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THE "STABILIZATION PROGRAMS" OF THE INTERNATIONAL MONETARY FUND AND THEIR INTERNAL IMPACTS DURING BUREAUCRATIC-AUTHORITARIAN PERIODS

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I

This study is the product of our broad interest in the interactions between politics and economics during the periods that precede and follow the establishment of what we have called the "bureaucratic-authoritarian" states (from here on, BA) in contemporary Latin America.[1] In this work we address ourselves to one of the topics within that particular set of problems: the standby agreements established with the International Monetary Fund shortly after the coups d'etat, which abruptly terminated processes experienced by numerous sectors (including, very prominently, the internal ruling classes and their foreign supporters) as deep political and economic crises. Argentina, Chile and Uruguay are particularly appropriate examples of this phenomenon.

Therefore it is necessary to start by summarizing what we understand to be the purpose of the orientation and intervention of the IMF. We will then proceed to show how their intervention, regardless of the prevailing political arrangements, has an effect that hardly accords with their orientation. These efforts are also very different from the effects that similar policies tend to produce in more homogeneous productive structures. This will allow us to see how state policies designed to implement agreements with the IMF generate effects that are highly slanted toward the benefit of a small group of economic participants--basically toward the sectors involved in the production of primary products and in finance capital.

At that point we will discuss some of the specific results of the shaking of the productive structure and the socio-political system of domination that the implantation of the BA state seeks to "solve," as well as the results of the subsequent efforts to reestablish a particular order in society. The policies agreed upon with the IMF converge with these processes. These policies are the new state's main instrument for undertaking one of the great tasks arising out of its preceding crisis: the achievement of a no less peculiar "normalization" of the economy. It is in the context of this dynamic overlapping of politics and economics that we will take up again some of the questions that will emerge in sections II and III; they are related to the reasons behind the adoption and continuation of certain policies, as well as to the influence that the agreements with the IMF might have on these policies.

Unfortunately our answers, for a number of reasons, are bound to be of a tentative nature. Although they are based on our research done on various aspects of the general set of problems outlined above, this study is focused on one country only, Argentina. In addition to the difficulties inherent in any effort to generalize from a single-case study, an adequate understanding of a single case requires cross-time longitudinal comparisons of the various "normalization" attempts undertaken in Latin America during the last two decades; such research is just now beginning.[3] However, there is a wide area of ignorance on our part, largely because of factors out of our control: we can only contribute to this subject on the basis of the information available in the "recipient country," which receives the premises, orientations, and attentions of the IMF (and in general of public and private transnational finance capital) in a manner already determined by the centers of world capitalism. We are surprised at how little information is available (at least in Argentina) on the IMF and other public and private transnational financial institutions, specifically on the IMF's internal power system, the main criteria and processes used in decision making, and the ways the IMF relates to other sectors of finance capital and to the governments of the member countries. What we need above all are studies that approach the IMF as an important participant in the world's political economy, inserted in the cluster of social relations, thus allowing us to understand the direction and main repercussions of its premises, actions, and omissions. The blanket of confidentiality with which finance capital covers its operations is undoubtedly a severe obstacle for conducting the type of empirical work that has been done, say, on the U.S. Congress. We suspect, nevertheless, that another reason for the lack of research on this subject is that the place where the studies have to be undertaken happens to be the very center of world capitalism--precisely where the effects of the IMF's actions are least visible.

It is for these reasons that this study can only be a reflection (and an incomplete one at that) of part of the problem, namely, certain impacts and interactions in one peripheral case. Our objective is to open up a discussion that may lead us to overcome these deficiencies, and thus lessen the risk of seeing the IMF and its criteria either as the univocal expression of economic rationality or as the embodiment of an omniscient conspiracy.

II

The IMF formally established its "tranches policy" in the mid-1950's in response to the new problems involved in finance peripheral economies.[5] This policy rules that hard currency requests are to be handled according to their ratio to the quota contributed to the IMF by the member country in question. Applications within the gold tranch (leaving the IMF with no more than 100 percent of the applying country's currency) are approved almost automatically; within the first tranch (between 100 and 125 percent of the quota), applications are usually handled with a "liberal" attitude; beyond that limit, applications need a "substantial justification" to be approved. The precise meaning of this phrase was established in 1958; applications beyond the first tranch would receive favorable treatment if the funds were to be used for "supporting an effective program for establishing or keeping the stability of the currency of the member country at a realistic exchange rate."[6]

This tying of currency withdrawals to the presentation and approval of stabilization programs came to be the main activity of the IMF, especially through the standby agreements, the importance of which increased substantially over the years. A large number of credits has now been approved. There is no reference to the standby agreements in the founding documents of the IMF, since they were not conceived of until later. Technically, the implication is that the member country may purchase hard currency up to a fixed limit during a given period, without having to rediscuss its general situation and policies. Originally, this was envisioned as a line of credit that would be open for a certain period of time, during which the country could withdraw funds with no limitations other than those set by the general rules of the IMF. Later, however, it developed into the main instrument for making the availability of IMF resources conditional on the internal adoption of certain policies, once the application has exceeded the first tranch. Approval of the standby agreement requires the signing of a "letter of intention," in which the member country, after discussing the subject with IMF representatives, sets forth its policies and agrees to implement them. The standby agreement is a resolution by the IMF setting forth the terms under which the member country can purchase hard currency; it includes certain goals the economy must reach and the policy procedures to be used, as well as the criteria to be observed in order for the IMF not to suspend withdrawal rights. The letter of intention includes indicators of the economy's behavior and of economic policy; the limits established by these indicators cannot be exceeded for the duration of the agreement. The violation of these clauses may lead to the suspension of the agreement; in this regard there are generally clauses establishing the need to consult the IMF before certain policy decisions are made, as well as renegotiation clauses in case one of the objectives is not met.

By virtue of these standby agreements, the IMF has tended to become an autonomous and interventionist institution in its relations with economically less powerful countries. The standby agreement clauses have been under constant revision to "protect the resources of the Fund from undue use."[7] Legally, access to resources can be interrupted on the basis of the IMF's contractual right to decide unilaterally that nonattainment of certain goals of the program may mean improper use of its funds. However, the IMF's role as the "technical secretariat" of the central economies' finance capital is even more important in increasing the institution's leverage. The IMF's decision to enter into a standby agreement with a member country is considered by other international financial sources a sign of approval for the stabilization program set forth in the letter of intention. The consultation and evaluation clauses in the agreement allow the IMF to exercise a permanent auditing function, so to speak, over the national economy of the country that is party to it, a task of great interest not only to the IMF itself, but also to finance capital. The unwritten rules of international finance have led both private and public financiers to wait for a decision by the IMF regarding a standby credit before negotiating their own agreements, which often involve access to considerably higher amounts of hard currency than those provided by the standby credit itself. In relation to the country in need of external funds, transnational finance capital thus acts as a giant monopolist, imposing conditions that are made explicit by the IMF. It would be difficult to find any better indication of the convergence between the interests of finance capital regarding the evolution of the debtor country on the one hand, and the policy and evaluation criteria of the IMF on the other. We will return to this point after examining these criteria.

The criteria and quantitative goals that have to be met by the recipient country's economic policy, according to the standby agreement, constitute a program based on the IMF's principles of how the problems of external disequilibrium and inflation should be approached. These phenomena are approached in many peripheral countries with programs that--although not identical with each other--are based on a common body of ideas, which constitute what we might call the "outlook" of the IMF. This outlook includes not only a diagnosis of the situation, but also standards that specify the most desirable state of the economy in any given country and the conduct of international economic relations. These notions are expressed in the form of seemingly unquestionable "technical" criteria, expressions of an apparently axiomatic economic rationality. The IMF thus attributes universality and objectivity to a particular view of the functioning of the world economy and of what ought to be the "best" situation of the national economies.

Focusing our attention on the behavior of the IMF in various Latin American countries, especially in Argentina and Chile during the last two decades, we will now attempt to make a synthesis of this outlook. The IMF considers external disequilibrium and inflation to be problems generated by "distortions" in the economic-development process. As countries try to expand public services and accelerate economic growth, they often generate a tendency to overspend, thus creating considerable pressure on the balance of payments and on prices. Excessive expansion of credit to finance consumption or private investment is often responsible for this pressure, but more commonly it is considered to be a result of large government deficits financed through bank credits. Excessive public spending is caused by subsidies to producers or consumers (for example, in the form of an inflated public payroll), operational deficits of public enterprises (determined largely by their pricing policy), and excessive public investment. Inflation and balance-of-payments deficits are manifestations of disequilibria caused by an excess of demand in relation to available supply. This demand is attributed to excessive money supply, in turn generated basically by the government deficit and by by pumping too much credit into the economy. On the other hand, the existence of these disequilibria in various markets implies a distortion of the price system--both internally and in relation to international prices. This distortion is caused by state-imposed obstacles that do not allow the free working of the price system in those markets. In the IMF's view, distorting state actions stand in the way of an automatic correction of these disequilibria. Excessive demand for available resources derives largely from the claims of various social sectors to increase their share of a limited national income. Bad economic leadership or political incompetence are responsible for supporting relatively distorted prices, partly as a response to the pressures of these social sectors.

The IMF's outlook can be summarized in the following propositions: there is a price system operating in commodities, wages, exchange rates and interest rates. This price system equilibrates markets and provides stability to the economy. If inflation and external-payments difficulties arise, it is because of a distortion of the price system through excessive money supply as well as because of obstacles to the free play of market forces. This ideal equilibrium system is optimal, in the sense that it makes full use of resources and provides the best indicators for their allocation. The more it reflects the international price system, the better it will guide investment and production according to the advantages of the country in international trade. This outlook provides the basis for stabilization programs whose substance is relatively simple: the idea is to lead markets and prices to their points of equilibrium, thus allowing a broad action of market forces and eliminating excessive money supply. As far as balance-of-payments difficulties are concerned, the main objective is to adjust disparities among internal and international prices. This generally implies a significant devaluation.[8]

To eliminate excessive money supply, the IMF establishes programs that include general limits to its expansion, as well as more specific limits to the expansion of private and public credit and government financing. In the latter case, control clauses may include specific numeric references to the government deficit and to limits to public spending, as well as to public saving goals. In general, the financial objectives of the public sector demand a strong increase in the prices of goods and services produced by it.

The exchange measures and financial policies that form the basis of the program are often complemented by direct action on prices and salaries. In this respect, stabilization programs show a remarkable asymmetry in the way they treat commodities and labor markets. Whenever price controls and regulations are in force, the program tends to demand their elimination; conversely, when the IMF considers that the government has sufficient power to establish ceilings on salary increases, they are imposed by the program. This incongruence goes considerably beyond the criteria based on the theoretical outlook and implies a socially biased pragmatism whose political significante is demonstrated most clearly under authoritarian regimes.

We cannot undertake an exhaustive analysis of this outlook here, but we must refer to two lines of criticism. They have emerged largely from the debate brought about by the repeated experiences of dependent countries with these programs. The first refers to the presumed optimality, in terms of general welfare and economic-development criteria, of the objectives of the stabilization policies--objectives that the program sets for itself, assuming that its measures would effectively lead the economy to a stable equilibrium position.

