

**State and predominant socioeconomic actors.
The asymmetric “pesification” in Argentina 2001-2002.**

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Abstract

The broad subject of this paper is the relationship between state and economic policies in Argentina. The aim of this paper is to analyse the asymmetric *pesification* decided by Duhalde's administration on February 2002. It tackles the problem of the crisis of state capacities in Argentina. It also examines the different proposals of *pesification* that were formulated, the struggle of power triggered around this policy, and the results regarding the final scope of *pesification*. Thus, the analysis focuses on both the state incapacities and the power struggle. The positions taken by the different actors (state functionaries, politicians and predominant socioeconomic actors) are analysed and compared throughout the period between the middle of December 2001 and beginnings of February 2002 in order to explain the decisions made by the government as the result of the power struggles and the crisis of state capacities.

Key words: Argentina – State and economic policies – Pesification – Economic crisis 2001/2002 – Power struggle – State capacity – State crisis

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Glossary and Abbreviations

ABA: Asociación de Bancos de la Argentina (Argentine Bank Association)

Abappra: Asociación de Bancos Públicos y Privados de la República Argentina (Public and Private Bank Association of the Argentine Republic)

CAC: Cámara Argentina de Comercio (Argentine Chamber of Commerce)

CAC: Cámara Argentina de la Construcción (Argentine Building Chamber)

CAME: Confederación Argentina de Mediana Empresa (Argentine Medium Enterprises Confederation)

CGE: Confederación General Económica de la República Argentina (Argentine Economic Confederation)

Corralito: The control and limitation on bank withdrawals and currency movements to impede the flight of bank deposits.

CRA: Confederaciones Rurales Argentinas (Argentine Rural Confederations)

Dollarization: The use of dollar as local currency.

Frepaso: Frente País Solidario (Front for a Country in Solidarity)

The Alliance: “La Alianza” was a coalition formed between the UCR and the Frepaso.

Pesification: Conversion to pesos.

PJ: Partido Justicialista (Peronist Party)

Production’s Group: Grupo Productivo. Interest group integrated by the Argentine Industrial Association (UIA), the Argentine Building Chamber (CAC), and the Argentine Rural Confederations (CRA).

SRA: Sociedad Rural Argentina (Argentine Rural Society)

UCR: Unión Cívica Radical (Radical Civic Union)

UIA: Unión Industrial Argentina (Argentine Industrial Association)

I. Introduction

I. 1. Overview

The 1990s decade in Argentina was characterized by the implementation of Structural Adjustment Programs (SAPs) that included liberalization of the economy and privatization of state-owned enterprises, and by the “convertibility” law, which from April 1991 to January 2002 pegged the Argentine peso to the US dollar at par. These reforms produced deep transformations in the economy as well as in society. High concentration of economic power, high unemployment and inequality were some of the results of those policies together with a growing withdrawal of the state from areas such as health, social security and education¹.

By the end of 2001, the government of Fernando De la Rúa ended abruptly in the middle of riots and economic collapse. The scenario was depicted by a tense political situation, critical socioeconomic conditions and the lack of state capacities to implement official decisions. Some changes in the direction of the economy were intended by the subsequent provisional presidents. After three presidents had been in office within one week, Eduardo Duhalde took over the presidency on January 2002 by mandate of the Legislative Assembly.

The new government decided the asymmetric *pesification*² -i.e. dollar deposits, loans, fares and contracts in general were converted to pesos at different exchange rates, the devaluation of the national currency, and the adoption of a free-floating regime, among other measures. This implied the end of the convertibility law.

The *pesification* meant that some sectors of the society and not others would bear the cost of the changes. It would not be the same for debtors who would see their debts in dollars converted to pesos, not for savers who would have their dollar deposits back in pesos, and not the same for privatized utility companies that would not be able to continue collecting fares in dollars anymore. The asymmetric *pesification* also entailed a huge cost to the Argentine state that would compensate banks for that asymmetry. The conversion of US dollars to pesos was subject of disputes and struggles. Thus, the scope of *pesification* changed over the first two months of Duhalde’s administration. This is the specific topic of this paper.

There are analysis that have focused on the economic aspect of the *pesification* but not taking into account the state as a variable to explain the reasons of the economic phenomenon (Basualdo, et al 2002), or that have referred to the *pesification* but without offering an explanation (Hanke 2003; Meltzer 2003). There are also studies on the crisis of the state in Argentina and the socioeconomic transformations that occurred (Aronskind 2001; Sidicaro 2001, 2002) which are useful due to their theoretical and empirical contribution to the problem this paper tackles. However, none of this research has approached specifically the question of the *pesification*.

¹ There are several studies about the socioeconomic transformations during the 90s in Argentina, see for instance Azpiazu (1998), Lo Vuolo (2001), Stallings and Wilson (2000), Thwaites Rey (1999).

² Or “pesofication”, means conversion to pesos.

I. 2. Purpose of the study, sources and methodology

The broad subject of this paper is the relationship between state and economic policies in Argentina. This paper focuses on the *pesification* and the dramatic transfer of incomes it produced. It looks into the problem of the crisis of state capacities in Argentina. It also examines the different proposals of *pesification* that were formulated, the struggle of power triggered around this policy, and the results regarding the final scope of *pesification*. Thus, the analysis focuses on both the state incapacities and the power struggle. The period under examination is 2001-2002, after the economic collapse that ended up with the crisis of December 2001.

The economic, social, and political crisis of 2001-2002 presents multiple dimensions. Among these multiple dimensions of the crisis and the different aspects of the economic transformations occurred, this paper limits its analysis to the problem of *pesification*, leaving out other aspects of the crisis³. Specifically, this paper focuses on the changes in the scope of the *pesification* that allowed the conversion to pesos of huge debts held in dollars and the consequent dramatic transfer of incomes.

This paper examines the positions of actors regarding the end of the convertibility law, the devaluation of the peso, and the *pesification*. The net of actors that is taken into consideration includes state functionaries, politicians and predominant socioeconomic actors⁴. The questions this paper aims to answer are: How the decisions taken by the government were affected by disputes of power between predominant socioeconomic actors and state functionaries within a process of pressures and negotiations? Why did the government adopt these decisions?

In dealing with these questions, the power struggle and the state incapacity are placed as the explanatory factors. Thus, the main issue of this paper is not the economy itself, but the problem of state capacities to formulate and implement economic decisions. By looking at the problem as a question of state incapacities, this paper explores the consequences of state fragmentation on the economy and society. Two interrelated questions are the backdrop of this paper: the role of the state in the formulation and implementation of economic policies and the role of the state concerning distribution of incomes and wealth.

Regarding the methodology and empirical material, the analysis is based on several sources of information. Previous studies and investigations –empirical as well as theoretical, specialized publications and reports were considered. Previous studies and researches were used specially to deal with the question of the crisis of state capacities. Speeches of state functionaries, politicians, and predominant socioeconomic actors were examined in order to analyse the power struggle. The material was obtained from the archives of the main Argentine newspapers (*Clarín*, *La Nación*, and *Página 12*). Documents written by corporate associations (such as the Argentine Rural Society and the Argentine Industrial Association) and bank associations (e.g. the Argentine Bank

³ This paper leaves aside questions related to the *pesification* of bank deposits made in dollars at 1.40 pesos to the dollar, the decisions by the Supreme Court of Justice concerning the *corralito*, and the role of social groups other than the predominant socioeconomic actors.

⁴ For specifications about the concept of predominant socioeconomic actors and which ones of these actors were considered, see sections III.3. and III.4.

Association and the Public and Private Bank Association of the Argentine Republic) were also examined.

However, the systematic account of material was made from the secondary sources and from *Clarín* and *La Nación* newspapers. The discursive position of predominant socioeconomic actors as well as state functionaries and politicians subject to systematic analysis during the period was extracted from these newspapers, since it was considered that these newspapers covered a broad enough range of events as well as reported the positions taken by different actors according to the aims of this paper. The analysis of the material obtained from *Página 12* and from chambers and associations was used as additional empirical data.

The methodology of this paper therefore included qualitative techniques to analyse these textual materials. Nevertheless, statistical information was also used in order to shed light on the research problem. By using the information available in different sources, empirical material for each variable –state (capacity/incapacity), state functionaries, politicians and predominant socioeconomic actors- was created in order to analyse specific relations between these variables according to the research problem.

This research focuses on the time period between December 2001 and February 2002. This period is divided in sub-phases in order to compare different configurations of actors, their relations with the government and their demands. The first period goes from the middle of December 2001 to 10 January 2002 and the second one is delimited by 11 January 2002 and 3 February 2002. This time framing is due to the fact that on 10 January the government decided to convert to pesos debts up to 100,000 US dollars at the exchange rate of one peso to the dollar. Then, on the evening of 3 February 2002 the government changed its first decision and instead chose to convert all debts to pesos regardless of the amount at the exchange rate of one-to-one (deposits were also converted but at a different exchange rate, it was an asymmetric *pesification*), giving up the struggle with the most powerful socioeconomic actors.

Thus, the dependent variable –policy outcome: the scope of *pesification*- has a different value in each period, i.e. *pesification* of debts up to 100,000 US dollars in the first period and *pesification* of all debts regardless of the amount in the second period. The value of the independent variables –state, state functionaries, politicians and predominant socioeconomic actors- was unknown in both periods. Therefore, the dependent variable was known in both periods and the challenge was to investigate what happened with the independent variables during the same periods.

I. 3. Structure

The next section contextualizes the research problem by referring to the inheritance of the 1990s decade and the economic crisis of 2001-2002. Section III introduces conceptual tools in order to frame the analysis. It also tackles the problem of the crisis of state capacities in Argentina in order to explain the question of *pesification*. Section IV examines the positions taken by the different actors and compares these positions in each of the periods in order to explain the changes in the scope of *pesification*. Section V attempts to explain the decision made by the government as the result of both the power struggle and the state incapacity to formulate and implement economic decisions.

This section also refers to other alternative explanations. Section VI presents the conclusions.

II. The context: the economic crisis 2001-2002⁵

II. 1. The legacy of the 90s

The implementation of Structural Adjustment Programs (SAPs) during the 1990s in Argentina included the liberalization and deregulation of the economy, increased openness to trade, financial capital market liberalization, privatization of state-owned enterprises⁶, decentralization, tax reform, and pension system reform. These structural reforms left a legacy of high concentration of economic power, high unemployment and inequality, and an intensified weakness of bureaucratic and administrative capacities of the Argentine state⁷.

The convertibility law also contributed to the acceleration and depth of the state crisis. From April 1991 to January 2002 the convertibility law pegged the peso to the US dollar at par –i.e. a fixed exchange rate of one peso to the dollar. In the short run this sort of mechanism produced the stabilization of the peso and consequently the end of hyperinflation. In the long run it had negative consequences over long-term structural unemployment and social inequality. Furthermore, the convertibility law demanded the Central Bank to back the circulating amount of pesos with similar amount of reserves in dollars, which eventually could only be achieved by means of foreign loans, increasing the level of indebtedness of the country (Levitsky and Murillo 2003; Romero 2004)⁸.

