contraction clearly shaped the path of the period. Given the significant shrinking of the traditional “engines of growth” of the ISI period, total industrial production finally ended showing also negative growth rates, the positive behavior of the intermediate goods notwithstanding.

Figure 10
Evolution of Industrial Production by Type of Good and Concentration Level
1973 and 1983
(cumulative percentage change in production level)



Source: Azpiazu et al., 1986; p. 121.

Last but not least, this diversified and concentrated winners’ pole included those firms that were the main and almost exclusive target of neoliberal state intervention. As summarized in the section on industrial policy, the state mainly focused on the intermediate producers as its target for fostering industrialization.

In sum, the new industrial profile delineated by neoliberal intervention during Martínez de Hoz’s period showed, on the one hand, a clear winning sector: that led by big local and foreign industries dedicated to the production of intermediate goods that were able to diversify their activities (especially into finance) and “oligopolize”

their markets. That sector, moreover, received the bulk of industrial aid during the period from a state that reorganized and focused its interventionism rather than diminish it. On the other hand, there was a more than significant number of losers that, however, did not appear as homogenous as the winners' group. Although a detailed analysis of the causes and trends that shaped that failure exceeds this thesis' purpose, it is clear that the National Champions of the ISI model entered a declining path. Put in jeopardy by external competition, stratospheric interest rates, less state aid, or all of these factors, the capital and durable goods producers began to confront a structural crisis that still has not been overcome.

Conclusions

In this thesis I have argued that the neoliberal period of Martínez de Hoz did imply a radical transformation of Argentine industry, and that it clearly divided waters between the previous ISI era and the post-1976 period. However, this transformation was less an effect of the liberalization of market forces than a true recomposition of the state ways of intervention.

The ISI period: industrialization at any cost

During the ISI days, generalized protection ensured a relatively safe macroeconomic environment even for those industries discarded by the state's "magic wand". The strong commitment to industrialization subordinated every policy aim to the maintenance of a safety net that embraced not only the selected industries but also the remaining bulk of less privileged sectors. Active macroeconomic policy softened recessions, allowed for a relatively easy access to financial sources and pumped up internal demand, while a lenient fiscal policy allowed for firms to almost forget about heavy tax burdens.

At the *meso* level, external policies built an armored barrier that protected industries from external competition; welfare policies in effect raised salaries (through indirect benefits) at lower costs for firms; and financial assistance ensured relatively easy access to subsidized credit. Last but not least, active state participation, both as an infrastructure developer and as an entrepreneur, filled the holes left by private firms and smoothed the path toward industrialization. Within this framework, the state

exerted its traditional “picking-winners” strategy through arbitrary manipulation of exchange rates, interest rates, and tariffs; and by administrating preferential access to state-subsidized loans.

Laws of industrial promotion, as the previous pages have shown, were until the 1970s only secondary tools superseded by the governments’ *ad hoc* manipulation of macroeconomic tools. Only during the 1970s, once the traditional ISI sources for financing the macro safety net became almost exhausted, were relatively more “focused” policies for industry implemented. However, the strengthening of industrial policy in the last years of the ISI period did not imply the total disappearance of the safety net. Although at the expense of increasing fiscal deficits, higher inflation rates and almost exhausted sources (pension funds, internal transfers), active macroeconomic policies still continued to ensure at least a generalized protective frame for firms.

In sum, during the ISI period the macroeconomic environment, favoring industrialization at any cost, greatly contributed to the survival of firms without asking too much in return (namely, in terms of efficiency or level of competitiveness of the protected firms). The transformation of industrial policy into a powerful tool during the 1970s did not add too much to this scenario. Although originally planned for fostering not only regional decentralization but also specialization on the “missing links” of the production chain (namely, intermediate goods), industrial policy became actually a pile of promotional tools that superseded each other at a very onerous cost for the state.

