

IMPERIALISM IN THE NEOLIBERAL ERA: ARGENTINA'S REPRIEVE AND CRISIS

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This paper is about the crisis in Argentina in the early 2000s, but this specific issue is considered in the broader framework of contemporary capitalism. Since the early 1980s, capitalism entered a new phase known as *neoliberalism*. It is often presented as a “model of development”, but neoliberalism is actually about the restoration of the power and income of capitalist classes, which had been diminished during the decades of the *Keynesian compromise* after World War II.¹ Neoliberalism also defines a new stage of imperialism, itself a permanent feature of capitalism.² Imperialism is about the obtainment of capital income by rich countries of the center, from countries of the periphery. It is a hierarchical system. One feature of contemporary imperialism is the hegemonic position of the United States, within the overall pattern of “informal” imperialist relations (as opposed to colonial empires). The combination of neoliberal and imperialist traits is so tight that we denote the entire set of relationships as the *neoliberal-imperialist mix*.

Both the ruling classes of the center and periphery are involved in this new set of relationships, though not on equal footings: All ruling classes benefited from neoliberalism but, in countries of the periphery, these classes are also subject to the domination of the ruling classes of the center. Thus, an important element in the understanding of contemporary capitalism is the position in which peripheral ruling classes are able to locate themselves within global capitalist relations. Both collaboration and rivalry are at issue. This is the framework in which the link between the neoliberal-imperial mix and the Argentinian crisis must be established. The main thesis in this paper can be summarized in two propositions: (1) The crisis was an obvious manifestation of the same neoliberal mechanisms at work in the crises of the 1990s around the world, as in Asia, Russia, Turkey, and Latin America; (2) The dramatic features of the Argentinian crisis also owe a lot to the strategy adopted by the ruling classes of this country to insert themselves favorably within the new global capitalist economy. We do not mean that it was not so concerning the other “neoliberal” crises in other countries³, but impute much of the particular violence of the crisis in Argentina to the options taken by its ruling classes.

Section 1 recalls some of the features of the sudden decline of growth rates in Latin America after 1980 and the recovery of investment in the 1990s in Argentina. Section 2 discusses the new global configuration in the neoliberal-imperialist mix, and the specific situation of Argentina. Section 3 interprets the Argentinian crisis in this context. (The technical aspects of this interpretation are presented in another study.⁴)

1. We developed this “class interpretation” of neoliberalism, years ago, when this new phase of capitalism was basically understood in reference to the opposition between *states* and *markets*. Recent accounts can be found in G. Duménil, D. Lévy, *Capital Resurgent. Roots of the Neoliberal Revolution*, Harvard: Harvard University Press (2004), and “The Economics of U.S. Imperialism at the Turn of the 21th Century”, *Review of International Political Economy*, 11 (2004), p. 657-676.

2. Capitalism survived to World War I and class struggle, contrary to Lenin’s expectations.

3. The specific example of what could be called the “primitive appropriation” in Russia would be of special interest.

4. G. Duménil, D. Lévy, *Argentina’s Unsustainable Growth Trajectory: Center and Periphery in Imperialism at the Age of Neoliberalism*, PSE, EconomiX, Paris (2005).

1 - The 1980 break and the Argentinian accumulation reprieve in the 1990s

During the years following World War II, those of the Keynesian compromise, most capitalist countries in the world economy experienced large growth rates by historical standards. When the main capitalist economies entered the structural crisis of the 1970s, these growth rates were somehow maintained by policies favorable to the nonfinancial sector of the economy, in spite of growing tensions, but finally declined. Growth rates were not restored during the last decades of the 20th century, as a result of the heavy income transfer in favor of ruling classes, typical of neoliberalism, and the accompanying policy and institutional transformation.

The break was dramatic and sudden in Latin America. Table 1 shows the average annual growth rates in the seven major countries of Latin America, and in Brazil, Mexico, and Argentina separately. France is also shown for comparison. Everywhere, growth rates were divided by more than a factor of two. Such a division is also revealed for Argentina, but the specific feature of this country is the low values observed, both prior to and after the break. In addition, the macroeconomy of this country has always been particularly unstable, that is with large accelerations and falls into recessions. Only the United States, which concentrates the savings of the world, and a country like China (which, besides its overall reform process, is selling its economy and labor power extremely cheap on world markets), as, to a lesser extent, India, has been growing rapidly during the latter decades.

Table 1 - Average annual growth rates (%)

	1950-1980	1980-2004
Seven major countries of L. A.	5.7	2.2
Brasil	7.6	2.1
Mexico	6.5	2.5
Argentina	3.3	1.3
France	4.4	2.0

Source: Penn World Table (CICUP, U.S.); World Economic Outlook (IMF); OECD.