Above all, the convertibility law left governments without the necessary policy tools to counterweight economic shocks (Levitsky and Murillo 2003: 153). As Sidicaro points out:

Economic programmes such as the Convertibility plan adopted in 1991 virtually repeal the states' capacities to counteract, through their monetary policies, the situations or actions carrying a negative impact on the balances of their economies. Beyond its simplistic technical features and its lack of sophisticated theory, the Convertibility was in essence a political issue, which assumed the withdrawal of the state from the field of

⁵ For analysis of different aspects of the crisis 2001-2002 see, for instance, Corrales (2002), Fiorucci and Klein (2004), Levitsky and Murillo (2003), Llach (2004), Rock (2002), and Schamis (2002).

⁶ Menem's administration privatized phone, mail, aviation, waterworks, energy, oil, train, and gas.

⁷ For analysis on the socioeconomic transformations during the 90s in Argentina, and its consequences, see Aronskind (2001), Azpiazu (1998), Lo Vuolo (2001), Thwaites Rey (1999). For a historical and sociological examination of the state crisis, see Sidicaro (2001).

⁸ Ruben lo Vuolo argues that during the convertibility period the economy fluctuated according to the indebtedness. The availability of credit grows during periods dominated by higher inflow of capital and restrictions to its exit. These flows were linked to speculative movements of capital and to extraordinary businesses such as the privatizations of public utility companies, and not to real investments. Argentina lived a fictional consumerist fever during those years, not reflected in higher rates of domestic saving, and with a completely passive monetary policy. It was evident that that situation was not sustainable (2001: 49).

monetary regulation and which, as in the case of any power relation, inevitable implied the handover of decision-making power to other actors. (2001: 65)⁹

II. 2. The more immediate events leading to the crisis. Duhalde's first months in the Presidency

In 1999 Fernando De la Rúa¹⁰, of the UCR, took office with the promise of continuing the *model* (of which the main features were the convertibility law, the openness to trade, and the removal of the state from areas such as health, education and social security) but *without corruption*, in a more transparent manner (Sidicaro 2001: 82-87; Llach 2004: 42).

However, the first couple of years of government showed that the corruption was a central component of the political system operation, and that this corruption had grown as a consequence of the state crisis deepened by neo-liberal policies (Sidicaro 2001: 83). It was also evident that the very logic of the convertibility led to a reinforcement of the adjustment policies in a failed attempt to retain foreign capital (Romero 2004: 35). These new adjustments did not succeed in bringing about economic upturn (Llach 2004: 45), but instead fostered a growing social discontent.

By mid 2001 the Minister of Finance Domingo Cavallo (former Menem's Minister of Finance) announced the *zero deficit* policy. The *zero deficit* would be achieved by cutting public spending, the measures include, for instance, a cut of 13 percent for all state wages of more than 500 pesos (Fiorucci and Klein 2004: 187; Rock 2002: 84). On 3 December Cavallo implemented the so-called *corralito*. The *corralito* limited the possibility of withdrawing money from bank accounts in order to stop the massive outflow of bank deposits (Fiorucci and Klein 2004: 188)¹¹. This limitation on bank withdrawals infuriated particularly the middle classes (Klein 2004: 4).

Following these events, after two –out of four- years in office, on 20 December 2001, De la Rúa resigned in the midst of riots and economic collapse. Protests were growing in intensity during this day and the previous one, in spite of the state of emergency decree (Klein 2004: 1). Demonstrators in the streets all around the country demanded De la Rúa resignation and shouted the slogan 'kick them all out'¹², in allusion to the government and politicians in general. The scenario was depicted by a tense political situation, critical socioeconomic conditions and the lack of state capacities to implement official decisions.

After De la Rúa's resignation, from 21 December 2001 to 1 January 2002, Argentina had four presidents. First, the chairman of the Senate Ramon Puerta, a member of the Partido Justicialista (Peronist Party, PJ) from the province of Misiones, assumed office. Two days later, on 23 December, another Peronist, Aldofo Rodriguez Saá from the province of San Luis, was elected President by the Legislative Assembly summoned by

⁹ My translation.

¹⁰ De la Rúa was the presidential candidate of "La Alianza". La Alianza was a coalition integrated by the UCR and the FREPASO.

¹¹ At this time withdrawals from bank accounts had reached 1 billion dollars per day (Rock 2002: 84).

¹² In Spanish: "Que se vayan todos, que no quede ni uno solo".

Puerta. On 30 December, Rodríguez Saá resigned in the midst of new *cacerolazos*¹³ and due to the lack of support from his own party. He was replaced for twenty four hours by Eduardo Camaño, the Peronist president of the Chamber of Deputies. On 1 January 2002, Eduardo Duhalde, a Peronist Senator from the province of Buenos Aires and former Vice-President of the Republic during the first administration of Menem, was appointed President (Klein 2004: 2-3).

Duhalde had been candidate to the Presidency in the 1999 elections and had lost to De la Rúa. Duhalde was, and still is, above all, the political boss of the PJ machinery of the province of Buenos Aires, the country's most important electoral district. On 1 January 2002 he was elected by the Legislative Assembly to complete the presidential term by a large majority (Fiorucci and Klein 2004: 189). He had the support of some of the most predominant socioeconomic actors as well. On 2 January 2002 Clarín reported that Duhalde had secured the support from the rural associations and from the national private banks, after long negotiations driven by Carlos Brown, one of Duhalde's delegates in the business community (*Clarín* 2 January 2002).

Duhalde faced the worst economic crisis ever seen in Argentina. The economist Lucas Llach reminds that the Argentine crisis represented the biggest fall in GDP suffered by any capitalist country since WWII (Llach 2004: 40). In a context of overall collapse of the business environment, during the first half of 2002, unemployment rate was close to 25 percent, while underemployment reached 22 percent (Klein 2004: 4).

As Klein remarks, the temporary administration did not have the necessary financial instruments required to cope with the deepening crisis. Tax revenues declined as a consequence of both the slow-down in the economy and the incapacity of the state to successfully collect taxes. The author also points out that the state institutions were not able to tackle the most urgent issues, such as the growing poverty. They simply did not have the required resources. Moreover, the *corralito* virtually froze the national banking system. Aid from international financial institutions, especially from the International Monetary Fund (IMF), was not an alternative due to the sovereign default declared by Rodríguez Saá (Klein 2004: 4).

Thus, with the banking system paralysed, the fall in the GDP, bankruptcy of enterprises, high unemployment, a deepened crisis of the state, social distress and political discontent, the year 2002 started. Some changes in the direction of the economy had been intended by the previous provisional presidents, but it was Duhalde's administration that in January 2002 decided to go ahead with the *pesification* and to end the convertibility –major changes in the economy. Among the first measures of Duhalde's administration were the asymmetric *pesification* (i.e., dollar deposits, loans, fares and contracts in general were converted to pesos at different exchange rates), the devaluation of the national currency, and the adoption of a free-floating regime on February 2002. The next section looks into the problem of the state, state incapacities and predominant socioeconomic actors from both theoretical and empirical perspectives, providing a historical overview for the Argentine case.

¹³ *Cacerolazos* is a way of protest mainly performed by middle-class people who went out on the streets banging on their kitchen pots. One of the main immediate reasons for these protests was the so-called *corralito*.

III. State, State incapacities, and predominant socioeconomic actors

III. 1. The concept of state, state capacities and incapacities, and the state crisis

Several studies have been carried out on the topic of states in relation to the economy and economic transformations (Evans 1985, 1992; Evans and Rueschemeyer 1985; Skocpol 1985; Skocpol and Weir 1985). Some of these studies are used as theoretical framework in this research. This paper takes into consideration the idea that a complete analysis of the relationship between state and economy “requires examination of the organization and interests of the state, specification of the organization and interests of socioeconomic groups, and inquiries into the complementary as well as conflicting relationships of state and societal actors.” (Skocpol 1985: 20).

In dealing with the concept of state, in relation with the problem of the capacities of states to implement economic decisions, Skocpol and Weir definitions are used. Skocpol defines state as actor and structures, explaining that “states may be viewed as organizations through which official collectivities may pursue distinctive goals, realizing them more or less effectively given the available state resources in relation to social settings.” (1985: 28). According to Skocpol and Weir the state is both a place from where it is possible to implement official decisions (the state as structure) and an amalgam of previous policy formulations and “institutional arrangements” (the state as a model of action) (1985: 111-118). The main idea is that states influence the likelihood of policy outcomes. Government officials would pursue a given policy if state structures make available specific mechanisms and instruments to formulate and implement this given policy. The range of policy options available to state functionaries is highly determined by the administrative tools that state structures provide (Skocpol and Weir 1985: 118)¹⁴. Nevertheless, the process of policy making is not just influenced by the policy instruments¹⁵ available, but also by the actions of predominant groups in society (Skocpol 1985: 20).

If state is both structures and actors, state capacity must refer also to structures and actors. Peter Evans elaborates on the idea of state capacities. The author says that state capacity implies both the expertise of highly skilled public servants within the state apparatus and a long-lasting and efficient institutional structure (1992: 141). State capacity entails the existence of state organizations capable of continued collective action (Evans 1992: 178). The coherent formulation and implementation of public policies needs the lasting institutionalization of effective organizations and well functioning institutional arrangements (Evans 1992: 141; Evans and Rueschemeyer

¹⁴ For instance, government officials of the Ministry of Social Welfare (i.e. a state structure) are more likely to pursue a cash transfer program for single mothers if they have at hand previous policies that could work as models, technical know-how to formulate the policy, economic resources to implement it, etc. (mechanisms and instruments to formulate and implement the policy).

¹⁵ Policy instruments are the means that states provide to implement a policy (Skocpol 1985: 18). For example, a national unemployment agency that centralizes registers of unemployed people in order to implement universal unemployment benefits.

1985)¹⁶. The durable institutionalization of state structures makes it possible to pursue policies that go beyond sectional interests and specific governmental alliances. For a state to be capable to intervene, effective bureaucratic organizations that endure beyond changes in governments as well as expertise and knowledge are needed. State capacity requires the existence of bureaucratic organizations, legislations, regulations, institutional arrangements and expertise able to go beyond particularistic interests and able to intervene in the economy and society.

