

Argentine Democracy Ten Years Later

New Priorities

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Eric Hobsbawm maintains that, for the purpose of analysis, just as the nineteenth century began in 1789 with the French Revolution and ended with World War I, so the twentieth century came to an end in 1989 with the fall of the Berlin Wall and the resulting collapse of the so-called real socialisms of Eastern Europe.¹ By the same yardstick, it could be said that, for Argentina, the 1980s began in 1983 with the restoration of democracy.

The aim of this essay, written in January and February of 1993 at the Woodrow Wilson Center, is to look critically and constructively, from the viewpoint of a practicing politician, at the characteristics that democracy is assuming in Argentina ten years after its inception. This work is divided into five sections, the first of which addresses specific features of the transition that began in 1983. The implications of the restructuring of Argentina's economy and the resulting social ramifications are analyzed in the subsequent sections. The fourth section deals with some of the political and institutional consequences that have grown out of the reform process itself. Finally, I have set out the minimum content of a strategy to make economic and social modernization compatible with a fully functioning democratic system. The object is to prevent elements of the modernization process from coming into opposition with the essential character of the democratic way of life.

At the end of the 1970s, approximately 90 percent of Latin Americans were living under authoritarian regimes. By the beginning of 1991, for the first time in history, all of the Latin American countries (with the exception of Cuba) had democratically elected presidents.²

In Latin America—this also holds true for Argentina—the authoritarian cycle was brought to an end by a number of factors, including the loss of legitimacy of the dictatorships, their failure socially and economically, changes in the international scene, and the fact that other political alternatives were ineffectual. This last factor is of no small significance given the manner in which the left developed in Latin America and its failure to make any headway by force of arms in all the variants in which that had been attempted. However, if Latin America had been at a different juncture in its history, if the political factors indicated above had not been operating, and if financial limitations had not been imposed by fiscal crises and the crushing foreign debt, there might have been a resurgence of one or another political system with populist roots.

The revival of political institutions, however, put an end to theories that claimed to establish a time sequence whereby economic development would precede political progress. Such theories also identified factors (in this case a minimum level of annual wealth per capita) that indicated that throughout Latin America the time was ripe for democracy.

Today there is no doubt about the positive link between fully functioning democratic institutions and social and economic progress. It is generally recognized that countries with a relatively high degree of development are more able to establish and build on a democratic system. In the same way, nations with vigorous democratic roots have a better chance of speeding up social progress.³ It is demonstrable that a fully operative scaffolding of democratic institutions, through the broad political consensus it engenders, is a prerequisite to economic and social modernization, making

it possible to distribute more equitably the costs that are an inseparable part of the modernization process.⁴

One feature of Argentina's democratic restoration, which sets it apart from that of other Latin American countries, is that, unlike in Uruguay and Chile, in Argentina no agreement of a consensual nature existed between the outgoing regime and the opposition. And unlike in Brazil and Paraguay, in Argentina succession did not devolve on political sectors reconstituted from the authoritarian regime. Argentina's transition was devoid of any agreement on the rules defining democratization; in academic parlance, this type of transition is described as one of "rupture."

In restoring democracy, therefore, Argentina was faced with the challenge of constructing a social and political consensus not only in order to define the procedures by which the system was to function (its norms, institutions, and decision-making mechanisms) but also to grapple with a past of terrorism and unlawful repression. Moreover, the democratic institutions had to fit onto a social regime of accumulation—that complex mass of institutions and practices that arise during the process of accumulating capital—which at that time was in a state of collapse. In addition, the Argentine transition to democracy took place without agreement to leave on the part of the authoritarian regime. This situation was rendered more difficult by the lack of any significant agreement among the various political forces. Further, the ruling government was withdrawing in disorder because of its own internal collapse after the Malvinas defeat, a fact that left it no room for negotiation.