Considering Latin America globally, one should not refer to a “lost decade”, as in the 1980s, but to a lost quarter of a century. The flows of foreign investment were large during the late 1970s (during the first wave of foreign indebtedness), low during the 1980s, and very large during the 1990s (first investments other than direct, and then direct investment during the second half of the 1990s). The alleged benefits of these investments in terms of growth are not apparent in growth rates. Direct investment did not materialize in an increase of total physical investment; neither did nondirect investment stimulate growth performances.

The contrast between the 1980s and 1990s is actually only apparent in Argentina, where the 1980s were years of stagnation (and macro instability), while a rising wave

of physical investment by enterprises (*accumulation*) occurred between 1991 and 1998. We denote this exception to general patterns as the *accumulation reprieve*. It proved unsustainable and led to the recession in 1998 and collapse in 2001.

The sequence of events (Keynesian compromise, structural crisis, neoliberalism), which can be applied to major capitalist countries in the analysis of growth patterns, with the assertion of neoliberalism in 1980, must be somehow adapted to Latin American circumstances, with the early liberalization attempts of dictatorships (for example, after 1973 in Chile and 1976 in Argentina), their failure and reversal in the 1980s in the wake of the debt crisis, the gradual trade and financial opening from the mid-1980s onward, and the new framework of the 1990s, in particular in Argentina.

2 - Argentina in the neoliberal-imperialist mix

Imperialism, in its objective and methods, is a complex phenomenon. It combines plain economic violence, such as the opening of trade and financial frontiers between countries of very unequal levels of development, always to the benefit of the dominant country, and straightforward violence such as corruption, subversion, and war. Considering only the available measures of flows of interest and dividends (and the retained profits of transnational corporations), it is clear that neoliberalism increased the imperialist drain from less advanced countries⁵, and the rise of the interest rates on the debt after 1979 accounts for a large part of the sharp increase in the early 1980s.

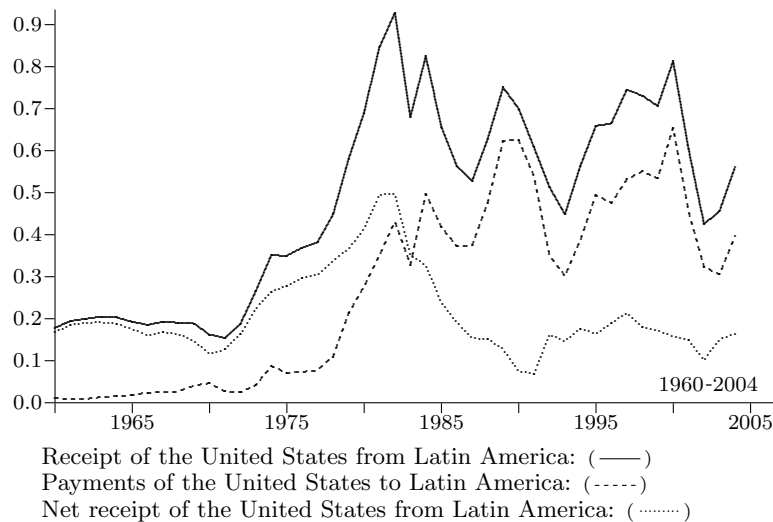
But there is another facet to these mechanisms. The United States concentrates the savings of other countries. In particular, the rich classes of Latin America invest massively in this country. There, in the United States, rich classes spend tremendously and save very little. This capability to benefit from external financing is an important feature of contemporary U.S. imperialism. This external investment finances the U.S. economy, its public and external deficits, including the capability of this country to export capitals (with a large fraction in direct investment as compared with other countries). The financial U.S. assets held by the rest of world are now twice larger than the financial foreign assets held by the United States. We denote these relationships as the *new configuration* of imperialism.

Figure 1 shows for all Latin American countries and the United States the flows of capital income in and out of each unit of analysis toward the other. One can observe the jump of capital income from Latin America to the United States in the early 1980s, but also the subsequent rise of the income paid by the United States to Latin America. These flows are now of the same order of magnitude.

The case of Argentina is emblematic of this new configuration. This country pays a lot, in particular due to its large external debt, and receives a lot, due to its huge investment in the United States. The income received by Argentines as a percentage of GDP culminated in 2000 at levels more than twice larger than the average of the seven major Latin American countries.

5. G. Duménil, D. Lévy, "The Economics of U.S. Imperialism", *op. cit.* note 1.

Figure 1 Income receipt and payments as shares of U.S. GDP (%): From Latin America to the United States and reciprocally



Source: International Transactions data (BEA, U.S.); NIPA (BEA, U.S.).