State incapacities arise when inefficient state institutions and incompetent bureaucrats are in place. Inefficient state institutions are those public organizations that, in a continued and systematic way, do not fulfil their established functions or that do fulfil them but without reaching the (socially and legally) expected standards due to lack of economic resources and/or lack of established models of action (for public officials to follow). An example of this kind of situation can be a public hospital that does not take care of injured people because of lack of medicine or doctors. Another example can be the situation given by the inexistence of mechanisms within a state structure that allow outside experts to participate in the formulation of a given policy so that the resulting policy ends up being ineffective. Incompetent bureaucrats are those public servants that do not have the perspicacity and expertise, or even the necessary commitment with the task, to carry out their tasks by following the logic of long-term objectives and public interest. This incompetence can be related to a lack of preparation due to the inexistence of a bureaucratic career (lack of formation of specialized bureaucracies), it can have its roots in the recruitment system (maybe a non-meritocratic recruitment system), and/or it can be connected to the lack of motivation due to low wages or poor promotion schemes. An example of bureaucratic incompetence can be a politically appointed Minister more worried about fulfilling the demands of his/her support group than about the interest of broader sectors of society.

When a situation of state incapacity has reached a generalized level so that the incapacity in terms of inefficient state institutions and incompetent bureaucrats characterises the major part of the state apparatus, it could be said that the situation is one of state crisis. From a Weberian perspective, Sidicaro defines crisis of the state as “the deficient fulfilment of functions by state apparatus in modern capitalist societies” (2001: 95)¹⁷. These conceptual elements help to understand the problem of state capacities, the next subsection deals with this question in the Argentine case.

III. 2. State capacity and state incapacity in Argentina

By 1930, the first bureaucratic organizations to regulate the economy were established in Argentina. From 1930 to 1955 the bureaucratic capacities of the state broadened. According to Sidicaro, under these 25 years, the development of bureaucratic

¹⁶ For instance, if a government wants to implement a policy of industrial reorganization, it needs a central state organization able to control credit lines and able to intervene in different industrial sectors (Skocpol 1985: 20).

¹⁷ In order to tackle the problem of the crisis of the Argentine state, Sidicaro defines state by following some of Weber's classical elaborations (2001). Weber points out: “the basic functions of the state are: the enactment of law (legislative function); the protection of personal safety and public order (police); the protection of vested rights (administration of justice); the cultivation of hygienic, educational, social-welfare, and other cultural interests (the various branches of administration); and, last but not least, the organized armed protection against outside attack (military administration)” (Weber 1968: 905).

institutions and patterns of action of public servants experienced a noticeable advance inspired on what was being done in countries with an already developed modern bureaucracy (2001: 25). For instance, regulatory boards of different type of industrial and rural activities were created (2001: 28).

Although during the 1930s most of the legislations and bureaucratic instruments were aimed at preserving the interests of the big landowners (represented by the conservative political elite), those bureaucratic capacities survived different governments and were in place when the first Peronist administration took office in 1946 (Sidicaro 2001: 25-26).

Even before the first Peronist government, during the military administration 1943-1946, the state's intervention in the economy grew significantly, and new legislations and institutions were put in place to intervene in the relations between labour and capital. Actually, the state intervention in labour relations was the most important innovation during those years via state structures such as the Secretariat of Labour and Social Security (Sidicaro 2001: 29). The mid-1940s witnessed the creation of new legislations as well as official bodies dedicated to promote industrial development and to improve the living conditions of workers and the poorest sectors of society in general (Sidicaro 2001: 26).

Therefore, as Sidicaro argues, in terms of development of state capacities to steer the economy and society, the different governments from 1930 to 1955 pioneered in the creation of rules and bureaucratic organizations that survived beyond the conclusion of their respective governments (2001: 26). The author further concludes that during this "interventionist" period, state policies were based, in theory, on the preservation of the 'general interest' and, although the majority of concrete actions responded to the demands of particular social or economic actors with enough power to impose them, the resulting format of state-society relations produced decisions that effectively had a universal reach (2001: 103-104).

Sidicaro accounts that between 1955 and 1976 the establishment of institutional arrangements and bureaucratic bodies intended to regulate social and economic activities continued. However, the crisis of state capacities became increasingly evident in different areas. For instance, during those years the military bureaucracy dismissed every civilian government and, in this context of institutional instability, many state structures were created in a contradictory and inorganic way. Their functions were badly designed, or overlapped each other, and responded to the demands of political groups or corporate associations (Sidicaro 2001: 32).

Thus, even if it is difficult to identify the precise moment when the crisis of state capacities started, from the mid-1970s the consequences of this process reached almost every mechanism of state action (Sidicaro 2001). Some of the visible consequences, for example, were the deterioration of public education, health and social security, and the poor performance of state-owned enterprises in general (Sidicaro 2001: 94). The crisis of state capacities went deeper. Big corporations were granted subsidized loans and tax exemptions, were preferred for public contracts, obtained special concessions, or their debts were written off (Sidicaro 2001: 34). Moreover, due to the lack of bureaucratic careers and promotions based on merit, the selection of public officials was often based on nepotism, ideological or partisan affinity. The depreciation of the purchasing power of civil servants' wages led to a lower level of commitment with their tasks (Sidicaro

2001: 35-36). Besides, the military government that ruled the country from 1976 to 1983 contributed to the crisis of state capacities by means of, among other things, multiplying by seven the country's foreign debt. The increased foreign debt would act as a handcuff for all the subsequent governments (Sidicaro 2001: 42-43).

From the 1980s onwards no measures were taken to solve the crisis of state capacities (Sidicaro 2001: 46). One striking consequence of the virtual disappearance of the state capacity to guarantee the security of citizens and property were the events of looting by poor people during the hyperinflation crisis of 1988-1989 (Sidicaro 2001: 50-51). The 1990s decade witnessed the worsening of the crisis of state capacities. The combination of the existing state incapacities and the implementation of neo-liberal policies resulted in an even more critical situation. With the suppression of old regulatory mechanisms and with the privatization of state-owned enterprises, the crises of state capacities deepened (Sidicaro 2001: 96). On the one hand, the neo-liberal policies considered as a whole meant that the state finally renounced to its involvement in the steering of the economy by removing mechanisms of state action. On the other hand, as Sidicaro shows, the very implementation of those policies in a context of state incapacities deteriorated these capacities even further. For instance, the openness to trade faced the failure of customs controls. The inefficient customs administration prevented the strict collection of import duties that should have applied to those goods that entered to compete with the local industry (2001: 59). Or as in the case of privatization, the process resulted in a situation where the state lacked the necessary bureaucratic instruments to regulate the different economic areas newly privatized (Sidicaro 2001: 61). Together with the neo-liberal programme, the Convertibility law also contributed to the weaknesses of the state capacities¹⁸ by means of foreign indebtedness¹⁹. The years from 1999 to 2001 showed the growing weakening of the state capacities to impose official decisions to societal actors.

During the period this paper examines, the Argentine state was characterized by administrative disorganization, lack of coordination between bureaucratic activities, low commitment of public servants and general lack of trust in public administration, decisions made in accordance with private interests, instable *colonization* of state structures by predominant socioeconomic actors, etc. (Sidicaro 2001: 95)²⁰. Besides, during this period, the predominant socioeconomic actors obtained privileges, gains and punctual "rescues" but, unlike the "interventionist" period, the way to obtain them did not assume the inclusion of other interests (Sidicaro 2001: 104)²¹.

The weakness of bureaucratic capacities of the Argentine state has resulted in a widespread state crisis. The lack of bureaucratic instruments (regulations, laws, institutional arrangements, etc.), economic resources, and established models of action within state apparatus (provided by training or by previous policies) as well as the poor

¹⁸ As mentioned above, see section II.1.

¹⁹ Usually, in a situation where the indebted country and the creditor have an unequal position politically and economically, the second acquires the power of limiting the autonomy of the first.

²⁰ See also Aronskind (2001), Klein (2004), and Romero (2004).

²¹ An observable of administrative disorganization and instable *colonization* or cooptation related to the *pesification* case can be the creation of the Ministry of Production by Duhalde's administration (the ad hoc Ministry was going to be dissolved later) and the appointment of the president of the Argentine Industrial Association (UIA), José Ignacio de Mendiguren, as Minister of Production. Thus, the Minister of Production of Duhalde's administration represented those sectors of the predominant socioeconomic actors that were indebted in dollars.

perspicacity, expertise, and commitment of public officials, have given place to several consequences.

Among the consequences of state incapacity it is possible to identify the deficient fulfilment of state functions regarding public health, education, and social welfare; the lack of authority of the different branches of the administration of justice to protect acquired rights or to enforce existing laws; the high levels of tax evasion and the lack of sanctions against it; the decline of the acceptable levels of protection of citizens' security and public order; the incapacity of customs and migratory control; and, finally, the lack of respect for the division of powers together with the insufficient rationality and aptitude of the legislative power (Sidicaro 2001: 15-16).

By keeping in mind Skocpol definitions and Sidicaro elaborations as well as Evans concepts, this paper suggests the hypothesis that, during the period under examination, Argentina was characterized by a deep crisis of state structures that implied a lack of state capacities to implement government's decisions and to fulfil state's functions. On this background of high state fragmentation, predominant socioeconomic actors put forward their demands and interacted with state functionaries and politicians. This interaction defined the state-society relationship as well as the further conditions of the state crisis itself. The *pesification* resulted from this complex scenario characterized by the crisis of state capacities. In this scenario the power struggle took place and eventually led to a policy outcome that favoured the predominant socioeconomic actors. The next paragraph deals with the concept of predominant socioeconomic actors, before continuing with the topic of *pesification* in section IV.

III. 3. The concept of predominant socioeconomic actors

To explore the relationship between state and socioeconomic actors, Sidicaro's concept of predominant socioeconomic actors is brought into the analysis. The author defines predominant socioeconomic actors as "a heterogeneous group of agents whose activities have a strategic influence over the domestic economy and, consequently, their actions or omissions have great importance over the whole of social relationships in society" (Sidicaro 2002: 18)²². The following subsection specifies the predominant socioeconomic actors in Argentina during 2001-2002.

III. 4. The predominant socioeconomic actors in Argentina 2001-2002

The composition of the predominant socioeconomic actors varies from country to country and historically. The classification of this group of actors during the period under examination (2001-2002) in Argentina includes economic conglomerates, local independent enterprises, foreign conglomerates, transnational enterprises, privatized utility companies, and national and foreign banks²³. The predominant socioeconomic

²² My translation.

²³ It is useful as well to take into consideration the classification made by Basualdo, Lozano and Schorr (2002) because it allows to identify the specific companies that benefited from the *pesification* (see Appendixes 1 and 2). The authors classify different types of companies according to their capital composition and identify conglomerates, associations, foreign conglomerates, transnational enterprises, and local independent enterprises. Economic conglomerates ("Grupos económicos") are conglomerates of

actors play important roles within not just the economy but the political field and the society as a whole²⁴. Their influence is channelled by associations or chambers (in the case of activities where several enterprises participate), the very same owners or directors (in the case of local independent enterprises), embassies or foreign governments (in the case of foreign capitals or privatized utility companies) (Sidicaro 2002: 18). This study examines the statements made by corporate associations and chambers as well as directors and delegates of firms that undertake the representation of these predominant socioeconomic actors.