An institutional system such as Argentina's, in which an exaggerated amount of power rested in the presidency, fostered a lack of agreement on strategy. That fact led to a weakness in the institutions underpinning the country's party system, a weakness further reflected in and emphasized by the negligible policymaking powers vested in the Congress upon the restoration of democracy. The effect of a strong executive system is that, as the victorious party naturally concentrates all political power in its president, consensus among the opposition political sectors is difficult to obtain. This "winner-takes-all" situation further exacerbates the obstructionist, antagonistic posture of the defeated parties as the next election approaches. This phenomenon has such a strong influence that factions and candidates in the governing party also use it in their stance toward governmental policy.

During President Raúl Alfonsín's administration, for example, only in the months after the September 1987 election—which precipitated a restructuring of the Justicialista party—was it possible to pass basic, mutually agreed-upon legislation on topics as sensitive as national defense and the federal redistribution of taxes to the provinces. Unfortunately, this state of affairs did not even last until the start of the party primaries for the election of the president and vice president of the Justicialista party in July 1988. Then, in 1989, Argentina broke with the pattern of the past. In that year, economic crisis was not the prologue to yet another successful military coup. For the first time since the restoration of the compulsory secret vote, Argentines handed over the government from one civilian president to another, voted in by the will of the people, and from a different political background than his predecessor.

Argentina's financial problems are of long standing and are certainly not the offspring of democracy. In public and political debate, various explanations have been offered as to the origins of Argentine economic stagnation, the onset of which can be dated more or less to the mid-1970s. One hypothesis is that the country's financial difficulties stemmed from its isolation from the mainstream of world trade and investment. Others point to the growing influence of the public sector on economic life, whether directly on the manufacture of goods and provision of services or through regulation. Another possible explanation is the extraordinary increase in the informal sector of the economy.

These arguments, even if valid, do not account for the full extent of the problem. Other countries with no more access to the international market, or with greater state presence in economic decisions, or with a similar amount of unregistered financial activity have not had the continuous inflation and stagnation in production that Argentina has experienced.

In recent years, two continuously operating factors have influenced economic strategy—the huge budget deficit and the fact that no systematic, all-embracing policy has ever governed domestic financial decision making. Eclipsing both of these, and at the same time one of the elements that explains them, is the state's progressive loss of its authority to impose decisions and its growing inability to resist pressures and demands from the corporate sector.

The constitutional government that took over in December 1983 inherited public sector whose main feature was lack of control. This can be seen from the levels of public spending (49.75 percent of GNP [Gross National Product]) and the deficit (15.15 percent in relation to production). At the same time, the problems created by a reduced amount of money in circulation were increased by a phenomenon that did not occur in other countries undergoing similar economic crises. Confronted by inflation and as a defense against it, financial agents removed savings from the national government's control by converting Argentine currency into U.S. dollars. The fiscal and financial crises that arose in the 1980s as a result of the foreign debt not only hurt public and private investment but also became lasting impediments to the restoration of growth.⁵ The Alfonsín administration was able only temporarily to contain and partially reverse some of the effects of this economic deterioration. For the first time, a contemporary democratic government had as a basic strategy integration into the world economy and reform of the state. This strategy involved the private sector's venturing into areas traditionally under public ownership, the privatization of state industry, and the use—under certain conditions, through open tender—of an anticipated cancellation of the foreign debt to finance new investment that would generate a positive balance of payments. All this took place in a context of continuing agreement among the authorities to bring about the real, massive, stable change needed for growth in an economy open to world competition, combined in turn with a lowering of protectionist import duties and the elimination of fiscal and quasi-fiscal subsidies.⁶

The results proved that this strategy could not overcome defects in government administration or the opposition party's obstructionist policies. Ensuring an atmosphere of tranquillity during the presidential election proved too hard a task. The price of political uncertainty this time was not military conflict but the effect on the exchange market: From December 1988 to June 1989, the rate of inflation doubled every month.