Intervention under neoliberalism

The neoliberal reform of Martínez de Hoz was supposed to drastically transform the landscape, and certainly it did it. However, it was not a task pursued in the name of the market but a drastic reorganization of the state intervention in industry that redesigned both the macroeconomic framework and the specific industrial policy tools.

Regarding the macroeconomic frame, the neoliberal experiment established a new hierarchy to replace the objectives that had guided macroeconomic policy during the ISI period. Although the liberal insistence on lowering macro deficits was not new, Martínez de Hoz gave it an indisputable priority that superseded in practice any other economic aim, industrialization included.

As a consequence, the “macro safety net” almost disappeared, and industry faced its own structural weaknesses once protectionism and other related macro defenses vanished. This could have perfectly been a logical consequence of a neoliberal reform. However, and although relatively disconnected from industrial objectives, macro policies were far from passive and remained both interventionist and “discretionary”. They were used as functional means for disciplining firms and adjusting their behavior to the stabilization goals pursued by the administration.

This discrete manipulation of policy tools (such as tariffs and interest rates) proved to have crucial side-effects across the industrial web. On the one hand, the old ISI practice of picking winners through the discrete use of macro tools continued under the neoliberal experiment, although this time “price performance” replaced

“industrial priority” as the pattern of choice. On the other hand, and perhaps more important, the near disappearance of the ISI safety net turned government help into an invaluable good. State “protection” turned from being only a difference between higher or lower profits, to constituting the threshold between survival or death. Those who managed to stay under the state umbrella were thus almost the only ones able to elude the danger of the free-market abyss.

Yet, the neoliberal state not only maintained its leading role as the shaper and organizer of the industrial web through the discrete use of macro tools, but it also enhanced policy tools at the *meso* and micro level of interventionism. As we have seen, Martínez de Hoz redesigned industrial policy, although without losing the megalomaniac tradition of the last ISI period (under Levingston, Lanusse, and Perón). Like those administrations, he enhanced federal and regional promotion by expanding public benefits to almost any region without previous industrial development. Regional targets became so widespread that at the end almost every poor province counted with its supposedly “specific” set of benefits. Moreover, he continued enhancing the entrepreneurial role of the state, although this time around a more limited focus, namely intermediate industries.

Yet despite these similarities, Martínez de Hoz’s industrial policy did introduce significant changes. On the one hand, direct aid under the form of subsidized loans or subsidies almost disappeared. State promotion concentrated mainly on tax deductions and government support for accessing cheaper credit lines. Although the abandonment of direct subsidies somewhat alleviated the heavy burden on the

expenditures side, its replacement by tax exemptions annulled that positive effect, since the latter precluded the state from collecting *in toto* its main revenues. On the other hand, the traditional state role as an arbitrator between industry and agriculture was significantly eroded. Since agricultural export taxes almost disappeared as a financing source for industry, the state no longer exerted its “pro-industry” role¹⁶. Yet the disappearance of this key financing source was overcompensated for by the active role played by the government in the process of external indebtedness (as a lender, sponsor or intermediate agent). Finally, perhaps the most important transformation introduced by neoliberal industrial policy was related to the enhancement of the targeting mechanisms regarding specific industries, namely intermediate producers. Although those producers were the traditional target of every sectoral policy during the ISI period, they never received a level of assistance comparable to Martínez de Hoz’s promotion¹⁷.

At this micro level the neoliberal promotion not only increased but also diversified its tools. In particular, privileged mechanisms of procurement and subcontracting through the “peripheral” privatization created clientelistic links between the state

¹⁶ Although this deserves further investigation, the traditional confrontation between industrial and agricultural producers was somewhat narrowed by the foundation of a new agri-industrial productive alliance, closely linked to the new winning sector of the domestic bourgeoisie.