These associations and chambers are the Argentine Industrial Association (UIA), the Argentine Building Chamber (CAC), the Argentine Chamber of Commerce (CAC), the Argentine Rural Society (SRA), the Argentine Rural Confederations (CRA), the Argentine Bank Association (ABA), and the Public and Private Bank Association of the Argentine Republic (Abappra). Statements by representatives of privatized utility companies and transnational enterprises, their managers or officials of foreign governments, are also examined. It is important to note that the UIA, the CRA and the Argentine Building Chamber were members of the Production's Group which had a leading role in the process that led to the *pesification*²⁵. Moreover, one of its main delegates, José Ignacio de Mendiguren, left his post as president of the UIA to become Minister of Production during Duhalde's administration.

The selection of these actors is based on the assumption that by focusing on their actions and their relations with government officials, it is possible to better examine the formulation of the *pesification* policy and to understand the question of *pesification* as the result of power struggles and state incapacities. The next section looks into the different proposals of *pesification* that were formulated, the struggle of power triggered around this policy, and the results regarding the final scope of *pesification*.

local capital that own more than six companies in the domestic economic market; associations are consortiums composed by different capitals that operate mainly within the area of privatized public utilities; foreign conglomerates are similar to conglomerates but controlled by foreign capitals; transnational enterprises are enterprises of foreign capital with less than six companies operating in the domestic market; and, local independent enterprises are enterprises of local capitals without the structure of a conglomerate (Basualdo, et al 2002: 6, my translation).

²⁴ In the period under examination in Argentina, trade unions can not be considered a predominant socioeconomic actor, while in other countries (and even in other historical moments in Argentina) unions could fit well in the definition given above. For insights on the political role of trade unions in Argentina, see for instance Gutiérrez (2001), Murillo (1997), and Torre (1983).

²⁵ The Production's Group was integrated by many industrials that had supported the neo-liberal reforms during the 90s and had ended up seeing negative results from those reforms.

IV. The power struggle in a context of state incapacities

IV. 1. The period preceding the first *pesification*

On 16 December 2001 *Clarín* referred to the free-floating exchange regime and the *dollarization* (the use of US dollar as local currency) as the two options De la Rúa's government had on its desk. The newspaper enumerated the reasons De la Rúa's administration had to continue the pegging system. One of the reasons had to do with the threat of inflation. Another reason lied in the powerful lobby by the financial sector and privatized utility companies²⁶. These actors had been lobbying for the continuation of convertibility (*Clarín* 16 December 2001). However, the climate of acceptance that convertibility was unsustainable was growing in importance, though differences persisted around the actions to be taken.

One of the main concerns about devaluation of the peso was the situation of those indebted in dollars. Rural producers as well as industrialists were worried about how to pay their debts back in case of devaluation, even if the prospect of devaluation would imply significant increases in the value of exports. Also bankers were apprehensive about the possibility of a widespread default on loan repayments, auctions and bankruptcy. Thus, *pesification* as the conversion to pesos of all debts and deposits started to be seen in this context as the most 'realistic solution' because indebted predominant socioeconomic actors wanted their debts reduced and banks intended to avoid default on loan repayments.

Nevertheless, economists linked to the PJ²⁷ had contending opinions. Some favoured a "*pesification* followed by free-floating regime" plan (those related to the future President Duhalde), while others preferred "devaluation and subsequent dolarization" (those linked to the ex-President Carlos Menem) (*Clarín* 21 December 2001). Eventually, the option for *dollarization* would loose its weight on government's decisions, throughout the end of the year and, more undoubtedly, during the first months of 2002.

Clarín alluded to this change in perceptions also in its edition of 21 December 2001: "Yesterday bankers and industrialists recognized that the pegging regime one-to-one would end before New Year". Nevertheless, there were two different programmes. On the one hand, the devaluation and dollarization of the economy was the alternative preferred by foreign banks and privatized utility companies. On the other hand, the Production's Group favoured the free-floating regime and the conversion of all debts and deposits to pesos. This last option was supported by a sector of Peronist politicians and economists (*Clarín* 21 December 2001).

On the same day of 21 December 2001, *La Nación* newspaper reported that the Peronist deputy and economist Jorge Remes Lenicov, who would be the Minister of Finance of Duhalde's administration, was working on, together with other Peronist economists, a "National Rescue Programme", whose main point was the *pesification* of the economy

²⁶ The privatized utility companies had not just the fares in dollars but the variation of these fares was pegged to US inflation too. Dollarization was much closer to the way they operated since the beginnings.

²⁷ Maybe it is necessary to recall that the PJ was holding office since the fall of De la Rúa.

and the subsequent devaluation of the national currency. Approving opinions around the *pesification* venture were shared by deputies from the PJ and the UCR as well as representatives of the UIA. Duhalde, who would be the president from 1 January 2002, had already declared “as the days go by, avoiding devaluation becomes more difficult”, while the Radical governor of the province of Chaco Angel Rozas had complained to De la Rúa that the convertibility did not exist anymore because it did not have a monetary basis (*La Nación* 21 December 2001). Also Ramón Puerta, who was in charge of the Executive during those days, wanted the peso to float but he recognized that, before making any change in the exchange rate regime, it was necessary to convert all debts and deposits to pesos in order to avoid the devaluation affected too much those indebted in dollars (*La Nación* 21 December 2001).

On 22 December one of Clarín’s headlines was “Industrialists demand free-floating exchange regime” and it reported that the main elements of the Production’s Group programme, which the government was going to consider in the following days, were the *pesification* and the free-floating exchange regime (*Clarín* 22 December 2001). According to *La Nación*, the Production’s Group struggled for an immediate transition to a ‘dirty’ floatation. Their economic plan involved the conversion to pesos of all debts and savings in dollars followed by the devaluation of the national currency, as an attempt to avoid the bankruptcy of those indebted in dollars (*La Nación* 23 December 2001).

The newspaper also alluded to contending views within the PJ. It reported that Duhalde liked the proposals of the Production’s Group, while other sectors of the PJ did not like it at all. *La Nación* reported that while analysing the *pesification* proposal, one Peronist deputy gossiped to another: “de Mendiguren sold his company, Coniglio, to the Exxel²⁸. If he has his dollars abroad, maybe he will bring them back after devaluation and buy three companies like the one he sold” (*La Nación* 23 December 2001). *La Nación* also accounted that the big foreign banks and the privatized utility companies were simply horrified by the prospect of devaluation and preferred dollarization at the exchange rate of one-to-one (*La Nación* 23 December 2001).

In any case, the strong lobby by bankers and privatized utility companies restrained the government from moving forward with the devaluation and *pesification* proposals. The then President Adolfo Rodríguez Saá promised that the convertibility would be maintained (*Clarín* 23 December 2001).

It was in the beginning of 2002, after the appointment of Duhalde as president, that the *pesification* proposal was brought up once more and the prospect of the end of convertibility became a reality again. The government’s economic plan considered in a first step to set an “official” exchange rate of 1.30 pesos per dollar, what implied a “controlled devaluation”; the *pesification* of debts as a measure to counterweight the negative effects of devaluation on debtors in dollars and, at the same time, avoid a generalized default that would affect the banks; and, the upholding of the original currency of bank deposits which were going to be gradually returned with the maintenance of the *corralito* (*Clarín* 2 January 2002).

²⁸ The Exxel Group is a foreign conglomerate.

In this first formulation, the *pesification* proposal left out of scope the dollars of savers. Indeed, one of the first promises made by Duhalde was that those persons who had deposited dollars would get dollars back. To compensate the banks for the difference between 1.30 pesos per dollar, which was going to be the exchange rate, and the 1 peso per dollar that they were going to receive from debtors, the government would issue a state bond that would be financed with a loan of 16,000 million dollars from the Inter-American Development Bank (IDB) and the World Bank (WB)²⁹ (*Clarín* 2 January 2002).

This economic plan took the form of what was going to be the Law of Public Emergency. The law, apart from the “controlled devaluation” of around a 30 percent (eventually it was of 40 percent), the *pesification* of debts, and the upholding of the original currency of bank deposits, authorized the government to fix the exchange rate it considers convenient (*Clarín* 3 January 2002).

Concerning the *pesification* considered in the proposed law, Clarín informed that the devaluation would not affect debts of individual persons and middle size enterprises up to 100,000 dollars. These debts would be converted to pesos at the one-to-one exchange rate. To compensate creditors for the cost of pesification, the government would apply an emergency tax on oil exports to collect the required funds. Debts above 100,000 dollars would not benefit from pesification (*Clarín* 4 January 2002).

The logic of *pesification* within this law had to do with the aim of protecting the bank system from the total collapse that would have occurred in case of generalized default on credit repayments or mushroomed mortgage auctions and bankruptcy of small and medium sized debtors³⁰. The compensation to banks was central to the viability of the asymmetric *pesification*. It was not clear whether this compensation would be financed by oil export tax revenues, as informed by Clarín on 4 January, or by foreign credits, as informed by the same newspaper on 2 January.

On 6 January Clarín reported that functionaries at the Ministry of Finance had expressed that it was possible to put more pressure on oil companies and privatized utility companies, but they could not do the same with the banks, because they were already too damaged and were needed for the recovery of the economy. Banks were going to keep the money from savers and would be additionally compensated via the emergency tax on oil exports (*Clarín* 6 January 2002).

On 6 January 2002, the Congress passed the Law of Public Emergency that, among other measures, specified the end of convertibility, authorized the Executive to set the exchange rate for the peso, and stipulated the *pesification* of debts up to 100,000 US dollars at the exchange rate of 1 peso to the dollar as well as fares of privatized utility

²⁹ The government would negotiate this loan within the next days in Washington. A loan from the IMF for 15,000 million dollars was also expected to covert the compensation to the banks and to support the new exchange rate (*Clarín* 3 January 2002).

³⁰ Moreover, it should be noted that a clear change in the consensus that had defined the previous decade was taking place. Some political affinity to the projects hold by the Production’s Group was not absent from the calculations of governmental actors. As *La Nación* observed: “The deputy, who conducted the Peronist Party bloc at Congress during most of the *menemist* era and who drove the discussions over the Convertibility Law and the privatization of public utility companies, said that the law under consideration [the Law of Public Emergency] does not ‘contradict’ the spirit of those days, but represents a different ‘vision’ of the situation.” (*La Nación* 5 January 2002).

companies. The law also determined the additional tax on oil exports in order to fund a state bond to compensate the banks for the difference between receiving loan repayments in pesos and returning deposits in dollars (*Clarín* 6 January 2002; *La Nación* 5 January 2002). As expected, this decision of taxing oil exports triggered adverse feelings from the part of petrol companies.