These events meant that the elected government had to assume power earlier than intended—in July 1989. Despite the fact that the new government, deriving its political power from constitutional change brought about by the restoration of democracy, was able to form a social alliance based on the support of the major industrial sectors and the acquiescence of the labor unions, the mood of crisis persisted until the beginning of 1991.

The new administration carried out an audacious and—in the light of electoral promises—unexpected program of reforms. Owing to the gravity of the situation, the government was empowered to take exceptional measures. The uncritical acceptance of these measures by the public came as a result of the pressing nature of the circumstances, the demand for change, and a general sense of urgency.

The degree of social awareness during a political crisis in a country like Argentina is of major importance in dealing with structural reform within a democratic context. There is no doubt that critical situations are now faced far more effectively by the various sectors of Argentine society than they had been under the Alfonsín administration. At that time,

two elements had contributed to the lack of understanding of the country's true situation.

The government itself underestimated the gravity of the constitutional crisis and the need to solve it—a fact that was particularly evident during the first stage of the Alfonsín administration. By the same token, the strongly populist Justicialista party and the union movement controlled by it attributed the failure to meet social demands to the government's mistaken policies and its lack of concern for the most needy sectors of society.

The hyperinflationary episodes that followed brought about a change of attitude within some sectors of society with regard to solving some of the nation's basic structural problems. There is no doubt that this new attitude enabled the Menem government to put some of its policies into practice. Although sectors that had previously objected strongly to these policies did not take to them fervently when they were first announced, neither did they put up the active resistance that they had shown between 1983 and 1989.

The economic outlook of various ministers in the new administration is in line with the Washington Consensus.⁷ This plan has been advanced as capable of overcoming the economic stagnation in Latin American countries. These ministers say that the stagnation was caused by the policy that downplayed industrial imports to give priority to goods sold on the domestic market, thus ignoring the opportunities presented by international trade. According to them, another cause of stagnation was the state's suffocating of economic activity by inefficiently allocating resources. The objectives of an economic policy to deal with this situation can be summed up as a search for a stable macroeconomic environment: the existence of a leaner, more efficient government; the development of an aggressive private sector; and, eventually, policies aimed at reducing poverty.

Of the three basic elements of the plan—stabilization, liberalization, and privatization—it is the last that requires special scrutiny. Such scrutiny should cover not only the amount of privatization in terms of mobilized resources and the sectors of production involved, but also the long-term consequences of the process. In Argentina, as in other countries, the expansion of state industry dates from the period immediately after World War II. The implicit assumption in those days was that the private sector could not attract significant long-term investment. Added to this, the argument went, the market lacked the ability to provide public services because of the existence of natural monopolies, economies of scale, and investments that cannot be divided into shares.

Around the middle of the 1970s, when the semi-closed economy—in which the state had the overall power to allocate resources and distribute revenue—began to show signs of collapse, Argentine state industry contributed 7.4 percent of total GNP while using up 20.5 percent of the total gross investment. Among industrialized countries, those figures were 9.6 percent and 11.1 percent, respectively.⁸

A private sector relatively protected from foreign competition and a public sector that went beyond natural monopolies could not be sustained. To a fiscal crisis that prevented the continued subsidy of tariff structures of distributive significance was added a lack of finance resulting from the scarcity of foreign exchange because of the debt crisis. Thus, defects in the state's assignment of resources, growing dissatisfaction with the social services provided by the state, a change in prevailing opinion about state intervention in the economy, as well as problems at the macroeconomic level—added to the legitimization of change.

During Dr. Alfonsín's presidency, attempts to advance the reform and modernization of the state came up against the immovable barrier of a trio of opposing forces: an opposition majority in the senate, agitation by union leaders, and the activities of the provincial governors, the majority of whom were members of the Justicialista party. The Menem government, harried by demands

for social change and the need to gain credibility by putting into practice the populist program it had set out in its election campaign, turned privatization into a synonym for modernization, thereby making it an objective rather than a tool. This confusion of reform with privatization was further enhanced by the abandonment of the state's non-delegable functions in areas such as public health and education, police

services, and the administration of justice, all of which were showing marked deterioration. In the public presentation of its program, the Menem administration's privatization schemes are shown as a multipurpose tool: Their purpose is not only to solve recurring fiscal problems but also to provide additional financing for social programs while lifting the burden of the foreign debt and relieving the state of corporate pressures.