The origins of the criticism of the IMF's outlook in this regard can be traced back to the first postwar writings on development and international trade in Latin America.[9] Since then it has repeatedly been argued that the trade-and capital-accumulation patterns resulting from an unregulated international market tend to favor a persistent deterioration in the relative position of the peripheral economies. More recently, economists have emphasized the basic inequality existing between the center and the periphery in matters of international trade.[10] Initially, the notions that inspired the IMF clearly reflected the purpose of rebuilding the type of world order in existence before 1929. In that type of international order, however, the peripheral economies' role was reduced to that of producers of raw materials and consumers of manufactured products. The persistence of these notions--and the consequent perpetuation of the old division of labor they assume--has obvious normative implications. They indicate that the IMF embodies the specific financial and commercial interests of the centers of world capitalism, which join forces in partial but decisive manner in the IMF to impose certain economic guidelines on the peripheral countries.

The substance of these guidelines becomes apparent once we take up the second criticism of the IMF's outlook. It deals with the theory that it is used to explain inflation and balance-of-payments deficits and provides the basis for the stabilization program's policies. Starting with the work of the "structuralists,"[11] Latin American economists have long been concerned with refuting the IMF's arguments on this matter. There is no need to go into the whole debate here; suffice it to say that this body of work made it possible to start building a theory of inflation and foreign trade that would allow for the structural specificities of the Latin American economies. In marked contrast with these efforts, the IMF's outlook is abstract and ahistorical; its diagnosis and policies are considered valid and are in fact recommended under almost any circumstances, regardless of time and place. Its notions are part of the neoclassical and monetarist perspective that became very influential in academia from the 1950's onwards. These intellectual currents "guarantee" the scientific accuracy of the IMF's outlook, which thus seems to enjoy a monopoly on technical rigor. However, this is no longer a mere academic issue; the IMF's perspective has become the official doctrine of several Latin American governments, and it has long been the official language of most international financial institutions. This perspective thus performs an important function: it provides a logical, elegant, simple basis for stabilization policies whose social impact has been profound and painful. It is from this notion of the IMF's outlook as an ideological support system for certain policies that we can move toward examining the stabilization program's impacts and the type of international interests that seem to be embodied in the IMF.

Both the rapid growth and the absolute levels reached in the 1970's by the medium- and long-term foreign debt of the peripheral countries have raised worrisome questions in the world's financial centers. Foreign debt has risen from 36 billion dollars in 1967 to approximately 200 billion by the end of 1976. Even more important to its accelerated growth is the fact that during this period multilateral financial institutions and the governments of the central countries were largely replaced by international private banks as main lending sources. Using World Bank figures, one study has concluded that out of 200 billion dollars owed by peripheral countries by late 1976, 120 billion (60 percent) was owed to private financial sources.[12] It seems logical that the zeal of these financial centers has been exacerbated by these developments; the balance-of-payments problems of some peripheral countries are so severe that not only the position of their creditors but also the stability of the international financial system as a whole may be endangered. Under these conditions, international creditors are bound to promote strongly the type of economic policies that, by improving the balance-of-payments positions of these countries, allow them to pay their debts. The Latin American experience in this regard shows that the stabilization programs of the IMF perform this function rather well, although at a high internal cost in terms of economic growth and income distribution.

The increasing influence of the IMF and its notions is thus not totally unrelated to the processes through which the international financial system has been going lately. In sum, the IMF's outlook and its growing influence correspond to the new and important role private finance capital has come to play in the peripheral economies. Incre̶asing demands on the peripheral economies, generated by the spectacular growth of foreign debt, have led to stabilization programs geared fundamentally toward guaranteeing the external financial solvency of the debtor countries. The IMF, officiating as the "technical secretariat" of transnational finance capital, provides not only the programs but also the logical foundation to make them coherent, plus the type of "auditing" services needed to ensure that the debtor country will comply with the agreement.

III

Impacts of the Stabilization Programs

The objective of this section is to illustrate the recessive and distributive impacts of the stabilization programs oriented by the IMF's outlook. With that purpose in mind we will examine some aspects of the recent Argentine experience.

It is evident that the structural socio-economic conditions of Argentina, as well as the specific features of its economic policy cannot be generalized sine die. Our purpose, nonetheless, is to point out the marked incongruence between the effects the program was supposed to have achieved and those it has in fact achieved, on the one hand, and the remarkable distortion of the distribution of benefits and losses, on the other. Accordingly, we will look especially closely at those aspects of economic policy directly related to the assumptions and objectives of the stabilization plans. With this purpose in mind, we will first present a simplified model of the Argentine economy;[13] this model will then be used to describe, on a comparative basis, some of the most important aspects of the stabilization plan. We will show that the mechanisms employed to confront the critical balance-of-payments situation demand a high price in terms of economic growth and income distribution. We will examine in greater detail the adjustment processes of macroeconomic variables trying to underline the short-term dynamics generated by the policy being implemented; particular attention will be paid here to the evolution of prices.

The recessive and regressive character of the stabilization plan is paralleled by two features of the Argentine economy that are largely ignored by the IMF's outlook. The first is of a structural nature and addresses itself to the character of the principal consumer goods among exportable products, on the one hand, and to the weight of consumer demand among wage earners relative to total demand, on the other. The second is of a dynamic nature, and addresses itself to the adjustment process of the economy once a reduction of effective demand takes place. Both features and the consequences flowing from them can be analyzed if one views the Argentine economy as the product of two different sectors, one producing goods for export and the other for internal consumption. The exportable goods are mainly agricultural products, which in turn are the main consumption items of wage earners. Given the low relative weight of Argentine production in world markets, we can safely assume that the international demand for exportable Argentine goods is perfectly elastic at current international prices. Accordingly, employment in the sector producing exportable goods will stay full regardless of the state of the rest of the economy. The number of wage earners in the export sector is low, and its demand for imported goods practically zero. On the other hand, the sector oriented toward the internal market is made up of industrial and service activities; its exports are limited, and it has a high demand for imported raw materials and capital goods. This sector is also the main source of employment in the Argentine economy. Consumer demand by wage earners and nonactive members of the population represents approximately two-thirds of the total consumer demand. Wage earners do not save, for all practical purposes; accordingly, their level of spending is directly determined by the wage level. Given that they are essential consumer goods, the demand for agricultural products is inelastic; if there is a price increase, the total amount of goods demanded goes down, but spending per unit goes up. Since total spending stays at a certain level, there is a decrease in the effective demand for industrial products.

How are prices determined in each of these sectors? The price of exportable goods (including subsidies and taxes) is determined by its price in the international market and by the exchange rate fixed by the government. The same mechanism determines the prices of goods imported by the internal-market sector. Prime costs in the internal market depend, in the short term, on the nominal wage level and on the price of intermediate goods that have either been imported or bought from the export sector; given international prices, those costs will depend on the wage level and the rate of exchange. The relationship between prices and prime costs of the internal-market sector--which would be the markup of that sector--is a crucial variable in the economy's short-term behavior. For the moment, we shall assume that this markup does not change in the short run; the prices of the internal-market sector are thus determined by the nominal wage level and the exchange rate. Accordingly, if international prices are given, the exchange policy and the level of the nominal wage will define the relative price system, including the real wage level.

If we assume that in the short-term levels of private and public investment, government consumption, and consumer demand by non-wage earners are fixed, the level of activity in the internal-market sector will depend on wage-earner demand; the latter in turn will be determined by the level of real wages.[14] Given the nonwage components of spending, this implies that the exchange rate and nominal wages determine--through a multiplier effect--the level of activity and employment of the internal-market sector, and consequently of the whole economy. Close attention has to be paid to the ways in which the levels of activity and employment depend directly on the level of real wages. Consumption by non-wage earners does not depend on current benefits; in addition, we can assume that public spending in investment and consumption operates, in the short term, without regard to the price system. Private investment is determined by long-term expectations; the latter can depend on current benefits and on the level of activity, but it is difficult to imagine that the form of this relationship is such that increased investment will correspond exactly to the decrease in wage-earner consumption within total effective demand.[15] Accordingly, effective demand for industrial goods depends on wage-earner spending, which in turn depends on the level of real wages.

Since a relatively low number of wage earners are to be found in the export sector, we can distinguish among three income-receiving groups: two types of capitalists--those from the export sector and those oriented toward the internal market--and the wage earners of the latter sector. Income distribution among these groups is determined by the ratio between exchange rate and wages. The larger the ratio between the price of foreign exchange and the wage level, the lower the real wage is bound to be, and the higher will be the proportion of income accruing to the export sector. An increase in the exchange rate is translated into a proportional increase in the prices of exportable goods. If the level of wages remains fixed or grows at a lower rate, the costs of the internal-market sector will increase less rapidly than the prices of exportable goods. Any income variation among internal-market entrepreneurs will thus depend on the markup on prime costs and on the magnitude of the downturn in their activity.

The trade balance is also regulated by the ratio between the price of foreign exchange and the price of labor. Any increase in the exchange rate has positive effects on exports in two ways: directly on the production of the export sector and, indirectly, through a reduction of its internal demand and consequent increase in the amount of goods available for export. On the import side of the equation, the recessive impact on the internal-market sector brings about a consequent reduction in the demand for imported intermediate goods.

These simplified features of the Argentine economy allow us to show the basic effects of the IMF's stabilization program. Devaluation brings about an increase in agricultural prices and a lowering of real wages. This leads to a recession in the inter-market sector. The recessive impact of a drop in effective consumer demand is not offset by a sufficiently strong expansion of export activities; as a consequence, the gross national product falls.[16] Imports are reduced, and the amont of goods available for export increases. Devaluation alleviates the balance-of-payments situation largely through its recessive effects and its impact on the income and consumption of wage earners. The magnitude of the recession depends on the size of the devaluation and on the evolution of prices in the internal-market sector. On the other hand, the reduction in public spending and tightening of credit that goes along with these changes in relative prices intensifies the effects of the recession. The larger the reduction in effective demand induced by the devaluation--and backed up by fiscal and monetary policy--the larger the recessive impact of the stabilization program will be. Another important effect of the program is regressive income redistribution. Wage earners are confronted with a drastic reduction of their income, whereas the income of those in the export sectors, especially the rents of the Pampa Húmeda (wet pampa) landowners, is increased substantially.

The stabilization program we are concerned with began in March 1976, as the official economic policy of the new military authorities.[17] At that time the economy was clearly undergoing a crisis: there were serious difficulties in meeting foreign payments, and since mid-1975 the inflation rate had accelerated, reaching peaks of 30 percent a month. This was largely the result of a frustrated attempt by the previous government to enact a somewhat similar stabilization program, but in a situation where the trade unions had strong bargaining power to defend wage levels. Accordingly, there was an intense struggle for the appropriation of income, in which the state found itself arbitrating an increasing number of recurrent conflicts. Nonetheless, during the first quarter of 1976 the devaluations of the Peronista government increased the ratio between the value of foreign exchange and wages by more than 70 percent,[18] whereas real wages fell during the same period by 22 percent. This meant that some of the main elements of the stabilization program were being implemented when the new government started to develop its policy. In this regard, the most significant elements of the new stabilization program--besides the increase in the exchange rate---can be seen to be the virtual elimination of price controls in the internal market and the freezing of nominal wages.