The lobby by these companies against the Law of Public Emergency had a closely related dynamic with that of other privatized utility companies. The way of lobbying and negotiating was very similar –via the companies’ managers and/or functionaries of foreign states from which those companies come. One of the main complaints of privatized utility companies had to do with the government’s decision of converting to pesos the dollarized fares of these companies and eliminating their indexation according to the US Retail Price Index. About this lobby *Clarín* said that the government was under the pressure not only from the directors of these companies, but also from senior officials of the Spanish government led by President José María Aznar (*Clarín* 6 January 2002).

The lobby also came from the financial sector before and after the law was approved. One major contending aspect of the law was the precise cost of *pesification* and the compensation for this cost as well as the question of how the government would finance this compensation. From the sanctioning of the Law of Public Emergency by the Congress, and then by the Senate, to its implementation through the governmental decree of 10 January, there was a struggle between government and banks.

As it has surely become evident through the exposition of the facts until now, the situation of Banks was twofold. On the one hand, banks did not want to see their repayments converted to pesos. On the other hand, they knew that it was going to be difficult if not impossible to have their money back in dollars with a very likely scenario of widespread default on loan repayments and/or bankruptcy of debtors (it was maybe this certainty, among other things, what induced the banks to eventually support the Production’s Group lobby for *pesification*). Consequently, representatives from the financial sector lobbied for compensation in case of *pesification* of debts (*Clarín* 6 January 2002; *Clarín* 9 January 2002).

Regarding the cost of *pesification*, the government and the banks differed on the calculations. On 9 January 2002 both *La Nación* and *Clarín* reported a meeting between the Minister of Finance and ABA. According to *La Nación*, during the meeting ABA expressed support for the government’s effort to achieve sustainable growth but there was no agreement on the compensation the banks demanded for the *pesification* of credits (*La Nación* 9 January 2002). The banks seemed really afraid of not just the likely miscalculations made by the government, but also of the source from where this money would be obtained. *Clarín* specified that ABA members presented their concerns about the insufficiency of resources to finance the compensation (*Clarín* 9 January 2002). The government calculated the cost of *pesification* in around 6,000 million dollars. In fact, according to *Clarín*, on 6 January, a high senior functionary had affirmed that the Argentine state, and not the banks, would bear the cost of *pesification*, estimated in 6,000 million dollars (*Clarín* 6 January 2002).

However, ABA calculated that the cost of *pesification* would be above 10,000 million dollars, and even 15,000 million dollars in some declarations, and thus the tax revenues

from oil exports estimated to 5,000 million dollars within 5 years were not going to be enough to finance the compensation. The Minister of Finance, Remes Lenicov, replied that the Law of Public Emergency also stipulated the use of foreign credits and other sources to finance the compensation to the banks (*Clarín* 9 January 2002; *Clarín* 10 January 2002). Besides, the taxation on oil exports as a source of revenue to finance the compensation started to mutate towards a nicer formulation for the petrol companies (*Clarín* 10 January 2002). Thus, it was not certain what would be the definitive source of funding for the compensation.

Another major contending aspect of the law was the scope of *pesification*. This aspect was connected as well with the question of compensation and the amount of money needed for this compensation scheme. If the government wanted to keep its promise of upholding the original currency of bank deposits but, at the same time, to convert loans made in dollars to pesos in order to avoid a generalized default, auctions and bankruptcy, and the eventual fall of the banking system, it would have to limit the scope of *pesification* in order to be able to compensate the banks for the difference. Actually, as *La Nación* reported, the Executive vetoed a section of the Law of Public Emergency that allowed the *pesification* of credits above 100,000 dollars in case of mortgage loans granted to sole family residence and in case of obligations contracted by micro, small and middle size enterprises. The justification of the veto was that the government did not have the necessary funds to compensate the banks if *pesification* was going to cover credits above that amount (*La Nación* 7 January 2002). At least this was the range of options for the government at that time. The scenario was going to change in the middle of struggles, demands and lobbies especially after the *pesification* decree.

To inaugurate this scenario, on 10 January 2002, the government decreed the *pesification* considered in the text of the Law of Public Emergency (*Clarín* 11 January 2002). The decree no. 71 established the *pesification* of debts within the banking system up to 100,000 dollars, while deposits were left out of this first scheme of *pesification*. As for the case of credits above 100,000, which had not been reached by *pesification*, the idea was that loans' maturity would be postponed around 20 percent and interest rates lowered (*La Nación* 11 January 2002).

According to *Clarín*, the *pesification* decree prescribed that the exchange rate of one peso to the dollar would be maintained for mortgage loans up to 100,000 dollars granted to sole family residence, loans for improvement of houses and residence up to 30,000 dollars, loans for purchase of cars and light vehicles up to 15,000 dollars, personal loans up to 10,000 dollars, loans for purchase of trucks and heavy vehicles up to 100,000 dollars, loans up to 100,000 dollars contracted by small and middle size enterprises (*Clarín* 11 January 2002; see also *La Nación* 10 January 2002). The official exchange rate would be 1.40 pesos per dollar. This official rate would be, however, only applicable to a limited number of transactions, mostly related to foreign trade, and would be used to set the value of the transfers from dollars to pesos of the banks accounts. All other operations were going to take place in the open market place, not regulated by the Central Bank (*Clarín* 10 January 2002).

Having settled the scope, the demands (for the *pesification* of debts above 100,000 dollars) started to be heard louder and the power struggle unfolded openly. The contention would become much stronger in the next sub-period. The following section

analyses the actions taken by predominant socioeconomic actors in the process that led to the *pesification* of the whole economy.

Box 1. From 16 December to 10 January 2002, facts in brief

The government evaluated the *pesification*-devaluation alternative.

Banks and privatized public utility companies opposed to devaluation and preferred dollarization.

By 21 December 2001 approving opinions around *pesification* were shared by deputies from the PJ and the UCR as well as representatives of the UIA.

The Production's Group wanted the *pesification* of all debts and deposits.

The strong lobby by bankers and privatized utility companies restrained the government from moving forward with the devaluation and *pesification* proposals.

Faced with the very likely devaluation, banks started to see *pesification* as a solution to avoid widespread default on loans repayments.

In the beginning of 2002 the *pesification* proposal was brought up once more and the end of convertibility became a reality.

On 6 January the Congress passed the Law of Public Emergency. Debts up to 100,000 dollars would be converted to pesos at the exchange rate of one peso to the dollar. Banks would be compensated for the cost of *pesification* by means of the money the government sought collect from the application of a tax on oil exports. Debts above 100,000 dollars would not benefit from *pesification*.

Lobby by petrol companies because of this decision of taxing oil exports.

Major contending aspect of the Law of Public Emergency: compensation to banks.

Thus representatives from the financial sector lobbied for compensation in case of *pesification* of debts.

From the sanctioning of the Law of Public Emergency to its implementation through the governmental decree of 10 January, there was a struggle between government and banks.

Another major contending aspect of the law: the scope of *pesification*.

On 10 January the government decreed the *pesification*. It established the *pesification* of debts within the banking system up to 100,000 dollars, while deposits were left out of this first scheme of *pesification*. Credits above 100,000 had not been reached by *pesification*.

Once decreed, voices against the *pesification* started to fill page after page in the main newspapers.

The contention would become much stronger in the next sub-period.

IV. 2. Reactions to the first *pesification*

Once decreed the *pesification*, voices against it started to fill page after page in the major newspapers. The SRA, which until then has not appeared in the debate, was one of the first in disapproving the “partial *pesification*” that had not reached producers indebted with more than 100,000 dollars. The association of big landowners expressed that there was a big concern for the situation of many farmers, especially those in the provinces (*La Nación* 12 January 2002). The Argentine Chamber of Commerce (CAC) questioned the scope of *pesification* settled by the government and asked for an exceptional treatment for small and middle size business indebted in dollars (*La Nación* 13 January 2002; see also *Clarín* 14 January 2002). Even from individual citizens opposing voices emerged (*La Nación* 15 January 2002) which added to those who had banks deposits trapped in the *corralito*.

From the side of government some palliative measures regarding mortgage loans were proposed. It could be said that these measures sought to calm those voices from the ‘citizenry’, while removing public support from those more powerful voices of predominant socioeconomic sectors. The idea was that mortgage loans above 100,000 dollars could be repaid at the official exchange rate –i.e. an exchange rate of 1.40 pesos to the dollar- instead of the free-floating exchange rate that by then had reached 1.70 pesos per dollar (*Clarín* 12 January 2002). The problem again was the compensation to banks for the difference. Hence one of the instruments proposed was a “Fund of Aid for the financial system” to reduce the negative impact of the *pesification*. The fund would be financed with the revenues of the oil export tax and with credits from the IMF or the WB (*Clarín* 13 January 2002).

The discussion was based on two questions. On the one hand, the problem remained the way banks would afford the difference between collecting the repayments in pesos (even at the exchange rate of 1.40 pesos per dollar) and returning deposits in dollars (the government still wanted to keep its promise). Government commitment was that the state would bear the cost of *pesification*. Besides, bank associations were afraid of the possibility of default on loan repayments above 100,000 dollars. On the other hand, corporate associations (from rural activities, industry as well as commerce and trade) wanted their debts converted to pesos. Intensive meetings between the government and representatives of banks and big companies defined the subsequent actions in a context of state incapacities that made it difficult for the government to implement its decisions.

On 14 January 2002 *Clarín* headlined “The idea of broadening optional *pesification* is gaining ground” and it explained that the government had received proposals from financial experts suggesting an optional, or compulsory in the worst case scenario, *pesification* of the whole financial system, credits and deposits. And, in the same article, *Clarín* added that to implement this plan, the President should review the promise made when he took office: all deposits were to be returned in their original currency (*Clarín* 14 January 2002).

The banks not just argued that it was impossible to return deposits in dollars but also openly favoured the *pesification* of the entire system (*Clarín* 14 January 2002). Banks considered that the situation given by the *pesification* of debts but not deposits placed in

the verge of bankruptcy many financial institutions, even the foreign ones³¹ (*Clarín* 14 January 2002). Moreover, the Production's Group also advocated the *pesification* of the whole economy, agreeing for the first time with both bank associations. The Production's Group would join its demands with ABA and Abappra (*Clarín* 14 January 2002).

On 15 January both newspapers informed its readers of the Central Bank decisions on credits of more than 100,000 dollars. These credits, which had not been affected by *pesification*, would have to be repaid at the free-floating exchange rate, and to cushion the impact loan's maturity would be postponed up to 30 percent as well as the interest rate lowered (*Clarín* 15 January 2002; see also *La Nación* 15 January 2002). The government was trying to attend demands from both the banks (by setting the free-floating exchange rate for loans repayments) and the indebted sectors (by postponing loan's maturity and lowering interest rates).