However, it has now become clear that Argentina's privatization schemes of the 1990s are merely the opposite side of the coin of the nationalizations of the forties. In those days, nationalization was held out as the perfect instrument for the solution of economic problems and public policy. Fifty years later, utopia is here again, with the same arguments but from the opposite direction. Thus, more on ideological grounds and with hopes of macroeconomic results than on solid microeconomic arguments, Argentina first nationalized and then privatized each and every one of its public services.

Privatization is often only vaguely defined. One of the most noticeable aspects of this vagueness is the way in which the privatization of a public industry is seen as the equivalent of selling off its assets. This perception is clearly incorrect. Privatization goes beyond the mere transfer of assets, which, moreover, is not the only way in which the private sector can take over the operation of public industries. In the case of public services, this can also be done by government concessions or by the outright takeover of the management of a state industry.⁹

However, any assessment of the long-term effects of privatization would demand consideration of elements of this policy other than the mere transfer to the private sector of benefits resulting from the operation of an industrial or service enterprise. Among such elements are the framework of regulations that the state sets up when privatizing an industry or service, the degree of competition in the market, and the concentration of ownership that results from privatization. In this regard, the result of Argentina's privatization policy has been to maintain the monopolist character of a considerable part of private industry, in some cases because these are natural monopolies but in others as a consequence of the standardizing process worked out in advance as a condition for privatization.

This situation has been aggravated by the fact that the government underestimated the need for a framework of laws and regulations to protect users from flaws in the market and from certain enterprises eventually becoming virtual monopolies in the hands of private operators. Even today, when a large section of industry has been transferred to private ownership and operation, there is still a lack of relevant rules and regulations. Where these do exist, their capacity to function is noticeably weak. Nor, in the experience of Argentina, is there a policy to give momentum to diversifying and extending ownership of public industry that has been privatized, except in a few cases. Concentration of ownership in the hands of the wealthiest groups, which accompanied the privatization policies in Argentina, makes it relevant to question the relationship between these groups and the state, and the capacity of the latter to control wealthy sectors in the future.

Meanwhile, on the macroeconomic level, privatization schemes have helped considerably to balance fiscal accounts in the short term.¹⁰ As regards the foreign sector, however, not only must

present incoming capital-which is at its greatest during the first years of operation-be taken into account, but so must its inevitable counterpart in terms of the renationalization of utilities.

Another effect on the economy as a whole, and one that certainly had repercussions on the foreign sector, is the inequality of incentives in the private sector, given the current structure of relative prices. This results in the existence of two subsectors in the Argentine economy (not counting agriculture). One, which yields high and often secure profits and is protected from foreign competition, is the service industry. Noncompetitive conditions in this sphere, much of it subject to great demand, allow price fixing of a monopolistic or oligopolistic type and the financing of investment with resources generated from the operation itself. The other subsector, manufacturing, functions without incentives to investment, and, being subject to international competition, is obliged to make a profit.

That the emphasis of this economic strategy is more on restructuring services than on the manufacturing industry can be seen from the sale of a significant group of public companies to consortia in which foreign creditors have a major share. It is this part of the economic plan that is new.¹¹

The serious instability of Argentina's economic system, coupled with the results of stagnation-a decrease in investment, high inflation, and an inability to generate employment-struck home on the domestic social scene. This aspect of the crisis imposed restrictions and conditions on any strategy for invigorating or expanding economic activity.