Actually, this evolution has also two facets: (1) Argentinian ruling classes integrated themselves in the configuration of imperialism as a rentier class; and (2) They sold most of their large economy to foreigners. In this latter respect, it is sufficient to observe that, in the early 2000s, 80% of the total product (value added) of the 500 largest Argentinian nonfinancial corporations is made by corporations owned by foreigners (with more than 50% of foreign ownership).

This new situation is the outcome of long historical trends, but they reached unprecedented levels in the wake of the reforms at the beginning of the 1990s. These reforms must be interpreted on two distinct grounds:

1. The neoliberal inspiration is obvious: policies targeted to price stability (the currency board), independent central bank, privatization, convertibility, relaxation of barriers to international trade and financial movements, opening of the financial sector to foreign investors, etc. To this, one must add the dramatic reduction of real wages since the dictatorship. All this and other traits confer unquestionable neoliberal features on the 1990s in Argentina.

2. Other aspects must be interpreted differently. Exchange policy is crucial in this respect. The pegging of the peso to the dollar, instead of its flotation, defines a first element. This is not a policy that is recommended by the IMF, or favored by the United States. Second, the rate of exchange (the *one peso-one dollar*) was very high. This policy actually benefited Argentinian investors, as they were able to buy foreign assets at a favorable rate of exchange. Relevant to the discussion here is also the fact that foreign investors are purchasers of enterprises (in direct investment). Globally, with a high exchange rate, ruling

classes do not sell their enterprises cheap⁶, thus contributing to their capability to export capital. This is how Argentinian ruling classes “efficiently” inserted themselves within the new imperialist configuration as rentiers. The cost was huge for the rest of the population, as we will see.

In addition, as is well known, such a high rate of exchange does not favor the real economy, because of the large competition by foreigners (and in spite of the cheapening of imports of capital goods). This had severe consequences on the national economy because of the increased imports. (The volume and price of Argentinian exports do not depend on the exchange rate of the country.)

3 - The crisis

By the “Argentinian accumulation reprieve”, we mean the 7-years exception to the generally very low levels of accumulation after 1980, which allowed for the pursuit of the insertion of Argentinian ruling classes in the new neoliberal-imperial mix. This wave of accumulation was highly dependent on the rest of the world in two interconnected respects: (1) A large and rising fraction of equipment was imported; and (2) It was financed by foreign loans. The link between these two features is that these loans were apparently, to a large extent, commercial loans by the sellers of this equipment.

The expectation, according to neoliberal liberal propaganda, was that these investments would result in a new capability to export, therefore to collect foreign currency, and prove very profitable. Both elements failed to be confirmed:

1. Given the high rate of exchange, the balance of trade in Argentina turned negative during the 1990s, as in other Latin american countries.
2. Due to high rates of interest, profitability began to decline after 1998, to reach, finally, very low levels, in particular for the diminishing fraction of the economy still owned by local capitalists. At least a recession was on the agenda.

There was no explosion of basic public expenses, and the primary surplus remained positive. This profile was maintained in spite of the low capability to collect revenue, and institutional weaknesses. The irresponsible move toward pension funds in 1994 placed a large burden on public expenses, as the state was forced to contribute to the pay-as-you-go system, no longer benefiting from the contribution of active workers feeding their own funds. The main problem came, however, from the high and rising rates of interest, causing a large deficit in spite of the primary surplus. The public debt rose rapidly, though its external component increased less rapidly than the external private debt. The main figures are given in table 2. (The cancellation of part of the public debt, at the beginning of 2005, is apparent in the last column of table 2.)

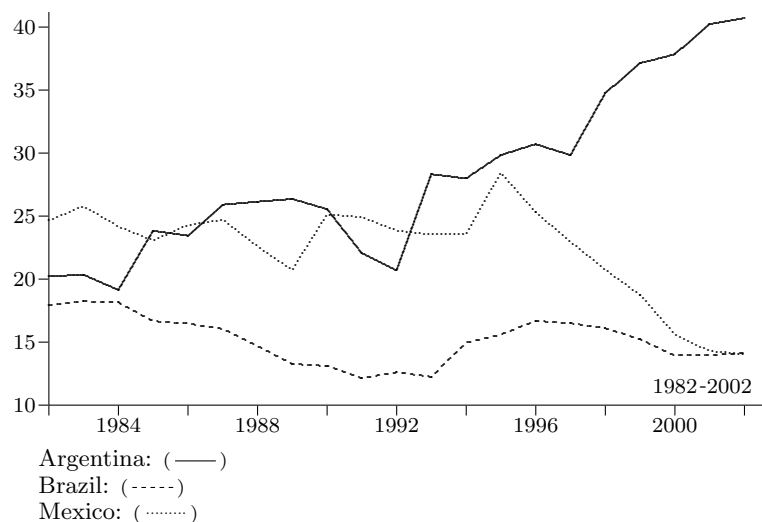
The public debt was financed by foreigners, or by Argentines, but mostly in dollars. The Argentinian external debt, private and public, is comparatively high and went on

6. The case of the French enterprise Suez after the devaluation is typical of this situation. The investment was made when the peso was high. After the devaluation the profits made, expressed in euros, were judged disproportionately low in comparison to the initial investment.

rising during the 1990s, as shown in figure 2. Foreigners went on lending to the end of 2001, when the interest-rate “spread” skyrocketed. The cost of abandoning the currency board (in particular the fixed exchange rate) was, to the end, judged too high, until the very moment the cost of preserving it was deemed abyssal.