As soon as the next day, *Clarín* reported that the UIA had asked the government, through a communiqué, the *pesification* of all debts at the exchange rate of one peso per dollar. By framing their sectional demands with honourable declamations for economic growth and by playing the role of indebted families' protectors, the aim of the UIA communiqué was clear. The communication pointed out:

We are aware of the sincere conviction of the President and his cabinet to set an alliance with the productive community, as a way to boost economic growth and employment. Therefore, the Industrial Union considers a necessity to move towards a full *pesification* of all debts, the only way to make feasible for families and companies the repayment of debts. (*Clarín* 16 January 2002)

On the very same day the government backed down from its decision to employ the free-floating exchange rate for loans repayments above 100,000 dollars. Instead, debts could be repaid at the official exchange rate of 1.40 pesos per dollar (*La Nación* 16 January 2002). Besides, on 16 January Duhalde called a meeting with the Production's Group, his economic team, and the Ministers of Production (de Mendiguren) and Finance (Remes Lenicov) where they agreed on the inconsistency of the first measures (*Clarín* 4 February 2002). During this meeting the consensus for the *pesification* of the whole economy started to be shaped.

The government took some steps to have more dollars converted to pesos within the economy. It wanted people to voluntarily choose to use pesos instead of waiting to get their unmoving dollars back (*La Nación* 18 January 2002). The government made more flexible the *corralito* for those who opted for converting their savings to pesos. This measure, actually a group of measures, can be understood as a way of counteracting the negative effects the *pesification* of debts caused on the financial system. Besides, these measures can be comprehended simultaneously as a way of testing the likelihood of converting the whole economy to pesos. *La Nación* pointed out that although it was not yet officially recognized, the government was slowly moving towards the *pesification* of the whole economy (*La Nación* 18 January 2002).

It would be soon admitted in official declarations that the total *pesification* of the economy was part of the government's reformulated programme. The President

³¹ The alternative of support to local branches of foreign banks from their parent banks abroad was not contemplated.

declared that the purchasing power of the money people had deposited in the banks was going to be maintained, though not the banknote (the dollar) which was not there anymore (*La Nación* 20 January 2002). *La Nación* also published an interview with the Minister of Finance where he said that the government's plan was the *pesification* of all economic contracts and that he was working on how to solve the imbalances of the financial system and the question of companies' debts (*La Nación* 20 January 2002). The next day was de Mendiguren's turn. He proclaimed that the *pesification* was the key to growth and that the indebtedness of productive sectors was one of the main problems to solve (*La Nación* 21 January 2002). The Minister of Production was definitely more worried about fulfilling the demands of the group he belonged to (the *pesification* of debts above 100,000 dollars) than about proposing lines of action favourable to a broader section of society³².

Between the pressures from banks to solve the imbalances created by the *pesification* of credits but not deposits, as well as to avoid generalized default on loan repayments, and from the Production's Group to have their debts *pesificated*, the government finally opted for the *pesification* of the whole economy. Hence, on 22 January the government had already decided the *pesification*. An important part of the predominant socioeconomic actors' demands had been fulfilled. What remained unsolved was how to do it. Specifically at which exchange rate deposits and debts would be converted to pesos and how to finance the *pesification* cost that would be borne by the state. This decision was in part the result of a struggle between bank associations and business associations together on the one side, and state functionaries on the other. How did this dispute unfold?

The UIA and the Argentine Building Chamber immediately expressed its support to the government's decision of making the *pesification* extensive to the whole economy (*La Nación* 22 January 2002). The rural sector celebrated the decision as well (*Clarín* 26 January 2002). Besides, bank associations were keen on the *pesification* plan since it melted away the possibility of a generalized default. However, banks had still concerns about the persistent imbalances and continued to ask for compensation in case of asymmetric *pesification* –i.e. the conversion to pesos of debts at the one-to-one exchange rate and deposits at the 1.40 pesos per dollar rate (*La Nación* 22 January 2002).

Regarding the way to implement the *pesification* of the economy, *La Nación* said that the most feasible alternative considered by the government was to convert both credits and deposits at the rate of 1.40 pesos per dollar. It also reported that functionaries from the Ministry of Finance had declared that the conversion to pesos of debts above 100,000 dollars would not be at the exchange rate of one-to-one. However, it also informed that the team from the Ministry of Finance had started to review those figures, upon the pressures from both the banks and the debtors, and was studying a *pesification* in balance between debtors, savers and banks (*La Nación* 29 January 2002; see also *Clarín* 29 January 2002).

Among the alternatives there was the conversion to pesos of all kind of debts at the exchange rate of one-to-one and of deposits at the official exchange rate of 1.40 pesos to the dollar. In this case banks would be compensated with a state bond. To finance that

³² It should be recalled what it was said about the characteristics of the Argentine state during 2001-2002, see page 15.

bond it was necessary to get foreign credits, the possibility of getting that money from oil export revenues had almost been ruled out as a result of petrol companies' lobby. The government could not impose the decision of taxing oil exports. Another alternative was to implement the average exchange rate of 1.20 pesos per dollar in case of credits above 100,000 dollars and the exchange rate of 1.40 pesos per dollar in case of deposits³³ (*Clarín* 29 January 2002).

On 30 January *Clarín* referred to the increasing consensus of this second alternative among state functionaries. Besides, the plan included an updated index based on the inflation rate for debts and deposits. And the government was still looking for credits to finance the compensation to banks (*Clarín* 30 January 2002). Government officials evaluated that if the *pesification* of debts above 100,000 dollars would be made at the exchange rate of 1.20 pesos to the dollar, the total cost for the state (including the cost of the already *pesified* debts up to 100,000 dollars) would be 14,000 million pesos. If, instead, the *pesification* of these debts would be made, as corporate associations demanded, at the exchange rate of one peso to the dollar, the cost for the state would rise to 20,000 million pesos (*Clarín* 31 January 2002; see also *La Nación* 2 February 2002).

On 31 January bankers represented by ABA met President Duhalde. Their main concern was that if debts were converted to pesos at the rate of 1.20 pesos per dollar, it would be very likely that the majority of debtors would not be able to repay their credits (*Clarín* 2 February 2002; *Clarín* 4 February 2002). Meanwhile, the Production's Group presented the very same concerns to the Minister of Production (*Clarín* 2 February 2002), while expressing their complete support to the President from whom they got the commitment of solving the situation of those companies highly indebted in dollars (*La Nación* 31 January 2002). Both groups had similar interests and they would join their demands.

On 1 February *Clarín* headlined "Deposits will be *pesified* at 1.40 and the higher debts at 1.20". It seemed that the decision had been already taken. However, within the same article, the newspaper reported that the central claim of the productive sectors was the *pesification* of credits above 100,000 dollars at the one-to-one exchange rate. This claim was presented to Duhalde on 31 January 2001 by the leaders of the four farming entities, the CGE, the CAME, the Industrial Union of Buenos Aires, the Association of Industrialist from Buenos Aires, and the Association of Entrepreneur Women, among others (*Clarín* 1 February 2002).

The demand for the conversion to pesos of debts at one-to-one exchange rate by predominant socioeconomic actors continued. Furthermore, an alliance was made by the productive and financial sectors. As *Clarín* accounted, government officials had anticipated that the conversion to pesos of debts above 100,000 dollars would be done at 1.20 pesos per dollar. But the request from the entire local business community to the Ministry of Finance (presented together by ABA and the Production's Group) was the

³³ This paper leaves aside the examination of why and how the government arrived to the decision of *pesificate* deposits at the exchange rate of 1.40 pesos per dollar. However, it could be noted that the limits for political manoeuvre in this regard had been imposed to the government by savers and by the tense situation concerning the credibility of the financial system and its survival. Some quote of credibility in the banking system should have been preserved so that deposits would come back to banks in the future, making viable the survival of the financial system.

pesification at one-to-one of all debts. Anything else, they argued, would result in generalized problems in the repayment of loans (*Clarín* 2 February 2002).

Banks wanted to avoid any risk of default. Indebted predominant socioeconomic actors wanted to have their debts reduced. Thus, business corporations, rural and bank associations joined their forces to lobby for the *pesification* of the biggest debts at the same exchange rate than the smaller ones (*Clarín* 2 February 2002; *La Nación* 2 February 2002). Besides, both bank associations (ABA and Abappra) tried to agree with the government the specific amount of money for the compensation (*Clarín* 3 February 2002)³⁴.

For the first time in the entire period the configuration of predominant socioeconomic actors clearly changed to a unified bloc between financial and productive sectors. And this change in the configuration of actors would have a fundamental role in making the government modify its decision about the scope of *pesification*. The fact that both groups, the financial sector and the productive sector, were unified was a decisive factor to make state functionaries eventually decide the *pesification* of major debts at the exchange rate of one peso to the dollar. By the last days of January, the Vice-Minister of Finance had declared “if creditors and debtors agree, we’ll go for the one-to-one.” (*Clarín* 4 February 2002).

Finally, in the evening of 3 February 2002 the government officially announced the *pesification* of all debts at the exchange rate of one-to-one. Deposits would be converted to pesos at the rate of 1.40 pesos per dollar. Both deposits and credits would be updated through an index based on the inflation rate³⁵. As well, the government gave the option to the owners of fixed-term deposits up to 30,000 dollars (which according to the Minister of Finance accounted for 93 percent of all individual deposits), to opt between an automatic conversion of their savings to pesos and the exchange of their money with public bonds in dollars³⁶. These bonds would have a longer repayment time frame, and would have the state as creditor instead of a bank (in the precise moment when the state was near bankrupt). The annual interest paid by the state bonds would be 2 percent (*Clarín* 4 February 2002; *La Nación* 3 February 2002; *La Nación* 4 February 2002; *Página 12* 4 February 2002).

The announcement also included the unification of the exchange market³⁷ by adopting a free-floating regime, albeit with the intervention of the Central Bank –i.e. a dirty (managed) floating regime. Besides, the compensation to banks through a state bond for around 20,000 million pesos would be financed with foreign credits, there would be no tax retentions to any productive sector (*Clarín* 3 February 2002). At this time it seemed more likely than before that the government would get those credits after all (*Clarín* 4 February 2002; *La Nación* 3 February 2002; *La Nación* 4 February 2002; *Página 12* 4 February 2002).

³⁴ By then, bank’s calculations were around 20,000 and 30,000 million dollars.

³⁵ The coefficient of reference stability (CER) was a monthly updated index based on the consumer price index of the previous month (*Clarín* 5 February 2002). The function of the CER was to index deposits and credits to inflation.

³⁶ A similar mechanism was implemented in 1990, the so-called “Plan Bonex”. Regarding this point, it is interesting what Skocpol and Weir say about the role that policy legacy has on the formulation of current policies (1985: 118-163).