In Argentina, where the distribution of wealth used to be markedly more uniform than in other countries that were at the same stage of development, the gap between rich and poor began to increase starting in the mid-1970s. Until then-as a result of certain features of the structure of Argentine society, such as the slow rise in population and early urbanization-although growth was not taking place at great speed, the indicators of living standards were on aggregate acceptable, as was the distribution of wealth. Poverty was largely confined to certain rural areas outside the pampa and the outskirts of the big cities.

Now, however, analysis shows not only a widening of the gap between rich and poor, but also that poverty is no longer incidental. The picture of a country with growing social mobility among the middle sectors and geared toward social integration now seems a picture of the past. According to the permanent census of dwellings compiled by INDEC (the National Institute of Statistics and Census), in greater Buenos Aires in 1974, low-income homes received 11.4 percent of GNP. By 1990 they received only 9.7 percent. Meanwhile, high-income families, which had accounted for 28 percent of the total income in 1974, had increased their proportion to 35.3 percent over the same sixteen-year period. The increase in the income of families in the top bracket has been at the expense of both the poor and the middle sectors of the population.

Until the mid-1970s, state social policy was based on the assumption of regular economic growth, a consequent increase in employment, and the theoretical principle of universal benefits, the inclusion of new groups receiving social support. The present critical state of social policies has been caused by the bankruptcy of public funding sources during the 1980s, which saw the virtual extinction of traditional sources of finance, an increase in tax evasion, and the proliferation of subsidies for promoting private industry.¹² In addition to these factors, the legitimacy of state intervention has come under question among social sectors qualified to give an opinion.

Theoretically, a welfare state neutralizes the unequal distribution of wealth that arises from a market economy and that negates political equality in a "rule of law" society. That is why, although the grounds for disaster in Argentina's social policy were already in place, the crisis itself did not

occur until democracy was restored. Only when the democratic system came into force could critical account be taken of the functioning of social institutions and of the gap between the law and its effective operation. Empirical evidence reveals that much of the state's social administration has been inefficient and ineffective. In general terms, it could be said that the concept of universality found its voice and brought about major differences in the degree of social provision and the quality of social services only as a result of fostering manifest inequalities.

The effects of the reform process, in particular of such a profound and substantial nature as is taking place in Argentina, are not confined to the economy alone. They spill over into the political sphere as well, affecting administrative institutions, the style of government, and society's perception of the democratic system-all as a result of the reform process itself.

President Menem's policy for restructuring the Argentine economy puts the need for efficiency before respect for institutional procedures and the rule of law. Resorting to emergency decrees-a method of government common in Argentina-has also become an important institutional tool in other Latin American countries. (For example, in Brazil, the administration of Fernando Collor de Mello issued fifty-five emergency decrees-or one every two days-in 1990 alone.)

In other regions of the world where reform took a similar course, other existing governmental institutions have been bypassed: The presidents of both Poland and Russia asked their respective parliaments for an extension of powers so that they could govern by means of decree. The fact that this phenomenon has become widespread suggests that the search for solutions to grave predicaments in an economy should not be allowed to degenerate into a series of institutional emergencies. Such a process enables the executive to assume almost full autonomy, thereby forcing other areas of government to submit to its dictates.

The argument that reform is inevitable-in itself, true-also led the Argentine government to operate in a particular way. Instead of trying to reach agreement on policy with political or social bodies by institutional means, an attempt was made to weaken parties, labor unions, and other organizations within the system. The objective was to neutralize the opposition. However, other countries that carried out economic reform, such as Spain, have proved that change can take place within a framework of political and social consensus-even if with a certain amount of conflict.

Recent experiences indicate that the governing style characteristic of an emergency goes beyond that emergency and becomes an accepted form of decision making; thereafter, the process is adopted even in areas that have no connection with the economy.¹³ The direct result of all this is that citizens come to believe that there is no place in the democratic system for individual or group participation; this feeling of impotence also overtakes political parties, Congress, and labor unions.