Let us examine some of the methods of implementation and effects of the stabilizaton policy, starting with relative prices. During the second quarter of 1976 (when the program was first implemented), the initial wage freeze and subsequent prohibition of any raises beyond a certain ceiling led to a drop in real wages of 37 percent. Wages at the end of this quarter had about 60 percent of the buying power they had had in late 1975 and a little over 67 percent of what they had had in 1960. Table 1 shows the evolution of an industrial worker's minimum wage, as set by collective agreements; its average value for 1960 is taken as a starting point. This series gives us an idea of the evolution of income in the groups with less bargaining power; however, during the second half of 1976, and to a greater extent during 1977 and 1978, wages in fact reached higher levels than those registered in the index. Although there is no reliable information on this subject,[19] an estimate using the evolution of family allowances and a sliding adjustment of 40 percent--which was the ceiling set by the government--enables us to conclude that real wages during the first quarter of 1978 were equivalent to those of the third quarter of 1976.[20] In two years then, the impact of the stabilization program was to cut wages by approximately 40 percent in relation to their already deteriorated level of March 1976.

TABLE 1

BASIC REAL-WAGE INDEX (INDUSTRIAL WORKER)
(Base, 1960=100)

	1976	1977
January	125.7	64.4
February	107.3	59.3
March	97.8	69.0
April	72.6	65.1
May	64.2	61.1
June	71.8	56.8
July	68.8	61.4
August	66.0	55.2
September	66.8	51.9
October	62.0	47.6
November	66.5	43.7
December	58.0	40.8

SOURCE: Institute Nacional de Estadísticas y Censos, Boletín Trimestral, various numbers.

During the initial implementation period of the program, prices in the export- and internal-market sectors behaved according to explicit policy objectives.[21] As Table 2 shows, at the end of the first half of the period agricultural prices went up by 30 percent in relation to industrial prices. This new price ratio tended to persist during the first year of the program, despite the inflationary upsurge, which we will discuss below. Nonetheless, the new relative price structure was altered by a drop in the international price of exportable goods, the exchange policy, and the price behavior in the internal-market sector.

TABLE 2

SECTORIAL PRICE INDEXES

	March 1976	September 1976	March 1977	March 1978
Wholesale agricultural	100	210.7	309.0	725.0
Wholesale nonagricultural	100	161.5	244.9	617.1

SOURCE: Instituto Nacional de Estadísticas y Censos, Boletín Trimestral, various numbers.

These changes in relative prices had a foreseeable and strong impact on demand. As Table 3 shows, in spite of a 40.7 percent growth in exports during 1976, total demand fell by 4.6 percent, reflecting an 8.1 percent drop in consumption and a 6.2 percent drop in gross internal investment.[22] Taken as a whole, the first two years of the stabilization program resulted in a strong cut in demand. During 1977, however, especially during the second and third quarters, investment demand and the growth of exports led to increased expansion, and as a result, for 1977 as a whole total demand went up by 5.3 percent. Nonetheless, this expansion was ephemeral; total demand dropped badly during the fourth quarter, and 1978 started under very recessive conditions. This development illustrates an important aspect of the stabilization program's impact on the Argentine economy. In spite of the strong increase in investment and export demand, both fail to exercise a multiplier effect on consumption. Consumer demand fell during 1977 by 4.1 percent, thus showing how much it depends on the level of real wages. In addition, the growth figures for exports and investment were exceptionally high;[23] in relation to them the intensity and duration of the expansion effect was rather low and short-lived. The recessive nature of the stabilization program is confirmed by this experience; even if investments and exports react favorably, this reaction is not sufficient to offset the effects of the drop in wages.

TABLE 3

TOTAL DEMAND
(Variation rates compared with the same period of the preceding year)

	1976 Yearly Total	1977 Yearly Total	1977 Quarterly Totals				1978 Quarterly Total
			I	II	III	IV	I
Total demand	-4.6	5.3	1.8	7.2	9.4	2.9	-6.2
Total consumption	-8.1	-4.1	-10.3	-5.7	-0.9	0.5	-2.4
Investment: durable equipment	-0.4	26.6	31.3	39.5	33.0	5.4	8.1
Building	-12.7	9.8	3.2	8.1	16.2	11.6	8.1
Exports	40.7	51.4	87.3	76.7	51.8	7.9	-9.4

SOURCE: Central Bank, Republic of Argentina, Boletín Estadístico, various numbers.

Economic activity indicators follow the tendency determined by the evolution of effective demand. The gross internal product fell by 2.9 percent during 1976; it went up by 4.4 percent during 1977; this expansion took place mainly during the second and third quarters; recessive tendencies manifested themselves again during the fourth quarter. Table 4 shows the evolution of the gross internal product on a quarterly basis; in it we can see the different effects of the stabilization program on the export- and import-market sectors. Although the agricultural sector sustained its expansive tendency until the fourth quarter of 1977, the industrial sector was seriously affected by the recession. In the fourth quarter of 1976, nine months after the program started, the level of industrial production was, on average, 11 percent lower than that of the fourth quarter of 1974. A brief expansionary period during 1977 led industrial activity to a high point during the third quarter of 1977 (reaching a level similar to that of 1974). However, recessionary tendencies subsequently reasserted themselves. During the first quarter of 1978 industrial production fell by 11.5 percent in relation to the first quarter of 1977; its level corresponds to 83 percent of the first quarter of 1974.

Though the industrial sector as a whole was affected by the recession, the reduction of demand in those industries producing goods consumed primarily by wage earners was particularly strong. Table 5 shows the gross industrial product divided by subsectors. It demonstrates

TABLE 4

GROSS INTERNAL PRODUCT
(Variation rates compared with the same period of the preceding year)

	1976	1976 Quarters				1977	1977 Quarters				1978
	Year	I	II	III	IV	Year	I	II	III	IV	Quarter I
Gross internal product	-2.9	-4.4	-5.2	-1.7	0.2	4.4	0.9	4.9	9.1	2.5	-7.2
Agriculture, Hunting, and Fishing	3.5	7.9	-0.1	0.8	5.9	7.1	5.1	14.3	9.7	-2.1	-7.0
Mining	0.8	-6.0	-2.5	3.3	8.3	8.8	9.0	12.0	11.0	3.4	-1.6
Manufacturing	-4.5	-6.7	-6.3	-2.9	-2.0	3.8	0.3	2.1	11.5	2.6	-11.5
Building	-14.1	-26.7	-15.0	-10.7	-0.8	13.3	6.3	10.5	19.7	16.7	9.2
Electricity, Gas, and Water	3.4	4.2	1.6	4.8	3.4	5.0	4.3	4.3	5.4	5.9	-0.7
Commerce, Hotels and Restaurants	-5.9	-9.8	-9.2	-2.4	-2.1	5.5	1.1	6.7	10.0	3.8	-6.0
Transportation and Communications	-4.3	-5.3	-10.2	-2.0	-0.5	5.8	3.6	8.0	9.7	2.1	1.5
Finance and Real Estate	3.5	6.7	3.5	2.0	2.1	0.2	-1.8	-0.7	1.2	2.1	1.5
Community Services, Social, and Personal	-0.2	1.1	-0.1	-0.1	-0.1	-0.4	-4.0	-1.0	4.0	-0.5	-6.9

SOURCE: Central Bank, Republic of Argentina, Boletín Estadístico, various numbers.

TABLE 5

GROSS INDUSTRIAL PRODUCT
(Variation rates compared with the same period of the preceding year)

	1976 Year	1976 Quarters I	II	III	IV	1977 Year	1977 Quarters I	II	III	IV	1978 Quarter I
Food, beverages, and Tobacco	0.3	-1.2	5.6	-1.1	-2.1	-3.5	-4.5	-6.7	-1.0	-1.6	-8.1
Textiles, clothing, and leather	-4.6	2.7	-5.4	-6.1	-2.5	-6.0	-11.5	-5.9	-1.2	-5.7	-22.0
Woods and furniture	-27.8	-26.3	-35.5	-26.0	-21.0	-11.5	-24.9	-19.0	-3.0	-0.6	-22.0
Paper, printing, and publishing	-7.3	-10.5	-7.5	-2.9	-8.2	-4.8	-1.5	-4.6	-10.8	-4.2	-2.7
Chemicals and petrochemicals	-0.7	-1.3	-0.4	s/u	-0.4	4.1	1.2	2.5	7.8	5.2	-4.5
Nonmetallic minerals	-4.5	-3.4	-8.9	-3.3	-2.3	-0.6	-3.7	-1.5	3.9	-1.3	-1.6
Basic metal industries	-24.1	-25.4	-30.2	-19.7	-19.1	15.4	0.5	7.3	25.0	28.0	-5.2
Machinery and equipment	-3.8	-12.1	-8.1	-0.6	4.1	10.4	7.3	9.0	21.6	3.7	-17.8
Other industries	-3.4	-0.9	-4.9	-7.4	s/r	2.4	3.3	2.0	6.6	1.6	-7.6

SOURCE: Central Bank, Republic of Argentina, Boletín Estadístico, various numbers.

the impact of decreasing demand on the production of food and beverages, textiles and clothing, and woods and furniture; in these cases, we would have to go back in our statistics to the early 1970's or even to the late 1960's to find levels of activity similar to those of the last quarter of 1977 or the first quarter of 1978.

The balance of payments reacted as predicted by the program. During 1976 exports went up by more than 30 percent, reaching almost 4 billion dollars; imports were cut by 23 percent, reaching almost 3 billion dollars. This 900 million dollar surplus on the trace account, together with 600 million dollars of net capital inflow made it possible to meet payments for financial services and increase foreign exchange reserves by about 1 billion dollars. During 1977 import levels stayed low; in nominal terms they were equivalent to those of 1975; exports, on the other hand, mainly owing to an exceptionally good harvest during 1976-77, reached a value of over 5 billion dollars. In this regard, the evolution of Argentina's international trade can be seen in Table 6.

TABLE 6

ARGENTINA'S INTERNATIONAL TRADE
(In millions of U.S. dollars)

Year	Exports	Imports	Balance
1974	3930.7	3634.9	+ 295.8
1975	2961.3	3946.5	- 985.2
1976	3916.3	3033.0	+ 883.1
1977	5610.0	4100.0	+1510.0

SOURCE: Instituto Nacional de Estadísticas y Censos, Comercio Exterior, various numbers; Central Bank, Republic of Argentina, Boletín Estadístico, various numbers.

By late 1976 the objectives of the stabilization policy in the external sector had been achieved. Foreign exchange reserves had reached a level of 1812.3 million dollars (almost two-thirds of the total import bill for that year). However, the fact that the policy remained unchanged, combined with its success in the external sector, put the Argentine economy in a paradoxical situation. During 1977, in addition to the 1.5-billion-dollar surplus on the trade account, there was a net capital inflow of 1.5 billion dollars, partly as the result of differences between internal and external interest rates. This led to a level of foreign exchange reserves of 4038.8 million dollars,[24] which was equal to the value of all imports during 1977. The paradox lay in the simultaneous occurrence of this exceptional external liquidity and an increased foreign debt on the one hand, and a strong recession, which left an important proportion of the industrial capacity unused on the other--in a country where the external sector had traditionally been an obstacle to growth.

Another point that merits attention is the impact of the stabilization program on the inflationary process. We have deemed it necessary to treat this issue separately because, the program's failure to achieve its manifest objectives in this regard has underlined the magnitude of the drop in real wages, the consequent income redistribution and the seriousness of the recession. The simultaneous occurrence of high inflation rates and a strong drop in effective demand produces an unusual economic situation. It can only be compared with the results of another stabilization program developed according to the IMF's philosophy--the post-1973 Chilean experience.