¹⁷ As the previous pages have shown, until the 1970s sectoral aid was not only significantly lower but also less concentrated. Thus, those sectors had not only to risk greater portions of their own capital to develop new projects, but they also had to divide the smaller state aid among a greater number of beneficiaries (the old National Champions included). After 1970 and during the last years of ISI, sectoral aid certainly increased (especially during the Peronist years). Yet the strong instability that characterized those years postponed several investment projects which, finally, started to materialize during the neoliberal period (that was the case, for instance, with the paper and petrochemical industries).

and the big domestic firms that provided those goods and services. This practice, as stated, created an oligopsonic network (Canitrot's *patria contratista*) that, paradoxically perhaps, rendered more benefits to the oligopolized private suppliers than to the unique public buyer.

The neoliberal preference for intermediate producers

Though this point deserves further investigation, there is at least one reason that seems to explain such a strong preference for intermediate producers. As it has been emphasized by several authors (Nogués, 1986; Schvarzer, 1981; Kosacoff and Azpiazu, 1989; among others) and by Martínez de Hoz himself (1991), the military presence in those industries was overwhelming, and this might partially explain the state involvement in the sector. As mentioned, *Fabricaciones Militares* owned a big part of the total firms involved in petrochemicals and steel and even shared ownership in aluminum and chemical plants. Therefore, it may be not surprising that those industries were the state's most likely choice. However, this does not explain, first, why the military decided to enhance their intermediate plants precisely at that moment (they had been the owners since the 1930s); and second, why state aid involved not only military firms but also other intermediate industries ruled by private domestic capital.

Although focusing primarily on the financial sector, Hastings has tried to partially answer those questions. According to her, a whole new elite of military entrepreneurs (formed by both retired and active duty officers) appeared during the 1970s. This new elite emphasized both the old productivist dream and the

“paternalist or populist views towards its constituency, particularly on issues of wage policy and unemployment” (Hastings, 1993; p. 143). At the same time, this influential group became sensitive to the demands of some domestic firms due to old-dated economic or “traditional” ties. Through this bridge, these industrial groups were able to exert lobbying pressures on the otherwise isolated ministry of economy. This unequal access to the government heights contributed, according to Hastings, to exacerbating the internal disputes within the business front and turned policy-making into an even more “discretionary” process (Hastings, 1993; pp. 77, 141-3, and 151).

Although she is trying to show why the neoliberal experience of Martínez de Hoz finally failed in reorganizing the financial system, Hastings provides thoughtful insights for understanding the reasons why some sectors were saved by the interventionist hand of “neoliberalism” in Argentina. Her emphasis on the historical cleavages of the industrial and rural groups and their linkages with the military and the dominant parties provides at least a partial explanation that deserves further research: the exacerbation of internal conflicts among ruling classes undermined the success of the experience and led to an even stronger distributional struggle, this time played not only at the heights of the state but also on the everyday field of the market.

The paradoxes of a neoliberal industrial strategy

In sum, the neoliberal reform implemented by Economy Minister Martínez de Hoz during the last dictatorship in Argentina certainly achieved one of its major goals. In

less than six years it drastically redefined the relationship between state and industry, shaped by more than four decades of ISI development. However, this change did not involve state withdrawal from industry but a renewed form of state activism. The Martínez de Hoz experiment shows that a neoliberal reform may generate a type of interventionism that even pushes forward the limits of Kahler's "orthodox paradox" in a twofold direction.

First, far from merely enlarging the state's organizational and political capabilities for better playing its new "deconstructive" role (Kahler, 1990; p. 47 and Haggard and Kauffman, 1992c; p. 25), the neoliberal state in Argentina shocked industry with a new "constructive" role of its own. On the one hand, this new role was more diffuse, and at the same time, more arbitrary than the one implemented during the ISI years. Since it was tied to stabilization aims, it was not formally organized around any industrial objective (import substitution, development of an internal market, export promotion, etc.). Since it was not overtly institutionalized but masked behind a free-market propaganda, it allowed for more discretion in the policy-making process, even more than existed during the ISI period. On the other hand, the neoliberal experience of Martínez de Hoz drastically multiplied the political and economic "value" of state intervention. After the drastic and somehow anarchic liberalization (as even neoliberals now recognized) pursued by Martínez de Hoz, state intervention became a glass of water in the middle of a desert and therefore (as neoclassical theory itself emphasizes) worth immensely more than during the "rainy" years of the ISI.