Social apathy and financial emergency produce conditions that favor a particular type of corruption. The prevalence of this corruption rises in correspondence with the wealth normally present in the system; in some instances, government decision making is based on personal advantage to the officials concerned. That situation leads to a high degree of instability in the system, and society begins to break down. In the political sphere, the citizens' lack of confidence in state action becomes reinforced. When, in addition, checks and balances are canceled out and doubt is cast on the independence of the judiciary, social apathy is accompanied by growing uncertainty about the reliability of the legal system. In the long term, this undermines the stability of democracy as a partnership. Participation shows itself to be not only futile but also unequal to the task of creating alternative solutions to problems or of influencing public decisions. [This essay was written before Menem was reelected in 1995 Ed.]

In its second term the Menem administration confronts, in the medium term, the challenge of strengthening and perfecting Argentine democracy. The first problem is that the election of President Menem ran the serious risk of a political regime being installed that is supported by an authoritarian party or movement. On the other hand, if an opposition party had won the election, its first task would have been the arduous one of rebuilding republican institutions and reestablishing their independence from the executive.

It is also clear that if full structural transformation of the economy takes place with minimum consultation and debate, there will be a wide margin for wrong decisions. Democracy is not just a formality that involves the periodic reelection of representatives; it also guarantees a certain type of outcome. Discussion is an inseparable part of the act of reaching decisions of a consensual nature, and such consensus offers a greater chance that those decisions will achieve their purpose. Consensus also endows the future sociopolitical scene with a great degree of certainty, which is essential for the stability of the policies that govern restructuring. Thus, one of the political legacies of the economic reform carried out in Argentina has been the devaluation of the very instruments of a fully democratic system.

The 1980s have been christened Latin America's lost decade. In point of fact, the events of that critical period were the result of contradictions that were implicit in the development strategy that came into being after World War II. In Argentina, the problem seems to have been exacerbated in the 1970s by the unreasonable use of too much foreign capital, which contributed to the expansion of unproductive public spending (on the defense budget, on low-profit infrastructure, and so forth) and led to a wasteful policy of state subsidies of questionable effectiveness.

Today, ten years after the restoration of democracy, Argentina urgently needs to consolidate its political system. Argentine democracy must be brought to the point where it functions automatically by the logic implicit in its principles and by the dynamic that its political forces stamp on those who uphold the system. This process is not devoid of conflict or difficulty. Just as in 1983, when the challenge was to put an end to more than fifty years of institutional instability -the underlying cause of Argentina's decline-discussion today centers on the type of democracy to be constructed. One decade later, Argentina's democracy, like all forms of government, faces the task of generating public well-being, satisfying social demands, and creating economic growth with equity, participation, and a democratic example by the leadership.

Despite the remarkable advances the country has made since the return of democracy, the problem of growth has not yet been solved. If in the first period of democratic restoration there was a genuine attempt to learn coupled with a continuing sense of optimism stemming from the belief that Argentina's problems had been solved by the revival of its institutions and "international understanding", that state of affairs no longer holds. The risk is that one simplification of reality will be replaced by another, wherein the free market will revive "animal spirits", and success will be axiomatically guaranteed.

Fiscal prudence together with controlled management of public spending is a necessary condition for ensuring economic growth, but alone it is not sufficient. The lowering of protectionist barriers against foreign competition-a first step to commercial openness-does not guarantee the expansion and diversification of exports, especially manufactured products, unless it provides an adequate relative price structure. Rather, it generates uncertainties about the development of foreign trade.¹⁴ The transfer to the private sector of manufacturing industries that were built up by the state, coupled with advances in the process of deregulation, removes obstacles in the way of

the private sector but does not necessarily lead to growth. The task of creating a strategy that combines growth with equality will appear on the political agenda throughout the 1990s.

If Argentina is to generate an internationally competitive industry that will lead to dynamic growth, concerted efforts will have to be made to devise a political strategy that will incorporate at least three fundamental ideas—the reconstruction of the state, policies leading to technological innovation, and a planned attack on poverty. For the first, released from its industrial activities, the state must rebuild its capacity to regulate and, where feasible, recreate competitive markets. Seen from another viewpoint, the competitiveness of the economy does not depend only on initiative from the private sector; it is also the product of the collective expression of the community. As has been noted by the Organization for Economic Cooperation and Development, competitiveness has to be built in, and that depends on a large number of external factors.