To analyze the impact of the stabilization program on the inflationary process, it is useful ot reexamine the model of the Argentine economy described above. According to the model's hypothesis, the initial impact of the program is always inflationary: the prices of exportable goods go up in the same ratio as the price of foreign exchange; the same happens with the prices of the imports of the internal-market sector. For this reason, even though wages may stay constant, prime costs in the internal-market sector will go up, although at a lower rate than the prices of exportable goods. The proportion in which prices rise in this sector will thus depend on the markup.

If enterprises tend to keep their markup constant--this was the provisional assumption we made above for descriptive purposes--prices in the internal-market sector will grow at the same rate as their prime costs; accordingly, average-price indicators of the economy will go up at a slower rate than the devaluation rate. Under depressed demand conditions, a low markup in this sector is to be expected as prime costs go up; this tendency is to keep the markup constant or reduce it at least partly. One consequence of this would be that, after the initial inflationary impact, the inflation rate would tend to go down, even though successive devaluations would keep the relative price structure desired by the stabilization program. If the economy behaved in such a fashion, the program would lead to a cost inflation characterized by gradually receding rates.

The hypothesis that the markup rate will be constant in the internal-market sector implies a Keynesian assumption about the existence of an adjustment mechanism in commodity markets that operates on the basis of quantity; faced with a reduction in effective demand, enterprises would tend to keep prices constant, reducing the amount of goods sold and the level of activity. Under inflationary conditions, reduction in demand occurs simultaneously with an increase in prime costs. The Argentine experience before the enactment of this stabilization program largely tends to confirm the accuracy of this assumption.

It is nevertheless clear that the stabilization program inaugurated in 1976 has led to new price behavior in the internal-market sector. The first measures of the program--particularly the elimination of subsidies, regulation, and direct controls--brought about a drastic rise in prices. After this initial impact, during the first months of the program the monthly inflation rate went down steadily--from 35 percent in April to less than 5 percent in June and July of 1976. During this initial period, price behavior seemed to follow the historical pattern, in a matter that accorded with the level of wages and the exchange rate. However, six months into the program, prices in the internal-market sector started to go up rapidly again; during the following six months the cost of living went up at an average rate of 8.2 percent a month, and the industrial-price index (wholesale, nonagricultural prices) at a rate of 7 percent a month. During the following twelve-month period--from March 1977 to March 1978--there was a new burst of inflation, which reached rates of 8 to 12 percent a month.

The course of inflation has had important effects on income distribution; these effects may be of an even deeper and more permanent nature because of the long-term tendencies generated by the stabilization program. The seriousness of the internal-market shrinkage induced by this policy is directly related to these inflationary tendencies. The persistence of a "monetarist" diagnosis of inflation justifies the renewed application of a policy designed to "open" the internal market for foreign industrial products, the effects are twofold (as the recent Chilean experience shows all too clearly[25]), namely a dismantling of a significant part of the industrial sector, and a drop in real wages that takes income-distribution patterns back to what they were several decades ago.

To examine the impact of the programs guided by the IMF's outlook under conditions of this new phenomenon of hyperstagflation, we have to point out some elements lying at the root of this process. Hyperstagflation seems to result from the combination of some elements of the stabilization program and the special circumstances under which the economy finds itself at the moment the program is enacted.

The balance-of-payments crisis that the program was trying to confront was accompanied by an acceleration of the inflation rate from mid-1975 onwards; at its highest points, inflation had reached 30 percent a month. Government price controls were increasingly ineffective, and black markets had become standard; the economy was beginning to resemble more and more a collection of highly speculative markets. One of the characteristics of this situation is the significant impairment of the ability of the economic participants to make medium- and long-term predictions. Accordingly, investment that depends on such prediction goes down. Another characteristic is the importance assumed by short-term expectations; a high value is thus placed on all information that facilitates their formulation. With such high rates of inflation, short-term expectations have to be related not only to future demand but also to the future price of inputs and of the enterprises' assets. The key to this process seems to be the relationship between the amount of time required for producing and selling a given product and the rate at which the prices of these goods change. In the short term, the amount of time needed for production and sales is less than the time needed to collect information about significant variations in the prices of inputs and assets.[26] Sales prices thus have to include estimates of the future prices of these goods. Mistakes in predicting these future prices can be very costly, eating into the capital of those businesses that underestimate them. On the one hand, these characteristics of the market give rise to a pressing demand for information to formulate short-term expectations. On the other hand, a risk-avoiding policy by those who set prices will probably tend to overestimate future prices, thus leading to an increase in the expected inflation rate and to a consequent rise in the markup.[27]

The stabilization program's policy measures respond to the demand for information; however, far from dampening inflation as they are intended to, they have exactly the opposite effect. In the first place, the disappearance of government price controls (announced as a critical step to allow the free play of the "invisible hand") in fact increases the high level of uncertainty in the economy. It eliminates one of the main sources of information for short-term expectations, diminishing the visibility of those who set prices, but it also stimulates even more the need for information. In this context of reduced visibility and increased sensitivity, information provided by agricultural prices, prices, tariffs in the public sector, and the interest rate--determined directly or indirectly by the program's policies--boost expectations, accelerating the inflationary pace in the internal-market sector.

In effect, both the evolution of prices and tariffs in the public sector and the level of the interest rate are dependent on the control and restriction of the monetary supply set by the counter-inflationary program. As far as public enterprises are concerned, the plan to reduce the government deficit involves a price policy that tries to get ahead of inflation by means of periodic price increases; this becomes an expansive factor in the formation of expectations.

In Argentina, the goal of controlling monetary variables led to a transformation of the financial sector and the way it operates. Policies in this area have brought into being a financial market with a great diversity of very short-term assets; given high rates of inflation, this market operates under highly speculative conditions. To raise the interest rate was part of the counter-inflationary program; this objective was pursued by direct and indirect means. Intensive use of private credit for overcoming the public deficit was strongly encouraged; federal support for provincial governments and institutions, public enterprises, and municipalities was drastically curtailed, and these bodies were asked to finance their deficits through price increases, taxation, or loans from the financial market. Passive and active interest rates went up, with the latter reaching in some periods a monthly rate of 8 percent. Table 8 shows the evolution of interest rates during the second half of 1977 and first months of 1978. The real monthly interest rate shows variations of up to seven points in certain periods.

TABLE 8

INTEREST RATES FOR 30 DAYS

	Passive	Active	Rise in Wholesale Prices
1977			
June	6.1	7.4	6.6
July	6.6	7.2	5.7
August	7.3	8.2	12.6
September	8.0	9.2	7.3
October	9.4	12.2	13.6
November	10.3	13.7	7.8
December	10.6	13.6	4.2
1978			
January	10.3	13.5	10.1
February	8.1	11.2	5.3
March	7.0	9.2	9.0
April	6.8	8.3	9.5

SOURCE: Interest rates, Fundación de Investigaciones Económicas Latinoamericanas, Informe Financiero Mensual, various numbers. Prices, Instituto Nacional de Estadísticas y Censos, Boletín Trimestral, various numbers.

The inflationary "push" of high interest rates is probably not limited to shaping short-term expectations but also exercises pressure on prices through an increase in the financial costs of the internal-market sector. During the severe recession that took place in late 1977 and early 1978, coinciding with a boom in interest rates, interest rates reached a real rate of approximately 30 percent per four-month-period, in relation to the prices of that sector. Some indication of this can be seen in Table 9, where the active thirty-day interest rate has been adjusted by the monthly rate at which some wholesale prices rose, accumulating in the resulting rate for the last quarter of 1977.

A summary of the main effects of the stabilization program outlined so far can thus only conclude that of all its explicit short-term objectives the only one that has been achieved is a definite easing in the international payments situation. Inflation goes on unabated at a high and fluctuating level; the "freedom-of-prices" policy, apparently imposed as a counter-inflationary measure, has merely meant that the state has lost its capacity to regulate and control. Something similar has happened in capital markets, where, with the participation of foreign finance capital, heavy speculation takes place;[28] this has resulted in an unstable financial situation that reduces the options available to the state in this regard. There has been a drop in productive investement, and the conditions created by the program do not seem to have attracted direct investment by transnational enterprises. Long term confidence on the part of the local bourgeoisie and transnational investors has not been restored.[29] Present internal-market tendencies and inflation make it unlikely that confidence will be restored in the near future. The country is thus faced with a strong recession, a drastic reduction in real wages, and a regressive redistribution of income that is unique in Argentine history.

TABLE 9

RATIO BETWEEN INTEREST RATE AND WHOLESALE PRICE-GROWTH RATE
(Active short-term interest rate, from September to December 1977)

Sector	Percentage Ratio
Food and beverages	25.7
Tobacco	10.6
Textiles	25.8
Clothing	17.0
Wood	30.4
Paper	16.2
Chemicals	16.8
Oil	34.5
Rubber	-0.2
Leather	38.2
Stone	-1.5
Metals	6.1
Vehicles	7.5
Machines and tools	6.3

SOURCE: Instituto Nacional de Estadísticas y Censos, Boletín Trimestral, various numbers.

It is by no means easy to identify the beneficiaries of this economic policy in the industrial sector.[30] Even though, as in all recessionary processes, there has been an expansion of some groups to the detriment of others, the contraction of the internal market has affected industrial activity to such a degree that, in some sectors, one would have to go back ten years to find production levels similar to the ones of 1978. The direct beneficiaries of this economic policy should be those in the traditional export sectors that are identified by the program as the axis on which the economy will be rebuilt. However, inflation and the more recent exchange policy has reduced considerably the benefits they originally received from the program. The most direct beneficiaries are unquestionably those sectors related to financial speculation, an activity that has attracted a significant part of business profits.

If it is difficult to find direct beneficiaries of the stabilization program among internal social participants, this is not the case once we move to the international scene. The critical balance-of-payments situation was quickly solved by the program; this made it possible for the country to pay 1,100 million dollars as foreign-debt service during 1976 and 1977.[31] In this respect, the success story of the Argentine stabilization program can be best told by international creditors. Not only have they been paid punctually, but they have also been offered, as a warranty, a foreign-currency-reserve stock equal to a fifteen-month import bill.[32] International creditors could hardly be happier regarding the success of the IMF's recommendations.

We will now turn our attention to the internal political processes of those countries where the stabilization programs agreed upon with the IMF are enacted through the imposition of a BA state.

IV

Roberto Campos, Otávio Bulhoes, Jorge Cauas, Guillermo Vegh Villegas, Adalbert Krieger Vasena and José Martínez de Hoz--champions of the stabilization programs undertaken by the Latin American BA states--all have one thing in common. Before becoming cabinet ministers they all belonged to the group that, in their own countries, had extensive personal relations with private and public international financial circles. In fact, they were all part of the local "chapter" of those circles. This was one of the reasons they were appointed to their positions in the first place. The abrupt implantation of BA states, starting with the Brazilian coup of 1964,[33] was an effort to put an end to a situation perceived by many as a deep political and economic crisis. A high inflation rate and an acute balance-of-payments crisis were some of its elements. To overcome this situation it seemed imperative to reach an agreement with the "international financial community"--starting with the IMF--on a set of policies that would make available the resources needed to alleviate the crisis. Nobody could do a better job in going north with these programs, it was thought, than these cabinet ministers. They already enjoyed considerable prestige in such circles, and they were convinced, too, that the objectives and policy measures embodied in those programs were the expressions of an economic rationality without which it would be impossible to rescue these countries from their respective crises. We will elaborate further on this topic below, but it is important to emphasize at the outset that we are dealing with an issue involving complex causality. It is simplistic to believe that "somebody" imposed these programs from abroad. But it is also simplistic (or diplomatic) to assert that a given government "freely" elected a certain program that was "later" approved by the IMF. What we are really facing is a convergence of determinations, or better still, a case of overdetermination. Even without the need for the IMF's blessings, the stabilization program of these cabinet ministers would have been similar to the one they agreed on with the IMF. On the other hand, even if the respective economic teams did not believe that these policies would succeed, the need to formulate a program to satisfy the IMF and the international financial community would also have determined a policy package similar to the one actually approved. This convergence is one of the issues we are interested in exploring here.