	1993	2001	2004	2005.2
Debt (billion dollars)	71	144	191	126
Debt (\$) / GDP (\$) (%)	30	54	126	73
Debt (\$) / GDP (\$ PPP) (%)	21	33	39	23

Figure 2 The external debt as a percentage of GDP (PPP) (%): Argentina, Brazil, and Mexico



This figure compares the external debts in dollars to GDPs in dollars, using Purchasing Power Parity (PPP) exchange rates. PPP exchange rates are fictitious exchange rates which, if they prevailed, would equalize the general levels of prices. Ratios to GDP at going prices are too dependent on exchange-rate policies to allow international comparison.

Source: OECD; World Economic Outlook (IMF).

When the recession began in 1998, a slowly declining trend between 1998 and mid-2001, the flow of revenue began to shrink. The government, committed to balancing the budget, increased taxes, making things worse, etc. The public and private sectors were attempting to make the other pay the burden of the unsustainable indebtedness. It is important to note that real wages were maintained at a stable, very low, level throughout the 1990s. (Of course, in mainstream literature, workers should have done more concessions.)

With the currency board, the task of controlling the macroeconomy had been entirely transferred to “markets”, that is financial interests, national and, primarily, international. The intrinsic declining trends of financial investment from countries of the center (reflecting the ups and downs of their own macroeconomy), combined with internal tensions. When

the pressure reached unbearable levels, it became clear that the currency board, based on reserves in foreign currency, acted in line with what it is: a procyclical multiplier of external disequilibria.

As shown in table 3, the economy collapsed at the end of 2001, with the terrible human consequences that are well known. Taking the second quarter of 1998 as a benchmark, output fell by 20% of its value in the first quarter of 2002 (from 100 to 79.9 in the second line of the table). Simultaneously, investment by enterprises collapsed by 56%.

Table 3 - GDP and Investment (1998.2=100)				
	1998.2	2001.2	2002.1	2005.3
GDP	100.0	94.6	72.0	103.1
Seasonally adjusted GDP	100.0	93.8	79.9	105.2
Investment	100.0	73.1	44.1	99.9

Source: National Accounts (Min. de Economía y Producción, Argentina).

Conclusion

With the reforms at the beginning of the 1990s, Argentinian ruling classes created a new framework with very strong neoliberal features. This new framework was as dangerous as it proved to be in the countries of the periphery that underwent similar transformations, with the opening of trade frontiers and the free mobility of capitals. The “control” of the macroeconomy was placed in the hands of financial interests, with the same consequences as everywhere. This framework was, as in other countries, strongly biased in favor of international capitalist classes—actually the central, definitional, feature of the neoliberal-imperialist mix. But the ruling classes of Argentina managed to create favorable conditions for their insertion in the new configuration of imperialist relations. In such class configurations, there is always a degree of conflict between the interests of peripheral and central ruling classes. In the case of Argentina, the framework of the 1990s apparently solved this conflict, metamorphosing a trade-off into a miraculous convergence of interests. The very high rate of exchange, that this required, was clearly unsustainable, but the stakes had been set so high (as manifest in other options, including the ability to repress labor) that international finance did not believe in any possible reversal. Thus, a “standard” neoliberal crisis, whatever the violence of such episodes in other countries, was transformed into a collapse.

An important analytical lesson can be drawn from this experience, with major implications for the discussion of future trends. Besides its specific methods which define it as neoliberalism, the new phase of capitalism must be interpreted in reference to its objectives: the restoration of the power and income of ruling classes. The difficult definition of a new strategy in the wake of the 2001 crisis must be assessed in this class perspective, with national and international aspects. The pesoization (the reversal of the dollarization process), the depreciation of the peso, and the cancellation of part of the public debt signal

a dramatic turn, questioning several basic neoliberal options. But the interests of ruling classes are, again, at issue. In the analysis of future trends in Argentina, it is important to keep in mind that the same class interests, which gave the 1990s their specific features, could be asserted by other means in coming years. The outcome will depend on class confrontations. Broadening even more the perspective, this experience sheds some light on the possible new global phase of neoliberalism or postneoliberalism in the world economy: the same interests in a distinct framework, with distinct methods, or a new social compromise.

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