For the second, market competition must be understood as a whole. There must be state policies in which technological research and innovation play a central role in the effort to add intellectual value to the fund of national resources. And for the third, owing to the continuing economic crisis and the chronic disarray of social policies, there is a need for a strategy to alleviate the despair of those who see themselves as continually slipping back and to cure the cynicism of others who are rarely able to obtain access to social services.

In redefining policies, Argentina must rid itself of ideological prejudice. Argentina must avoid a situation that, in the past, led to ignoring the inefficiency and lack of transparency in the state's "centralized and universal" decision making in the name of state supremacy. Today, those with the same dogmatic attitude wish to impose a "privatized and targeted" pattern of social policies that rely on the market as the sole factor that can bring about social integration.

To avoid repeating past mistakes, Argentina must take an alternative route to overcome its difficulties. The state must recover its ability to function. It must accurately identify those sectors of the population toward whom social programs should be directed, and recognize the wide variety of types of poverty. The state must also construct a capacity for institutional coordination, not only between levels of government through decentralization but also between social sectors through organizations that complement governmental institutions. Society's growing demand for greater self-government, to be implemented more independently, should be addressed by fostering non governmental organizations.

Concerted efforts to plan strategies—noticeably absent over the ten years of democracy thus far—should be translated into governmental action that requires political consensus as well as consensus of a social nature. Political consensus, however, is as yet no more than an agreement on party superstructure. Social discontent can, at best, be expressed only in a marginal way, or by disregarding conventional political activity. However, that could lead to the rise of and subsequent support for new leaders who function alongside the democratic system and whose ideology does not flinch at new forms of authoritarianism.

Another social demand to be met is that of participation. It must be remembered that democracy used only as a mechanism for electing leaders with no substantial content is a pathological variety of democracy—it is pure delegative democracy. Such democracy is typified by too much delegation within the institutions set up to administer the system. Personality cults, voting by referendum, and clientele voting find their way into parliamentary and party relationships. Although institutions are defined in terms of representative democracy, people begin to behave as if the system were delegative.

This means that any genuine strategy for modernization of the political system and for social progress requires the strengthening of civic institutions. Political parties must be created that can

mediate effectively between the state and society. One characteristic of modern democracies is the increasing value they place on "public space," a concept that goes beyond the old choice between state or private sector and into the development of non governmental organizations. Social commitment to and participation in modernization not only help to make the process of change more effective but also reduce the power of interest groups wishing to hinder reform.

As regards the demand for democratic example, in Argentina's case the arguments for setting up legal checks are well known. For the most part, the ethical principle behind these checks is the need to make the institutional changes irreversible and to demonstrate the capacity of the government to achieve set goals, thus confirming its credibility. When an emergency overtakes democratic procedure, not only are the principal agents of the political process (parliament and the parties) robbed of their lawful powers, but in addition control mechanisms are neutralized and the functions of the judiciary are subordinated. Thus, illegitimacy leads to secrecy.

Just as centrally planned economies exercise total political power, a combination of concentrated wealth and a distortion of the true nature of the democratic system generate conditions favorable to the rise of authoritarianism. In fully consolidated democracies, debate centers on the various political strategies of the parties. In the new democracies, discussion is focused on the development and functioning of the system's institutions.

Democratically originated governments that derive their legitimacy from their results rather than from their procedures are essentially weak when they cease to produce results and when awareness of their imperfections begins to influence their procedures. The situation in Argentina today demands that the challenge be met not only in the results of governmental action-such as the choice of a model for society and social values-but also in governmental mechanisms-its political system, its procedures, and its norms. Once political and social groups have achieved the degree of maturity and sense of responsibility that is acquired by experience and an eye to future dangers, it should be possible to achieve a consensus on the style of development that will ensure increasing social integration within a framework of fully functioning democratic institutions.