It would be superfluous to again go into the various analytical points we have made in other studies quoted above. We shall limit ourselves then to setting out a few crucial aspects of the establishment of the BA state, which is generally founded as a fearful response to what many consider a deep economic crisis. Politically, society seems to be characterized by great disorder; the state shows a decreasing capacity to guarantee the current system of domination; the threat that society might collapse is seen as a very real one. This threatening feeling leads the bourgeoisie to rally around its basic interest--the ability to reproduce itself as a class. This provides the support for the coup undertaken by the Armed Forces, in turn permeated by the doctrine of national security, which acts as a reinforcing factor. The middle sectors, incensed by disorder and the "insolence" of formerly passive sectors of society and by the economic uncertainty they are going through, also throw their support behind the coup.

This predetermines the two great tasks that the emerging government sets for itself. The first of them is to reintroduce order. This involves dismantling only threatening popular political activities, eliminating their political self-expression, and putting trade unions under strict control. This, with the suspension of all institutions of political democracy, results in the political exclusion of the popular sectors and their allies. The second great task is to "normalize" the economy; that is, to stabilize some crucial variables, and supposedly in the long term to again begin economic growth on the basis of a more efficient and healthy productive structure. There are, however, serious obstacles in the path of these objectives.

First, the political and economic uncertainties of the previous period have led almost everyone--including the bourgeoisie--to speculative behavior that in turn deepens the crisis. This has resulted in a lack of investment, the flight of capital, and a dislocation of the capital accumulation circuit. Second, especially in the cases of Chile, 1973, and Argentina, 1976, the situation has expressed itself in an extremely high and fluctuating rate of inflation. On the other hand, the growth rate of the economy as a whole has slowed down; the balance-of-payments situation has reached a point where the country might be unable to meet its foreign obligations.

It is in this context that the stabilization programs insert themselves. Their objective is to redress the economic situation, approaching first of all the problem that is both the most urgent and the easiest to handle--the balance-of-payments situation. To overcome its foreign-payments problem the country needs three things: new credit lines; a comprehensive renegotiation of its foreign debt, since the burden ot the debt has been made even more unbearable by the previous crisis;[34] and a consequent easing of conditions for other commercial and financial international transactions. As long as one of the immediate manifestations of the crisis is in the balance-of-payments situation and its alleviation requires some sort of solution in that sphere, the problem "naturally" comes under the IMF's jurisdiction. Policies that are required to obtain the IMF's and the international financial community's support then emerge.

This implies a crucial task for the new governments and their internal supporters--the restoration of international confidence in the country. This is by no means easy; to begin with, the image of a previous situation that generated deep pessimism about the future has to be overcome. This was an evaluation not only of a certain government, but also of a country that had the explosive potential to reach such a situation in the first place. Nevertheless, in spite of the efforts to restore order, the renewal of trust in the future of the economy also demands a guarantee that order will be maintained at least for the period of time considered sufficient by potential investors. The political exclusion of the popular sectors and their allies is the main component of that guarantee. But this implies also that the popular sectors--especially the working class and the public employees--lose the capacity to participate in determining their income. This leads to additional measures to put the trade unions under control; the right to strike is eliminated, and wage levels are set by the government in a manner that leads to a severe, regressive redistribution of income. As a consequence, the popular sectors are also excluded economically. Again, there is an understanding that these controls (an aspect of the class dimension of the imposed order) will continue for the time span set by those who are evaluating the new economic situation. After all, the history of these countries has shown recurrent attempts to impose strong governments, and, with or without them, to enact stabilization programs that were aborted because of political activism and the ability of the popular sector and its allies to formulate economic demands. For that reason, to be able to obtain trust and confidence neither a new strong government, nor a "correct" economic program, nor prestigious cabinet ministers are enough. All these are necessary but not sufficient conditions; the important point is to convince the international financial community that "this time" these arrangements will last.[35]

Paradoxically, the very deepness of the previous crisis lends credence to such an assertion. The deeper the crisis, the greater the effort and cost needed to impose order; accordingly, it seems more and more probable that to return to the demagogic past is out of the question. But this is not enough. The top positions in the state are held by members of the Armed Forces. Yet, institutionally this is the segment of the state and the social group that is in principle least compatible with the stabilization policies to be undertaken with their executors. Is it possible to make the socialization of the Armed Forces (reinforced by national-security doctrines centered on the potentialities of the nation) compatible with the basic approach and consequences of a policy that in so many ways implies precisely the opposite? The internationalization of the productive structure, the predominance of "efficiency" criteria over those of national origin and control, and the dismantling of a significant portion of industry (precisely that sector under unquestionable national control) are only some of the consequences of the stabilization programs. They appear to be, prima facie, deeply opposed to the very heart of the belief system the Armed Forces are supposed to have. This puzzle cannot be solved by analyzing the discourse of those included, and this is not the place to attempt to do so. Suffice it to say that for the period dealt with in this study (the adoption and initial implementation of the stabilization programs), there is one factor providing a common bond between the members of the Armed Forces and the economic "technicians"--a belief that the deepness of the previous crisis demands unhesitating, drastic action. The Armed Forces view the nation as a sick body needing surgery, even terrible surgery, to be saved. The "technicians" view the situation as the ideal occasion to use another sort of scalpel, namely their belief in an economy saved from "demagogic temptations" through the suppression of "politics" and the elimination of the pressures that for many years prevented them from putting their policies into practice in the "right manner" (i.e., using drastic measures that last as long as necessary to obtain the desired effects). Since both groups tend to see a similar "illness," they can communicate on the similarities of the hard tasks--order and nominalization--both are taking up with their respective tools.

The second important problem of these policies is that they not only punish many by excluding them, but that they also bring severe hardship to many supporters of the coup. It is evident that only a small group in those sectors that back the establishment of a BA state benefit from these programs. The need to cut the government deficit leads to a drastic drop in income among public employees, as well as to numerous dismissals that highlight the uncertainty of even those meager salaries. On the other hand, the recession, credit, and cash shortages, and the increased concentration on the productive structure tend to harm a broad spectrum of people, from small merchants (lumping together, in its typical fate, most of the petty bourgeoisie that had been so active against disorder) to a significant portion of the industrial and commercial bourgeoisie. And we are not referring here merely to a drop in income or to an increase in the number of bankruptcies; the basic problem arises from the lack of protection of various bourgeois factions from the actions both of oligopolistic sectors and of the more internationalized segments of the bourgeoisie itself. Many enterprises find that they cannot any longer rely on the state--which may have been demagogic but was also nationalist and protective--and that this change has occurred precisely at the moment when, owing to the recession, their economic space is shrinking.[36]

The question, then, becomes more complex than simply one of guaranteeing the continuity of these policies against the opposition of the excluded. Continuity has to be preserved despite the grumblings of those who were part of the coalition backing the BA state. Some of these bourgeois sectors are difficult to repress, and they can hardly be accused of having supported the previous, threatening process. In addition, the middle sectors and the local bourgeoisie can voice an argument that is bound to be much more amenable to the Armed Forces' outlook than the rationale of the technicians. How is it possible to think about the potentialities of the nation if the long-term result of these policies is a productive structure dismantled for cold "effiency" reasons, with an extremely meager local bourgeoisie and with a state apparatus that has also been dismantled (at least in terms of the technicians' statements, not in observed results)? On the other hand, how can these objectives be reconciled with a process favoring the export sector and finance capital to the detriment of productive activities of an industrial and commercial nature? And a strong argument for those worried about subversive activities--how will such an economic arrangement provide employment to the masses, who presumably will not remain silent indefinitely?

Nonetheless, with the exception of Argentina during the previous bureaucratic-authoritarian experience, the technicians of the stabilization program and their policies have stayed in office for a much longer period than any examination of public pressure on the program's main allies in the state apparatus would allow us to predict. What are the reasons for this situation? Despite the opposition of the excluded, the complaints and grumblings of so many who were originally allies, and the ambivalence of a significant portion of the Armed Forces, this challenge to the law of gravity can be explained by two reasons. The first of them (not apparently paradoxical) is that these policies are failing even within the framework of their own premises. The second is that the convergence or overdetermination whose presence we postulated at the moment these policies were adopted, is still operative. Let us examine these issues.

V

Accomplishments and Failures of Stabilization

In section III we showed how these stabilization policies tend to favor those sectors related to the export of primary products and finance capital.[37] We also examined the manner in which these policies alleviate the tight balance-of-payments situation and concluded that they were significantly less successful in their efforts to curb inflation. On the other hand, we saw that those policies tend to deepen the recession and penalize wage earners heavily through regressive income redistribution. All this leads to an economy that, official speeches notwithstanding, moves basically around financial speculation. As a consequence, there continues to be little space for productive investment, not even for transnational capital. The economy is thus ruled fundamentally by financial speculation. In sum our argument is the following: (1) the adoption and implementation of policies that are considered reasonable by the IMF and the international financial community is a necessary condition for alleviating the balance-of-payments situation once the BA state has been implanted; (2) the deeper the preceding crisis, the more urgent that alleviation is bound to be; accordingly, the more strict and orthodox the design and implementation of policy measures has to be to "merit" international support; (3) a speculative economy is thus recreated, excluding not only the popular sectors but also suffocating the internal productive structure, although (4) the consequent improvement in the ability to meet foreign obligations is perfectly congruent with the interests of transnational finance capital.

The standby agreements and the sbusequent opening of new credit lines are not the only indications of international approval for stabilizations policies and their stubborn implementation; there is also an inflow of external capital, on a short-term basis. Nonetheless, the limits of the confidence these programs may develop is shown by their incapacity to attract important amounts of transnational capital for direct investment purposes to economies that find themselves in a recession and plagued by numerous uncertainties.

The only relative success of these stabilization policies (which in fact do not promote stability at all) is in improving the balance-of-payments situation.[38] However, to maintain the improvement it is necessary to obey the codes of presumed economic rationality permeating the IMF's outlook and embodied in these agreements. The reason for this state of affairs is not difficult to ascertain: the loss of the short-term confidence placed on the stabilization program would lay bare, even for its own supporters, the failure of policies that have already involved such a high cost in many respects. Consequently, what is to be done? Assuming that there has not been any significant change in the correlation of forces,[39] the only alternative--unfortunately for many--seems to be to engage in more of the same. That is, to persist a little longer in those policies, hoping that this tenacity will finally attract foreign capital on a long-term basis; as the efficiency levels of the productive structure are improved (basically a euphemism for its dismantling) it is hoped that the economy will start to grow again, through the appearance of forces stronger and more dynamic than those provided by an oversized financial sector and the export sector.[40]

This may allow us to explain the continuity of policies (like those implemented in Chile since 1973 and in Argentina since 1976) that lack almost any social support and hurt many sectors that originally backed the BA state. It is not true that these policies lack any social support whatsoever, or that nobody benefits from them; the point rather is that the supporters and beneficiaries are an extraordinarily small group, which imposes on the economy a particularly perverse manner of reproduction that hurts not only its opponents but also a significant portion of the bourgeoisie itself.