³⁷ Until then there were two exchange rate regimes, the official exchange rate and the free-floating exchange rate.

Thus, the result of the struggle was an asymmetric *pesification*. Debts were converted to pesos at the exchange rate of one peso per dollar while deposits were converted at the exchange rate of 1.40 pesos per dollar. And the government decided that the state would bear the cost of this asymmetry through bonds worth around 20,000 million pesos³⁸. The state, and thus society as a whole, was the actual *loser* of this struggle.

Box 2. From 11 January to 3 February 2002, facts in brief

First, debts of more than 100,000 dollars would have to be paid at the free-floating exchange rate (that by then had reached 1.75 pesos per dollar) and debts up to 100,000 dollars at the exchange rate of 1 peso per dollar. The original currency of bank deposits would be preserved.

Business Corporations wanted the *pesification* of debts above 100,000 dollars.

Then, the exchange rate would be of 1.40 pesos per dollar for debtors with more than 100,000 dollars, and 1 peso per dollar for debtors of less than 100,000 dollars. Still, the original currency of bank deposits was going to be preserved.

Business Corporations and Bank Associations wanted the *pesification* of debts and deposits, that is to say the whole economy.

For the first time the configuration of predominant socioeconomic actors changed to a unified bloc between financial and productive sectors.

Facing the resistance of debtors and creditors, the government evaluated the possibility that the conversion to pesos of debts above 100,000 dollars would be made at the rate of 1.20 pesos per dollar.

Business Corporations and Bank Associations demanded the *pesification* at the rate of one-to-one.

Between the pressures from Banks to solve the imbalances created by the *pesification* of credits but not deposits, as well as to avoid generalized default on loan repayments, and from the Production's Group to have their debts *pesified*, the government opted for the *pesification* of the whole economy.

Finally, on 3 February 2002, the government decided the asymmetric *pesification* at the exchange rate of 1.40 pesos per dollar for savers and 1 peso per dollar for debtors regardless of the amount of the debt.

³⁸ There is some contradiction in the sources regarding the exact amount of money that compensation implied for the state, and if dollars or pesos. At the very beginning the amount was calculated in between 6,000 and 15,000 million *dollars* (*Clarín* 6, 9 and 10 January 2002), while at the end of the period the amount was accorded in 20,000 million *pesos* (*Clarín* 31 January 2002; *La Nación* 2 February 2002; *Clarín* 5 February 2002), though some sources still talked of 20,000 and 30,000 million *dollars* (*Clarín* 3 February 2002). In any case, the situation regarding compensation to banks by 2003 showed that the amount of money the state had been paying to banks through state bonds (BODEN: "National Government Bonds" –Bonos del Gobierno Nacional) had reached 9,500 million dollars –around 31,300 million pesos (*Página 12* 9 March 2003).

V. The scope of the pesification broadened: a huge transfer of incomes. Why did the government make this decision?

With regard to the spectacular transfer of incomes produced, Basualdo et al identify the 139 enterprises that benefited from the *pesification* and devaluation, rank the enterprises that benefited the most³⁹, and distinguish by economic sectors (economic conglomerates, foreign conglomerates, etc.) the benefits obtained⁴⁰. The authors also specify the full amount of money that the *pesification* and the devaluation implied in real terms for these companies. The total profit taking into consideration those 139 companies raise up to 13,132 million dollars (Basualdo, et al 2002: 21-25).

The authors also argue that the decisive weight that part of the “dominant sectors” had over Duhalde’s administration, turned the devaluation and *pesification* into the fundamental feature and starting point of the new economic policy. More specifically, the authors say that “the big local and foreign economic conglomerates, with their powerful insertion in the productive system and their important off-shore financial assets (represented by the Production’s Group), which had lost their position in the real economy throughout the last 15 years, were the originators of this project.” (2002: 2).

However, the weight of dominant socioeconomic actors over Duhalde’s administration is not enough to explain why the government changed its decision regarding the scope of *pesification*. This sort of ideological affinity between government officials and a sector of the predominant socioeconomic actors does not suffice to explain the policy outcome mainly because that affinity existed from the beginning of Duhalde’s administration (or even before), while the changes in the policy making occurred throughout the period from January to the beginning of February. Even if state functionaries follow specific objectives according to career interests and/or political affinities, the actual achievement of those objectives depends, to a great extent, on the state tools available to the government officials.

Moreover, by following Basualdo et al argument and according to the evidence presented above (for instance, the fact that Duhalde appointed as Minister of Production the president of the UIA⁴¹, or that from the very beginning he favoured the devaluation⁴² or openly expressed his affinity to the Production Group’s proposals⁴³), it could be argued that Duhalde’s government sought to build a new alliance with economic sectors others than the financial one, which had had a leading role in the governmental alliance of the 90s. However, the government’s attempts failed and instead an alliance between the productive and the financial sectors gained terrain. The result was that the government did not make any real alliance with productive sectors (represented by the Production’s Group) but just attended their demands passively. The government decided that the state would bear the cost of the asymmetric *pesification* demanded by the productive-financial sector alliance.

³⁹ See appendix 2.

⁴⁰ See appendix 1.

⁴¹ See page 17.

⁴² See pages 18-19.

⁴³ See page 19.

Apart from this explanation of the *pesification* as the result of the weight of predominant socioeconomic actors over the government, some other alternative explanations can be referred. A very similar thesis is one that emphasises on the political will of Duhalde's administration to favour the productive sectors. As it was said, some political affinity to the projects held by the Production's Group was not absent from the calculations of government officials⁴⁴. Nevertheless, the political will is not enough to explain why the government changed its decision regarding the scope of *pesification* for the same reason that the 'weight over Duhalde's government' does not suffice to explain the policy outcome either. By looking at both the actual links Duhalde had with the business community and his discursive positions⁴⁵, it can be argued that the political will existed from the beginning of Duhalde's administration, while the changes in the scope of *pesification* occurred throughout the period from January to the beginning of February.

Other explanatory factor may be the role of the International Financial Organizations. These foreign actors have a dominant position in the policy making process in general. However, even if this research did not test it systematically, by looking at the sources during the period, direct participation of these actors in the discussion of the *pesification* was not found. Instead, such participation did take place regarding the question of the *corralito*, the discussion on the national budget, and other emergency legislations.

Finally, other explanatory factor might be the pressure from citizen's groups that demanded the *pesification* of debts above 100,000 dollars (mainly persons with mortgage loans). Although there were several demonstrations organized by those groups (and even legal demands by consumer's associations), their relative weight, if compared with that of the predominant socioeconomic actors, was not significant to change government's decision.

So why did the government decide the *pesification* of debts above 100,000 dollars? Why did the government change its first decision and broaden the scope of the *pesification*? A likely explanation is related to both the power struggles and the state incapacities. Explaining the policy outcome *only* as the result of the power struggle would be an incomplete and incorrect explanation. Governments usually deal with strong lobbies, but not always they back down on their decisions. If government officers have at their disposal the tools provided by the state (bureaucratic mechanisms, legislations, regulations, etc.), they can implement decisions, in spite of possible lobbies. It is necessary to include some other explanatory factor. The state incapacity (whose main features were shown in section III) is necessary to explain the policy outcome mainly because it refers to the structural aspects of the problem. It could be said that any explanation of a policy outcome should take into account not just the actions of individuals or groups but also the structural conditions where these individuals or groups operate. However, state incapacities *alone* can not explain the policy outcome either. On the one hand, the variable 'state capacity/state incapacity' is not sufficient because, as it was said above in section III.1, the policy outcomes are not just influenced by the state tools available, but also by the actions of predominant actors in society. On the other hand, this variable is not sufficient because it did not change during the period (as it was shown by means of secondary sources, state incapacity

⁴⁴ See foot note 30.

⁴⁵ See for instance Clarín and La Nación newspapers (21 December 2001).

characterized the whole period), what would allow to argue for a causal relation between state incapacities and policy outcome. Hence, the explanation rests upon the idea that an interaction between power struggles and state incapacities produced the policy outcome.

The deep crisis of state structures that, during the period under examination, characterized Argentina involved a lack of state capacities to implement government's decisions and to fulfil state's functions. On this background of high state fragmentation, predominant socioeconomic actors formulated their demands and interacted with state functionaries and politicians. Even though these socioeconomic actors could have limited power, and could have been internally divided, the state they faced was so fragmented that any decision could be successfully contested. The *pesification* resulted from this complex scenario characterized by the crisis of state capacities. In this scenario the power struggle took place and eventually led to a policy outcome that favoured the most concentrated sectors of economic power.

The analysis of the two sub-periods shows that the demands of the predominant socioeconomic actors, and their strength facing the state, influenced government's decisions. When the government decreed the *pesification* on 10 January 2002 the lobby by bank and business associations grew in importance, limiting the scope of action of government officials. The contention between predominant socioeconomic actors and state functionaries became much stronger in the sub-period from 11 January to 3 February. After the configuration of predominant socioeconomic actors mutated into a united bloc between financial and productive sectors, the government withdrew from its first decision. The decisions taken by the government in the middle of power struggles could be interpreted as a lack of state capacities to impose its decisions to predominant socioeconomic actors. It is possible to explain the *pesification* as the result of both the power struggle and the state incapacities.

VI. Conclusions

The aim of this paper was to analyse the asymmetric *pesification* decided by Duhalde's administration on February 2002. It tackled the problem of the crisis of state capacities in Argentina. It also examined the different proposals of *pesification* that were formulated, the struggle of power triggered around this policy, and the results regarding the final scope of *pesification*. Thus, the analysis focused on both the state incapacities and the power struggle. The positions taken by the different actors (state functionaries, politicians and predominant socioeconomic actors) were analysed and compared throughout the period between the middle of December 2001 and beginnings of February 2002 in order to explain the decisions made by the government as the result of the power struggles and the crisis of state capacities.

At the beginning of the period under examination the provisional government evaluated the *pesification*-devaluation alternative. Banks and privatized public utility companies opposed to devaluation and favoured dollarization. On the other hand, approving opinions around *pesification* were shared by deputies from the PJ and the UCR. The Production's Group also wanted the *pesification* of the entire economy.

The lobby by bankers and privatized utility companies restrained the government from moving forward with the devaluation and *pesification* proposals. However, faced with the very likely devaluation, banks started to see *pesification* as a solution to avoid widespread default on loan repayments. And for privatized utility companies *pesification* would be the way to reduce the debts in dollars they had. Thus, in the beginning of 2002 the *pesification* proposal was brought up once more and the end of convertibility became a reality.

On 10 January the government decided to convert to pesos debts up to 100,000 US dollars at the exchange rate of one peso to the dollar, while debts above this amount would be left out of this first scheme of *pesification*. Predominant socioeconomic actors wanted the *pesification* of debts above 100,000 dollars. Banks wanted to avoid any risk of default. Indebted predominant socioeconomic actors wanted to have their debts reduced. Thus, business corporations, rural and bank associations joined their forces to lobby for the *pesification* of the biggest debts at the same exchange rate than the smaller ones.