Notes

1. E. J. Hobsbawm, *Age of Extremes: The Short Twentieth Century, 1914-1991* (London: Michael Joseph, 1994).

2. This statement does not imply a lack of recognition of the fact that republican institutions and democratic liberties can function at varying levels (as may be the case in Haiti, for example), or of the existence of systems with strong authoritarian components and governmental control over social organizations (as in the case of Mexico).

3. Clearly my aim is not to establish a purely mechanical relationship between a country's degree of development and its chances of consolidating a democratic system, which would be to ignore the importance that each nation places on its institutional traditions and history. The uncertain political future of the countries of Eastern Europe and the Russian Federation is an interesting example.

4. This final condition is necessary, for we have witnessed economic transformation being carried out by authoritarian methods-at great social cost-in Chile under Pinochet's dictatorship and, more recently, in China.

5. In 1983 the amount of the foreign debt was equivalent to a little less than 70 percent of GNP, while interest on it amounted to around 8 percent. The fiscal deficit was therefore equal to four times the total amount of notes and coins in circulation, plus current account deposits.

6. The financial cost in 1987 of subsidies via the national budget, the taxation system, and the costs of the nationalized industries has been estimated at around U.S.\$4 billion at current rates. The opportunity cost of subsidies is equal to 70 percent of the real investment of the Argentine public sector and around 25 percent of the tax collected nationally in the provinces, in the city of Buenos Aires, and from the social security system in the same year.

7. "Washington Consensus" was coined by John Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington, DC: Institute for International Economics, 1990), to refer, loosely, to the package of stabilizing plans being touted by the International Monetary Fund, the World Bank, and the U.S. Treasury Department.

8. Until then, the performance of the Argentine economy could have been considered reasonably acceptable. In fact, in the period between 1964 and 1974 the economy grew at an average rate of above 4.5 percent, more than double the growth rate of the population and with no period of industrial recession. Manufactured exports, which made up 3 percent of the total in 1960, rose to 24 percent by 1975. The system's fragility is expressed by the deficit in the public sector; aggravated by the explosive inflation of 1975, it reached an equivalent value of around 15 percent of GNP in that year.

9. This last mode does not figure in the Menem government's privatization policy. My thesis, therefore, is that the urgent need for fiscal revenues constituted the central axis of that policy. For a more detailed discussion of regulatory issues, see "State Reform and Deregulatory Strategies," in *Regulatory Regimes and Competition Policy in Latin America*, ed. Moises Naim and Joseph S. Tulchin, forthcoming.

10. In fact, fiscal revenues in 1991 were identical to the transfers to international agencies. The amount, almost U.S.\$3 billion, is equivalent to 60 percent of the fiscal surplus recorded that year.

11. Economic justification for privatization is not new. Over two centuries ago, Adam Smith declared that "in all the great monarchies of Europe, the sale of royal lands would produce very high sums which, if they were used to redeem the public debt, would release much greater revenues than would have been possible by giving these lands to the crown. Once these properties passed into private hands, in a few years they would be much improved and better cultivated."

12. Surpluses in the social security system, direct taxes, and retentions on agricultural exports intended to take part of the income from the land, which in 1950 contributed a fiscal income of an equivalent of 10 percent of GNP, in 1986 represented a shift from the public sector of 0.5 percent of GNP.

13. A paradigmatic case, this is not the sanction of any law in particular but the working out of a body of laws, in this case the Código de Tránsito (Transit Code). This situation is in open violation of constitutional norms, Article 67, clause 11, of the National Constitution granted the Congress powers to frame and pass different national codes as well as laws of a federal nature.

14. The amount of capital required annually, assuming a 4 percent yearly growth rate, given the present relative price structure, will rise in the period from 1993 to 1997 to an annual average of around U.S.\$18 billion.