This is one of the points where the overlap between economics and politics appears clearly. In Latin America there have been numerous stabilization programs during more or less democratic periods. Their implementation, however, broke down earlier than in the cases we are analyzing now, not only because the capacity, now suppressed, of the popular sectors to fight for their wages was then effective, but also because of the influence of the bourgeois factions hurt by those policies.[41] It is only since the establishment of the BA state that governments have been able to stick obstinately to these programs. It is perfectly obvious that the mission of imposing order is incompatible with the demands of the popular sectors; however, it is also evident that in today's Argentina, Chile, and Uruguay the complaints of important bourgeois sectors have fallen on deaf ears.

What are the reasons for this? The answer to this question is a fairly complex one, and we can here only provide a partial approximation to it. The roots of the explanation lie in the seriousness of the preceding crisis; the deeper the crisis has been, the greater the dislocation of the economy, and, more important, the greater the feeling that capitalist society was coming to an end. This fear is remembered by the bourgeoisie during the following period; the BA state, despite its enactment of policies hurting the economic interests of various bourgeois sectors, is thus considered the savior of the bourgeoisie as a class. This in turn limits in the short- and medium-run the possibility of alliances with the popular sectors (who are seen as the bearer of the threat) and increases the harshness of the imposed order. The bourgeoisie's grumblings are thus translated merely into bureaucratic infighting within the state apparatus--trying, on a piecemeal basis, to minimize the cost of these policies--but unable to develop any alternatives to them. In other words, the opacity, bureaucratism, and lack of overall perspective of the defensive maneuvers undertaken by most bourgeois sectors (factions, groups, and even individual enterprises) make it impossible for their efforts to appear as a credible defense of the general interest. The only argument that qualifies at least partially in this regard is the one embodied in vague references to a sort of nationalism without the people (whom the BA state, with its "order" mission excludes). The bourgeoisie as a whole is grateful that the BA state has saved it as a class; consequently, it limits itself to grumblings when, in the first stages, the normalization technicians crucify a not insignificant part of the bourgeoisie as a tribute to an efficient and internationalized capitalism. At that point, these sectors discover that in previous periods conditions for their reproduction existed but that they have now been eliminated by the BA state; despite their demagogic character, these conditions (which had almost been overrun at the end of the preceding period) provided important protection. At the same time, in a context that presupposes the exclusion of the popular sectors--their possible allies--these groups discover their inability to promote an alternative within the BA state's cabinet politics. The threat of the popular sector is still too recent, the coercive power of the state is focused too heavily on it, and its past threat to capitalist society is still on the bourgeois mind. For that reason, the most that can be expected are pious appeals to the effects that the drop in real wages has had on the recession, showing thus once again how divided and petty the bourgeoisie's schizophrenic attitude towards the BA state is. In any case, all this does not go beyond complaints and rumors that are locked into the dynamic imposed by the order and normalization tasks of the BA state; it cannot, for the moment, become a serious alternative to the ongoing economic program.

Grumblings and complaints can also be heard within the Armed Forces; as time goes by, and the costs to be paid as well as the failure of these policies become evident, the dismantling of the productive structure in its most genuinely national sectors (which is by no means a coincidence in these dependent capitalist economies) is increasingly apparent. In addition, the efforts of the local bourgeoisie to minimize the costs of these policies and to explore the possibility of a less burdensome alternative are directed precisely toward the Armed Forces. Since little information is available in the mass media, a tremendous variety of rumors results. There is talk about this or that group within the services being opposed to the economic policies, and intra-bureaucratic struggles revolve around the continuity of the policies in which the interests of bourgeois forces are reflected. Nonetheless, despite casual algebraic operations regarding the correlation of forces--according to which the stabilization program is about to be scrapped--the continuity of the program is reaffirmed over and over again. To understand the phenomenon we have to take into account an important element within the Armed Forces. The initial authorities of the BA state, pressed by the need to obtain quickly the IMF's and the international financial community's blessings, commit themselves deeply to the economic program as well as to the technicians embodying it. This commitment of the top military authorities is one of the basic conditions (aside from implanting order) for developing the confidence needed to obtain balance-of-payments relief. The international financial community has had too many experiences with "acceptable" programs that could not be implemented owing to a lack of political and military support. The authorities of the BA state thus do not have many alternatives to sticking with the program no matter what; amidst the doubts and dissident opinions of their own colleagues, they only hope that perseverance will ultimately bear fruit and bring about the goals of a lower inflation rate, a moderate expansion, and an efficient economy. After having announced urbe et orbi that the stabilization program, accepted as the essence of economic rationality, is the program of the Armed Forces, who will therefore support it along the harsh road of its implementation, the supreme authorities of the BA state are tied to it. The program gives rise to dissent and opposition, but any real alterantive to it--a change in the course of the economy with a concomitant realignment of alliances--is extremely dangerous for the permanence in office of the authorities. The obvious leaders of any new period would be the military officers who have been arguing all along against the stabilization program, and have been developing links with those bourgeois sectors who share their notion of a BA state that is more benign economically, although no less concerned with keeping order.

In addition, the Armed Forces have seen, together with the bourgeoisie, the dangers of the previous period; they have also assumed the responsibility of imposing order. They tend to share, therefore, the fear of developments that might be taking place behind the wall of silence imposed on a large part of society.[42] Therefore, decisions on any policy alternative--and primarily on any new economic policy--must include a credible guarantee that they will not lead to a reactivation of the threats whose suppression was so demanding.

Another factor provides additional support to the stabilization program; expressions of international support for the program and its executors--conveniently publicized throughout the world--play an important role in this regard. They are generally combined with explicit warnings that any abandonment of the program would mean the loss of international confidence, and therefore, the wasting of all costly efforts already made. These warnings and the implications of losing the internal and international support already achieved by the program become an important element in the internal political struggle in the BA state. It is there that the external support comes in to back the economic teams and the policy directives provided by them. Other alternatives either cannot be articulated by the excluded sectors, or appear to be, as reflected in the complaints of numerous bourgeois factions and groups within the Armed Forces, understandable but premature concerns. They might be dealt with "at the appropriate moment," once the economic program has finally borne the fruits it is supposed to.

In sum, there is nothing inevitable about the continuity of policies that have failed in so many ways and can show only one accomplishment (in the balance-of-payments area). However, once the BA state is implanted, and the need arises to ask the IMF for urgent relief, it is a necessary condition that the economic apparatus within the BA state be controlled by personnel whose outlook agrees with the IMF's, and that the Armed Forces' leadership be deeply committed to support this program. From that moment on there is no going back, and the program has to be continued for a much longer period than one would expect, given the grumblings of its important allies and its evident failures. Undoubtedly, an additional element in this situation is provided by the very nature of the game in question--largely cabinet and bureaucratic politics, to which, by definition, those sectors excluded by the BA state have no access. In this context, the misfortunes of the weaker and more nationally oriented factions of the bourgeoisie can only lead to small battles over minor issues.

This combination of factors explains why policies that harm a vast majority of the population continue to be implemented even after it is evident that their many failures cannot be matched by any comparable list of achievements. The background to these developments is provided by bureaucratic politics, since the popular sectors have been excluded and all representation channels that would make it possible to transmit general-interest arguments have been eliminated. Thus the phenomenon of this markedly capitalist state's harsh punishment of factions of its own bourgeoisie and total deafness to their hesitant complains becomes intelligible. The resulting rumor-filled vacuum creates the conditions for the perseverance of an economic program harmful to the interests of society as a whole; its policies are perceived to be the only way to avoid the threatening dangers of the recent past.

VI

Variations

If we move to a case that is in some ways exactly the opposite of that of contemporary Chile, Argentina, and Uruguay--the normalization program that started in March 1967 during the preceding bureaucratic-authoritarian experiment in Argentina--our argument may become clearer. That program achieved some significant results (it did more than merely ease the balance-of-payments situation), but until now it has also been the only one to be interrupted owing to a chain of circumstances started by the May 1969 events (the Cordobazo) and their sequels. This combination of success and abrupt end was not a mere coincidence.

The 1967 program was launched under much more favorable conditions than the ones existing in the 1970's. The level of political threat was lower and the economic crisis had by no means the seriousness it later had in Chile, Uruguay, and Argentina. Largely in response to this, the standby agreement with the IMF as well as the ensuing loans from transnational banking consortia and the U.S. Government set up less stringent conditions. The agreement in fact admitted that inflation was determined mainly by costs and the expectations of economic participants and not by demand. This allowed for an expansive monetary policy and easier credit (which is not possible if demand is seen as the main cause of inflation). On the other hand, orthodoxy reasserted itself by requiring the elimination of the government deficit, although this was clearly incompatible with the diagnosis of inflation that had been made. However, this problem was solved by the government's heavy taxing of the pampa's bourgeoisie. Their high income made it possible for the government to appropriate part of it through manipulation of export prices. Although the tax obviously antagonized this sector of the bourgeoisie, it had the fundamental advantage of reducing the government deficit and launching an important program of public investment. The dynamic impulse of such a tax has not been available in Argentina, Chile, or Uruguay in the 1970's.[43]

As a direct consequence of the tax, by 1968 inflation had gone down considerably, and the economy had started to grow again. Although the process was characterized by the increasing concentration and internationalization of capital as well as by a regressive redistribution of income (although less markedly than in the other cases), the program had been quite successful.

And this was the problem. In effect, why should the country go on enduring the costs and the denationalization process implied in the program if its achievements made it possible to go back to policies supporting the more national sectors of the bourgeoisie? Wasn't it possible now, thanks to the improved balance-of-payments situation, to reactivate the internal market through wage increases? These questions allowed the industrial and commercial local bourgeoisie to find in the state apparatus (mainly in the Armed Forces) allies willing to promote what appeared to be a viable, fair and national alternative of capitalist development. In addition, the lower level of threat apparently posed by the popular sectors (which had not articulated any socialist goals) had led to less severe controls over them; they could thus be presented as an ally that would not awake any fears. All this paved the way for the crucial political event that has not been possible on other occasions--the formation of a winning combination of these various sectors that agrees on the need to replace the economic program.

The main point is that the contemporary cases, starting from a far deeper crisis and level of threat, have been less successful in their explicit premises and goals than Argentina in 1967-69. It is not in spite but because of this that these programs are kept alive; their very failure seems to preclude any other alternative. Any substantial drop in inflation and resurgence of growth in the economy would politically undermine the continuity of these programs. This is not only because of the opposition of the popular sectors but also because many original supporters of the BA state may visualize the possibility of reorienting economic policies towards goals that are more compatible with their immediate interests.

Grumblings and rumors notwithstanding, there is no better guarantee for the continuity of the stabilization programs and the permanence in office of the technicians implementing them, than their own failure. Their failure is at the same time their success, as well as the fundamental root of significant support by the IMF and the international financial community. There is no greater risk for the program, aside from challenges that might come from outside the imposed power system, than its own success in curbing inflation and achieving economic growth. On the other hand, nothing is so helpful in subordinating these capitalist economies and an important part of their own ruling classes than the disruptions imposed by financial speculation. Also, few things exemplify as well the political importance of apparently having saved capitalism in those countries, even at such a cost.