Finally, the Martínez de Hoz period shows that a neoliberal strategy may be not only interventionist, but it may also have more chance to successfully sponsor industrial sectors. By taking care of them, the “neoliberal” state isolated its *protégés* from the economic breakdown (*a.k.a.* liberalization) that the state itself had helped to generate. However, as we have seen, this process of picking winners proved to be even more arbitrary than the programs developed by ISI strategists. Moreover, it proved to sharply widen the gap between winning and moribund sectors, thus eroding the chances of achieving, in the long-term, any sort of balanced industrial development.

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Appendix: Argentine Presidents and Economy Ministers 1952-1995

<i>Presidents</i>	<i>Accession and end of term</i>	<i>Economy Ministers</i>
Gen. Juan D. Perón June 1952-September 1955	Unrestricted election- coup	Pedro Bonanni
Gen. Eduardo Lonardi September 1955-November 1955	Coup-coup	Eugenio Folcini
Gen. Pedro Aramburu November 1955-May 1958	Coup-electoral call	Eugenio Blanco Adalbert Krieger Vasena
Dr. Arturo Frondizi May 1958-March 1962	Restricted elections-coup	Emilio del Carril Alvaro Alsogaray Roberto Alemann Carlos Coll Benegas Jorge Wehbe
Dr. Jose M. Guido March 1962-October 1963	Coup-electoral call	Jorge Wehbe Federico Pinedo Alvaro Alsogaray Eustaquio Mendez Delfino José A. Martínez de Hoz
Dr. Arturo Illia October 1963-June 1966	Restricted elections-coup	Eugenio Blanco Juan C. Pugliese Jorge Salimei
Gen. Juan C. Onganía June 1966-June 1970	Coup-coup	Adalbert Krieger Vasena José M. Dagnino Pastore
Gen. Roberto Levingston June 1970-March 1971	Coup-coup	Carlos Moyano Llerena Aldo Ferrer
Gen. Alejandro Lanusse March 1971-May 1973	Coup-electoral call	Juan A. Quilici Cayetano Licciardo Jorge Wehbe
Dr. Héctor Cámpora May 1973-July 1973	Unrestricted election-resignation	José Ber Gelbard
Mr. Raúl Lastiri July 1973-September 1973	Election by Congress-electoral call	José Ber Gelbard
Gen. Juan D. Perón September 1973-July 1974	Unrestricted election-death	José Ber Gelbard
Mrs. Isabel Perón July 1974-March 1976	Constitutional sucesion-coup	Alfredo Gómez Morales Celestino Rodrigo Pedro Bonanni Antonio Cafiero Emilio Mondelli
Gen. Jorge R. Videla March 1976-March 1981	Coup-end of preannounced period	José A. Martínez de Hoz
Gen. Roberto Viola Mach 1981-November 1981	Military appointment-coup	Lorenzo Sigaut
Gen. Leopoldo Galtieri November 1981-June 1982	Coup-coup	Roberto Alemann
Gen. Reynaldo Bignone July 1982-November 1983	Coup-electoral call	José Dagnino Pastore Jorge Wehbe
Dr. Raúl Alfonsín December 1983-July 1989	Unrestricted election-resignation	Bernardo Grinspun Luis Sourroille Jesús Rodríguez Juan C. Pugliese
Dr. Carlos Menem July 1989-July 1995	Unrestricted election	Miguel Roig Gerardo Rapanelli Herman González Domingo Cavallo
Dr. Carlos Menem July 1995-current	Unrestricted election	Domingo Cavallo

Source: Until 1983, Di Tella and Dornbusch, 1989; p. xiii-xvi.