For the first time in the whole period the configuration of predominant socioeconomic actors clearly changed to a unified bloc between financial and productive sectors. And this change in the configuration of actors had a fundamental role in making the government modify its decision about the scope of *pesification*. The fact that both groups, the financial sector and the productive sector, were unified was a decisive factor to make state functionaries eventually decide the *pesification* of major debts at the exchange rate of one peso to the dollar.

Between the pressures from banks to solve the imbalances created by the *pesification* of credits but not deposits, as well as to avoid widespread default on loan repayments, and from the Production's Group to have their debts *pesified*, the government finally opted for the *pesification* of the whole economy. It was on the evening of 3 February

2002 that the government changed its first decision and instead chose to convert to pesos all debts regardless of the amount at the exchange rate of one-to-one, giving up the struggle with the most powerful socioeconomic actors.

The result of the struggle was therefore an asymmetric *pesification*. Debts were converted to pesos at the exchange rate of one peso per dollar while deposits were converted at the exchange rate of 1.40 pesos per dollar. And the government decided that the state would bear the cost of this asymmetry through bonds worth around 20,000 million pesos. The government did not maintain the decision of pesifying only those debts up to 100,000 dollars. The government did not impose the tax on oil exports and instead issued state bonds to compensate banks. These actions were the result of power struggles and state incapacities. State incapacity to implement official decisions while facing the demands of predominant socioeconomic actors. And state incapacity to find solutions other than public indebtedness. The state, and thus society as a whole, was the actual *loser* of this struggle.

The examination of the two sub-periods showed that the demands of the predominant socioeconomic actors, and their strength facing the state, influenced government's decisions. When the government decreed the *pesification* on 10 January 2002 the lobby by bank and business associations grew in importance, limiting the scope of action of government officials. The contention between predominant socioeconomic actors and state functionaries became much stronger in the sub-period from 11 January to 3 February. Once the configuration of predominant socioeconomic actors changed to a unified bloc between financial and productive sectors, the government finally withdrew from its first decision. Thus, through the analysis of the power struggle between predominant socioeconomic actors and state functionaries it became clear that state structures could not be used as a tool by state officers to implement official decisions.

Why did the government change its first decision and broaden the scope of the *pesification*? The explanation rests upon the idea that an interaction between power struggles and state incapacities produced the policy outcome. The decisions taken by the government in the middle of power struggles could be understood as a lack of state capacities to impose its decisions to predominant socioeconomic actors. It is possible to explain the *pesification* as the result of both the power struggle and the state incapacities. This paper argued that the deep crisis of state structures that characterized the Argentine case involved a lack of state capacities to implement government's decisions and to fulfil state's functions. On this background of high state fragmentation, predominant socioeconomic actors formulated their demands and interacted with state functionaries and politicians. The *pesification* resulted from this complex scenario characterized by the crisis of state capacities. In this scenario the power struggle took place and eventually led to a policy outcome that favoured the most concentrated sectors of economic power.

Appendix 1

Benefits obtained by big firms (distinguished by economic sectors) after *pesification* and devaluation (in million dollars)

Type of company	Benefits obtained after <i>pesification</i> and devaluation		
	Rise in exports	Debts (with the domestic banking system) reduced	Total
	I	II	III = I + II
State-owned enterprises	0	38.7	38.7
Associations	447.7	1,471.3	1,919.0
Economic conglomerates	1,819.6	1,104.7	2,924.3
Foreign conglomerates	3,263.1	698.7	3,961.8
Local independent enterprises	480.7	263.8	744.4
Transnational enterprises	3,143.3	400.7	3,543.9
Total	9,154.2	3,977.8	13,132.0

From Basualdo, E., C. Lozano and M. Schorr. 2002. *Las transferencias de recursos a la cúpula económica durante la administración Duhalde. El nuevo plan social del gobierno.*

Economic conglomerates (“Grupos económicos”) are conglomerates of local capital that own more than six companies in the domestic economic market.

Associations are consortiums composed by different capitals that operate mainly within the area of privatized public utilities.

Foreign conglomerates are similar to conglomerates but controlled by foreign capitals.

Transnational enterprises are enterprises of foreign capital with less than six companies operating in the domestic market.

Local independent enterprises are enterprises of local capitals without the structure of a conglomerate.

Appendix 2

Ranking of main enterprises that benefited from devaluation and *pesification* of debts with the domestic banking system (in million dollars and pesos)

Conglomerate or Company	Type of Company	Exports		Debt		Total Benefit	
		Rise in pesos	Rise in dollars	Reduction in pesos	Reduction in dollars	In pesos	In dollars
Repsol	CE	2,127.5	1,063.7	324.6	162.3	2,452.1	1,226.0
Techint	CE	1,652.1	826.0	228.6	114.3	1,880.6	940.3
Pérez Companc	GE	1,024.3	512.1	373.8	186.9	1,398.0	699.0
Cargill	ET	1,285.0	642.5	0.0	0.0	1,285.0	642.5
Aceitera General Deheza	GE	755.5	377.8	0.0	0.0	755.5	377.8
Louis Dreyfus	CE	750.0	375.0	0.0	0.0	750.0	375.0
Glencore	ET	543.3	271.7	0.0	0.0	543.3	271.7
Bunge Ceval	ET	530.0	265.0	0.0	0.0	530.0	265.0
Vicentín	GE	521.0	260.5	0.0	0.0	521.0	260.5
Nidera	ET	432.7	216.4	50.3	25.1	483.0	241.5
La Plata Cereal	CE	480.0	240.0	0.0	0.0	480.0	240.0
Minera Alumbrera Limited	ET	385.0	192.5	86.2	43.1	471.2	235.6
Chevron San Jorge	ET	464.7	232.4	0.0	0.0	464.7	232.4
Volkswagen	ET	313.0	156.5	139.2	69.6	452.2	226.1
Fate	GE	435.5	217.7	0.0	0.0	435.5	217.7
Ford	CE	423.0	211.5	0.0	0.0	423.0	211.5
Macri	GE	0.0	0.0	396.9	198.5	396.9	198.5
Telecom. Argentina	CE	0.0	0.0	394.1	197.0	394.1	197.0
Productos Sudamericanos	CE	282.1	141.0	83.0	41.5	365.1	182.5
Toepfer	ET	362.1	181.1	0.0	0.0	362.1	181.1
Asoc.de Cooperativas Argentinas	ELI	304.9	152.5	56.4	28.2	361.3	180.6
Fiat	CE	210.1	105.1	150.1	75.1	360.2	180.1
Arcor	GE	217.0	108.5	140.4	70.2	357.4	178.7
Buyatti	ELI	330.3	165.1	0.0	0.0	330.3	165.1
Pescarmona	GE	188.6	94.3	100.2	50.1	288.8	144.4
Cartellone	GE	0.0	0.0	281.5	140.7	281.5	140.7
Peugeot Citroën	ET	259.9	130.0	0.0	0.0	259.9	130.0
Sancor	GL	110.1	55.1	115.3	57.6	225.4	112.7
Soldati	GE	5.7	2.9	214.4	107.2	220.1	110.1
Loma Negra	GE	0.0	0.0	217.1	108.6	217.1	108.6
Daimler Chrysler	ET	214.1	107.1	0.0	0.0	214.1	107.1
Tradigrain	ET	212.4	106.2	0.0	0.0	212.4	106.2
Acindar	GE	114.3	57.2	97.0	48.5	211.3	105.6
Arauco	ET	195.0	97.5	0.0	0.0	195.0	97.5
Solvay	ET	70.0	35.0	110.4	55.2	180.4	90.2
General Motors	ET	172.5	86.3	0.0	0.0	172.5	86.3
Vintage Oil	ET	160.0	80.0	0.0	0.0	160.0	80.0
Renault	CE	155.4	77.7	0.0	0.0	155.4	77.7
Coto	ELI	23.6	11.8	122.0	61.0	145.6	72.8
Roggio	GE	0.0	0.0	143.2	71.6	143.2	71.6
Garovaglio & Zorraquín	GE	142.3	71.2	0.0	0.0	142.3	71.2
Toyota	ET	137.3	68.7	0.0	0.0	137.3	68.7
Acesa	ET	0.0	0.0	135.5	67.8	135.5	67.8
Shell	CE	134.9	67.4	0.0	0.0	134.9	67.4
Esso	CE	132.9	66.5	0.0	0.0	132.9	66.5
Total Austral	ET	131.6	65.8	0.0	0.0	131.6	65.8

Conglomerate or Company	Type of Company	Exports		Debt		Total Benefit	
		Rise in pesos	Rise in dollars	Reduction in pesos	Reduction in dollars	In pesos	In dollars
Capsa	ELI	0.0	0.0	131.5	65.7	131.5	65.7
Wintershall	ET	129.2	64.6	0.0	0.0	129.2	64.6
Bridas	GE	101.9	51.0	23.4	11.7	125.3	62.6
Victorio Américo Gualtieri	ELI	0.0	0.0	114.2	57.1	114.2	57.1
Agea/Clarín	GL	0.0	0.0	113.5	56.8	113.5	56.8
Swift Armour	ET	112.1	56.1	0.0	0.0	112.1	56.1
Sadesa	GE	109.5	54.7	0.0	0.0	109.5	54.7
Yoma	GE	0.0	0.0	101.6	50.8	101.6	50.8
Exxel Group	CE	0.0	0.0	98.2	49.1	98.2	49.1
La Nación	GE	0.0	0.0	84.7	42.3	84.7	42.3
Backchellián	GE	0.0	0.0	766	38.3	76.6	38.3
Roemmers	GE	0.0	0.0	50.4	25.2	50.4	25.2
Eurdekián	GE	0.0	0.0	38.0	19.0	38.0	19.0
Total	-	16,842.3	8,421.2	4,791.9	2,396.0	21,634.2	10,817.1
Total of 139	-	18,308.4	9,154.2	7,955.6	3,977.8	26,264.1	13,132.0

From Basualdo, E., C. Lozano and M. Schorr. 2002. *Las transferencias de recursos a la cúpula económica durante la administración Duhalde. El nuevo plan social del gobierno.*

GE: Economic conglomerates (“Grupos económicos”), conglomerates of local capital that own more than six companies in the domestic economic market.

A: Associations, consortiums composed by different capitals that operate mainly within the area of privatized public utilities.

CE: Foreign conglomerates, similar to conglomerates but controlled by foreign capitals.

ET: Transnational enterprises, enterprises of foreign capital with less than six companies operating in the domestic market.

ELI: Local independent enterprises, enterprises of local capitals without the structure of a conglomerate.

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