It must be evident by now that this study is of a highly tentative and partial nature. There is still much to be done, from the perspective both of the center and of the periphery, to increase our understanding of institutions, processes, and efforts involving more than complex economic issues. At least we hope to have shown the intrinsic overlap between economics and politics in this area of our concern. Among other things, these economic programs are supported by a narrow (albeit powerful) social segment, and the congruence of these postulates with the free play of market forces is contradicted by rigid governmental wage controls. These programs thus cannot be implemented without a state that is sufficiently authoritarian to suppress the opposition rising against their high social cost. The technocratic argument about the neutrality of this or any other economic policy is of course fallacious. However--going a bit beyond this obvious point--in these cases it seems to be clear that only such an authoritarian state can take upon itself the harsh implementation of such programs. There is thus a contradiction between recent efforts arising in countries of the center to safeguard certain values and the fact that their institution, directly or through the IMF, uphold policies demanding a very particular type of state. Whether this support results from explicit decisions or--as is probably more frequent--from the belief that in certain situations there is only one type of economic rationality, the IMF's outlook, is relatively unimportant in terms of the immediate impacts of those programs. However, on a long-term basis, the impetus of what is apparently obvious and of beliefs reinforced by the authority of "the" science points to an ideological field that has been largely abandoned by those who might formulate the type of critical questions we have been concerned with.

APPENDIX

Some Notes on the Origins of the Orientations and Functions of the IMF

The IMF was born as one of the institutions intended to reconstruct world economic order after the Second World War--an issue that came up among the Allies around the middle of the war. The idea was not so much to revitalize the old, destroyed system, but to find a new arrangement for international economic relations, since the international economic order had been in a deep crisis long before the war. Until the twenties, the principles of laissez-faire had more or less intermittently dominated international economic relations. This notion provided the basis for a relatively simple international policy, inspired by the desideratum of free trade, and the consequent removal of all obstacles in the path of the "invisible hand" in international and national markets. The gold standard was the monetary system designed to allow the functioning of these relations through a self-correcting mechanism of balance-of-payments disequilibrium and through monetary movements that would affect the level of prices, investment, and economic activity in general.

In practice the gold standard imposed a painful adjustment process on the national economies with external disequilibria. This adjustment was not always accepted with good grace; on various occasions, the observance of the free-trade principles was violated to safeguard national interests. The coup de grace to these principles, however, was given by the crisis that started in 1929 and later became the Great Depression. During the crisis, the measures that were taken to protect internal income implied an active intervention of the state in the protection of certain activities and the level of employment. In addition, these measures pushed international relations toward bilateralism, the inconvertibility of currencies, and unilateral decision making in foreign economic policy. Once the crisis showed itself to be of a deep and lasting nature, the automatic transmission of the deflationary impacts imposed by the gold-standard mechanism came to be an unforgettable experience, even for the hard-headed defenders of its principles in international trade and internal policy.

Traditional monetary theory was thus in poor standing by the early 1940's. Government practices, impelled more by the political need to overcome the crisis internally than by doctrine, had ventured along new paths. The ideological climate of the postwar period was permeated both by the New Deal experience and Keynes' ideas. Among the Allies, a favorable attitude toward intervention and control of international economic relations was to be found. According to these opinions, any new international order ought to leave space for the benefits to be reaped from wide international trade without renouncing the national objective of full employment. Clearly, the simultaneous search for both goals required new public institutions, both at the national and international level.

These ideas, of course, were not entirely new. They still adhered to the basic principles and assumptions of free trade, although they included now the theoretical and practical developments of the previous decade. Regulation of economic activity by the state was considered as important as the advantages of free trade. The point was to organize the world in such a manner as to make free trade compatible with full employment. Multilateralism would substitute for laissez-faire, the gold standard would have to give way to some other sort of monetary system, and procedures would have to be agreed on for correcting external financial disequilibria since the self-correcting mechanism of the previous system had shown many insufficiencies.

It was clear that the old economic order had come to an end. It had worked as long as Britain kept her primacy in trade and international capital movements, and as long as capitalism was not faced with a crisis as serious as that of the 1930's. The interwar period witnessed the decline of Britain's leadership, and a concomitant strengthening of the United States. The destruction of productive equipment and the deterioration of economic relations brought about by the Second World War was only the culmination of a process that had started long before 1939. Toward the end of the war, multilateralism appeared to be an appropriate doctrine for a power such as the United States, whose clear economic preeminence required free access to markets and raw materials, but to whom experience had shown the disadvantages of too open and ndiscriminating a system. The war came to facilitate the bargaining conditions under which a new economic system would be established. Its origins were marked by the international power relations of the postwar period as well as by the ideological climate of the era.[44]

The creation of the IMF was the result of intense negotiations principally between the United States and Great Britain. The actual functioning of the IMF often does not correspond to the original Bretton Woods design; nevertheless, we can find in the functions, characteristics, and premises that were assigned to it from the beginning some of the basic features of its impacts and future performance. Two main projects, one sponsored by Britain, the other by the United States, converged during the negotiations; there were important similarities but also significant differences between them. These discrepancies and differences in emphasis were not unrelated to the distinct needs and national objectives of both countries at that time. Whereas the United States was trying to institutionalize its role as the center of world capitalism by assuming an active role in its direction and control, Britain gave the highest priority to its urgent need for resources to rebuild its economy. The projects agreed, however, on the basic philosophy that ought to inspire the IMF. In the first place, they incorporated the ideas on international trade flows that predominated in the countries located at the center of the world economy. Free-trade principles would provide the basis for international economic relations; the interwar experience was evaluated as an eminently negative one, insofar as it witnessed the rise of obstacles to the free play of supply and demand in international markets, thus not permitting specialization and resource allocation according to prices and comparative advantages. Under certain circumstances, both projects admitted trade restrictions as inevitable to attain certain national goals. Nonetheless, they agreed on the general convertibility of currencies and fixed exchange rates as an ideal objective that would provide the basis for a multilateral trade system, which ought to be as inclusive as possible. To attain that objective the IMF would be instrumental in replacing the self-correcting mechanism of the previous period; both projects apparently tried to make free trade compatible with the achievement of full employment and economic development; however, they perceived foreign-trade policies as responses to short-term, immediate problems, and were mainly oriented toward counterdeflationary objectives.

Second, both projects assumed a natural tendency towards equilibrium in international transactions. According to this view, the problem was thus reduced to the provision of resources for solving transitory external disequilibria; needs arising out of structural disequilibria or more long-term causes were simply not taken into account. This lack of attention to long-range factors led to the setting up of several institutions to deal with the need to rebuild the European economies, and to ignore the specific necessities of the peripheral countries. The system envisioned in both projects was thus focused strictly on short-term problems; once this was translated into the IMF's practice, it developed into a particularly inadequate approach for the periphery's financial needs.

The peripheral countries were considered to be nothing more than sources of raw materials and markets for manufactured products. This was the role they had performed in the world economy at the beginning of the century.[45] However, neither the Ricardian paradigm of international trade, nor the multilateral approach that replaced laissez faire, nor the notion of state regulation of foreign trade as something transitory and undesirable corresponded to the future demands and needs of the industrializing process in the peripheral economies. In several Latin American nations, counter-deflationary measures had already evolved into a policy of active protection and promotion of the internal market. As the colonial empires started to break apart, the number of new nations that needed to implement policies aimed at controlling and directing their foreign trade grew very rapidly. The basic principles of the monetary system created in Bretton Woods and expressed institutionally in the IMF were bound to conflict with those needs; this conflict would come up again and again in different forms during the following decades.

A new element in this system was the functions assigned to the IMF; they would play an important role in the relationship between the institution and the peripheral countries. Two basic issues are vital in this regard: the type of adjustment required from a member country faced with external disequilibria and the conditions required for gaining access to support-funds.[46] These matters define the nature and the degree of the IMF's intervention in national economic policy, and although there were important differences between the British and the U.S. plans,[47] we must not forget that the Bretton Woods agreements were only a partial reflection of those original projects. Many discrepancies remained unsolved and were incorporated into the treaties in the form of deliberate ambiguities; they would be confronted only later, as the IMF started to discharge its functions. In any case, the United States gained the upper hand in the negotiations, and it was thus able to impose conditions regarding both the availability and repayment terms of credits, and the economic policy of the countries requesting loans.

As far as the IMF's relationship with the peripheral economies was concerned, this implied that its basic principles were embodied in the very real power to impose conditions and control policy. The standby operations and the ensuing stabilization programs became especially important in this regard.

[1]See especially Guillermo O'Donnell, "Reflexiones sobre las tendencias generales de cambio en el estado burocrático-autoritario," Document CEDES/G.E. CLASCO, no. 1, Buenos Aires, 1976.

[2]This overview is supplemented by some notes on the origin of these orientations, included in the last section.

[3]A joint project of CIEPLAN (Chile), CEBRAP (Brazil), and CEDES (Argentina) will use such a comparative perspective to study the respective "programs of economic normalization" in force since the present BA states were established. Roberto Frenkel is doing research on how these programs were enacted in Argentina under various political regimes, from a longitudinal perspective.

[4]An interesting exception is Cheryl Payer, The Debt Trap: The International Monetary Fund and the Third World (New York, 1974).

[5]Emphasizing the short-term nature of the credits, a number of changes in the rates to be charged were approved in late 1951; in the same resolution the duration of those credits was reduced. The so-called Rooth Plan was approved shortly afterward; it included a number of rules foreshadowing the future standby agreements. Among other things, it established that the normal repurchasing period would be three years (with five as the maximum) and changed the "tranches policy," making a distinction between applications within the gold tranch and the rest. See J. Keith Horsefield and Gertrud Lovasy, "Evolution of the Fund's Policy on Drawings," in The International Monetary Fund 1945-1965 (Washington, D.C., 1966), vol. 2, Chapter 18.

[6]IMF Annual Report 1959, in Horsefield and Lovasy, "Evolution of the Fund's Policy," p. 404.

[7]Joseph Gold, "Use of the Fund's Resources," in The IMF 1945-1965, vol. 2, Chapter 23, p. 534.

[8]If it is considered that the devaluation needed for these purposes is too high, the IMF allows for the possibility of "gradualist" policies to raise the exchange rate in several stages. In case of very high inflation, the exchange policy includes regular adjustments of the exchange rate, according to the evolution of internal prices. In this case, the stabilization program is aimed at a gradual lessening of the inflation rate; however, as long as inflation goes on, successive devaluations are needed to achieve a change in relative prices. In these cases, control clauses include specific references to the relationship that has to exist between the evolution of the exchange rate and certain price indicators, in addition to the budgetary and balance-of-payments controls that are usually included.

[9]See Raúl Prebisch, The Economic Development of Latin America and its Problems (New York, 1950).

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[10]See Arghiri Emmanuel, L'échange inégal (Paris, 1969), and Sarmir Amin, La Acumulación a Escala Mundial (Paris, 1971).

[11]Juan F. Noyola, "El Desarrollo Económico y la Inflación en México y otros Países Latinoamericanos," Investigación Económica, vol. 16, no. 1, 1956; Osvaldo Sunkel, "La Inflación Chilena: Un Enfoque Heterodoxo," Trimestre Económico, vol. 25, no. 4, 1958; and Julio G. Olivera, "La Inflación Estructural y el Estructuralismo Latinoamericano," in Inflación y Estructura Económica (Buenos Aires, 1967).

[12]Miguel S. Wionczek, "La Deuda Externa de los Países de Menor Desarrollo y los Euromercados: Un Pasado Impresionante, un Futuro Incierto," Comercio Exterior, vol. 27, no. 11, 1977.

[13]This model is developed in A. Canitrot, J. L. Machinea, and R. Frenkel, Cambio Estructural e Inestabilidad en la Economía Argentina, mimeograph (CEDES, Buenos Aires, 1977), and A. Canitrot, "La Experiencia Populista de Redistribución de Ingresos," Desarrollo Económico, vol. 15, no. 59, 1975. Several authors have described the Argentine economy in similar terms: Carlos Díaz-Alejandro, Ensayos sobre la Historia de la Economía Argentina (Buenos Aires, 1973); Aldo Ferrer, "Devaluación, Redistribución de Ingresos, y el Proceso de Desarticulación Industrial en la Argentina," in Los Planes de Estabilización en la Argentina (Buenos Aires, 1969); R. Mallon and J. Sourrouille, La Política Económica en una Sociedad Conflictiva. El caso Argentino (Buenos Aires, 1973); E. Eshag, and R. Thorpe, "Las Consecuencias Económicas y Sociales de las Políticas Economícas Ortodoxas aplicadas en la República Argentina durante los Años de Postguerra," Desarrollo Económico, vol. 5, no. 16, 1965; and O. Braun and J. L. Joy, "A Model of Economic Stagnation. A Case Study of the Argentine Economy," The Economic Journal, vol. 78, no. 312, 1968.

[14]This is a provisional assumption made to simplify the description of the recessive and redistributive impacts of the stabilization programs. We shall return to this point and its implications for setting prices in the internal market.

[15]On the contrary, the Argentine experience seems to show that there is a positive correlation between wage-earner consumption and private investment in the internal-market sector.

[16]This is not a consequence ingrained in the logic of the model, but something that occurs in practice. Theoretically, at least, the level of export expansion needed to offset the recessive impact of the drop in wages could be determined; in practice this is difficult to accomplish owing to the relatively low weight of exports (and investment) in total demand, and to the lower multiplier effects of this spending in relation to wage-earner spending. As we shall see below, the Argentine case we are analyzing is a good illustration of this phenomenon.

[17]The new authorities were faced with urgent external-payments problems. They immediately obtained 300 million dollars in 6-month maturity loans from commercial banks; creditors also allowed them to roll over to the fourth quarter an additional 350 million dollars owed by the public sector in the second quarter of 1976. The economic program was presented for the first time to international financiers at the annual meeting of governors of the Inter-American Development Bank at the beginning of May. On May 27, delegations from the IMF and the World Bank arrived in Buenos Aires. The Argentine Government applied for a number of long-term credits to the World Bank, and the latter released a public report highly favorable to the program. By mid-June, Minister of Economics Martínez de Hoz traveled to the United States, where he made all the necessary arrangements with the IMF to obtain the first tranch immediately and two-thirds of the second tranch by April of 1977, depending on the Argentine Government's presentation of a program for the first half of 1977. On August 6 the agreement with the IMF was signed, and 180 million dollars were drawn, which correspond to 160 million in Special Drawing Rights. Simultaneously, a standby agreement with international private banks had been sought. A consortium of U.S., European and Japanese banks, headed by Chase Manhattan, extended a line of credit for slightly over a billion dollars, with a four-year maturity rate and at an interest rate 1 7/8 higher than LIBOR. Dealings with the IMF culminated in April 1977, when it approved the economic program for the first half of 1977 and made the 100-million-dollar balance of the agreement available to the Argentine Government. See Boletín Semanal del Ministerio de Economía, various numbers, 1976 and 1977, and Mercado, various numbers, 1976.

[18]During the first quarter of 1976 the exchange rate for traditional export products went up by 137.6 percent.

[19]During the second half of 1976 workers with greater bargaining power probably obtained greater wage increases than those registered in these tables. The so-called "wage-flexibility policy" later allowed business to provide higher increases than those that had been set by the official "ceiling."

[20]Computed by the Instituto de Economía y Finanzas, Faculty of Economics, National University of Córdoba, Comentarios Económicos, Córdoba, April, 1978.

[21]Although between March and December of 1976 nonagricultural wholesale prices went up by 100 percent, during that time period the real exchange rate for wheat exports was increased by 360 percent, and for corn and sorghum by 330 percent. Data obtained from the Central Bank, and FIEL, Indicadores de Coyuntura, various numbers.

In this comparison, as in other tables, we take as base figures those of March 1976. This corresponds to our objective of comparing the impacts of the program with the conditions prevailing at the moment it was initiated; it does not by any means imply that the base figures are considered normal.

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[22]1975 was a year marked by strong recessive tendencies; the gross internal product fell by 1.3 percent.

[23]See Table 3.

[24]Fundación de Investigaciones Económicas Latinoamericanas, Indicadores de Coyuntura, Buenos Aires, March, 1978. Computed on the basis of information provided by the Central Bank.

[25]An important contribution on the hyperinflationary Chilean process can be found in Joseph Ramos, The Economics of Persistent Inflation and Hyperstagflation. Lessons from Inflation and Stabilization in Chile (Santiago, 1977).

[26]Variations that affect expected returns, and on some occasions capital itself.

[27]In addition to its self-accelerating effect on inflation, this has effects on the level of sales and general economic activity, as well as on income distribution.

[28]During the last quarter of 1977 and the first of 1978, there was an inflow of over one billion dollars of private finance capital into the country. Data from the Central Bank, Republic of Argentina.

[29]The total amount of foreign direct investment during 1977 was only 52 million dollars. Data from the Central Bank, Republic of Argentina.

[30]This evaluation refers to enterprises considered sectorial activities and encompasses only the short term. There is no doubt that industrial entrepreneurs have made immense profits through commercial and financial speculation in this period. On the other hand, it is not our purpose to refer here to the long-term accumulation strategy that might be implicit in the short-term measures of the stabilization program. In this regard, our evaluation in this paper is limited to the framework of the objectives that have been explicitly acknowledged by the authorities. A good sample of these objectives can be found in the memorandum that provides the technical foundation for the agreement with the IMF for the first half of 1977, Boletín Semanal del Ministerio de Economía, no. 179, May 2, 1977.

[31]Data from the Central Bank, Republic of Argentina.

[32]As of March 31, 1978. Considering the level of reserves as of December 31, 1977, and 1977 imports, Argentina ranked first in a world ranking of external liquidity coefficients (reserves/annual imports). The Argentine coefficient duplicates that of the country occupying second place in the ranking. Data from IMF, International Financial Statistics, March, 1977.

[33]On the Brazilian BA state, see Guillermo O'Donnell, "Reflexiones sobre las tendencias generales," and "Tensiones en el Estado Burocrático-Autoritario y la Cuestión de la Democracia," CEDES/G.E. CLASCO, no. 11, Buenos Aires, 1978.

[34]Undoubtedly helped by the hostility toward the internal situation shown by governments and private creditors.

[35]The previous bureaucratic-authoritarian experiment in Argentine (1966-1970) shows this very clearly. After the success of its relatively unorthodox stabilization program (in turn related to a significantly less serious preceding crisis), the great social upheavals of 1969 led to a rapid evaporation of confidence and an aggravated resurgence of the crisis the 1966 coup had apparently eliminated.

[36]For an initial approach to these topics, see Guillermo O'Donnell, "Notas para el estudio de la burguesía industrial local en sus relaciones con el capital internacional y el aparato estatal," CEDES, no. 12, Buenos Aires, 1978, and Instituto Latinoamericano de Estudios Transnacionales (ILET).

[37]One of the effects we do not deal with here--basically because it manifests itself more in the long term--is that the higher sectors of the industrial and commercial bourgeoisie, although often suffering the consequences of this drastic market shrinkage, are frequently able to make strong progress in their degree of market control, owing to the recession and the consequent increase in the mortality rate of weaker enterprises. This contributes to consolidate even more the highly concentrated nature of the urban productive structure.

[38]This statement assumes the existence of some interest in the protection and eventual expansion of the internal productive structure. In terms of the IMF's and the international creditors' standpoint--basically interested, as we have already argued, in a "solid" balance-of-payments position and in free international movement of capital--these internal troubles are much less important than the achievements obtained in the latter fields.

[39]For a number of reasons, including those mentioned in this study, we do not consider it plausible for any such change to occur through the internal dynamics of this state; change will have to come from outside the state; any such tendencies are, of course, under severe control, especially during the initial stage we are examining.

[40]In this study we are focusing on the short-term period immediately after the BA state has been implanted and the stabilization program has started. It is therefore not possible to enter here into the subject of the "model" and the long-term tendencies within which these developments take place; that issue, however, constitutes a central aspect of the collective project mentioned above. Any analysis of those tendencies will demand careful comparative work, that will

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pay attention to the specific features of the economic and social structures of the countries of the Southern Cone, as well as to the severity and characteristics of the preceding crisis. Nonetheless, the short-term stabilization programs deserve specific attention; their impacts contribute decisively to rearticulate society as a whole to the benefit of a small--but obviously powerful--group of economic participants.

[41]On this point, see Guillermo O'Donnell, "Estado y Alianzas en la Argentina, 1956-1976," CEDES/GE CLASCO, no. 5, Buenos Aires, 1977, and Desarrollo Económico, vol. 16, no. 64.

[42]This is one of the reasons for the search for mediation and "participation" mechanisms; it can also account for the emergence of certain democratic postulates within this state, which would be otherwise a surreal phenomenon. For a development of this topic, see Guillermo O'Donnell, "Tensiones en el Estado Burocratíco-Autoritario," CEDES/GE CLASCO, no. 11, Buenos Aires, 1978.

[43]In the case of Argentina this fraction of the bourgeoisie has had to be incorproated into the ruling coalition (at the cost of not taxing it); this development, showing that the question can by no means be reduced to an economic problem, has led the government to lose that source of income.

[44]An analysis of the ideological climate and the projects that converged to create the new monetary system is provided by Richard Gardner, Sterling—Dollar Diplomacy. Anglo American Collaboration in the Reconstruction of Multilateral Trade (New York, 1956). The text of the original projects can be found in The International Monetary Fund, 1945-1965, vol. 3, part 1 (Washington, D.C., IMF, 1966).

[45]Important bargaining too, place regarding control over the peripheral economies. The United States, for example, strongly opposed preferential trade agreements. U.S. exporters were eager to enter into Britain's markets.

[46]The objective of the new multilateral monetary system was to facilitate the redressing of imbalances in external accounts without having to modify the exchange rate or restort to exchange controls. These regulatory mechanisms were thus excluded a priori. Consequently, the main instrument for stabilizing the balance of payments was the adjustment of prices and internal income to the conditions imposed by foreign trade. This is the "adjustment mechanism" that the gold standard supposedly provided automatically through monetary movements. As a substitute for these self-adjusting mechanisms, governments now had to adopt internal economic policy measures to obtain stabilizing adjustments of their external transactions.

[47]The differences between the British and the U.S. plans were related to the conditions to be imposed for selling hard currency. The U.S. plan favored the establishment of some conditions for approving British requests, whereas the British stood for unconditional withdrawal rights within fixed limits. The powers that the IMF would have over member countries gave rise to heated arguments. On this, see Gardner, Sterling-Dollar Diplomacy, and J. Keith Horsefield, The International Monetary Fund 1945-1965, vol. 1, part 1 (Washington, D.C., IMF, 1966).