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SOME NOTES ON THE IMPLEMENTATION OF ARGENTINE INDUSTRIALIZATION POLICY

by

David Felix

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APOLOGIA

October 17, 1967

This paper and its "plus ca change, plus c'est le même chose" thesis was stimulated by Argentine Revolution No. 27 of June, 1966. Close Argentine watchers will undoubtedly notice that since the paper was written, August, 1966, there have been changes in tariff policy and in the operations of the Banco Industrial which would seem to go contrary to the thesis. I am inclined to argue rather that these changes are merely manifestations of the Bandaneon Effect, discussed in the paper. However, I thought it best to give the reasons for this view in the seminar rather than incorporate them in the paper.

David Felix

September 5, 1966

SOME NOTES ON THE IMPLEMENTATION OF ARGENTINE INDUSTRIALIZATION POLICY

by

David Felix

There is little need to belabor the point that Argentina's industrial structure is a rather jerry built affair with a great many of its branches plagued with severe and chronic excess capacity, uneconomically small plants and unusually high relative prices and costs. The charge is accepted even by many industrialists, who will also admit -- privately -- that Argentine industry has been excessively protected, that with its present level of costs it is more fearful of ALALC competition, particularly from Brazil and Mexico, than it is sanguine about ALALC markets for Argentine industrial products, while the prospect of a substantial effective lowering of protection against competitive imports from third countries is simply terrifying. 1/

How was such an industrial structure allowed to develop? Foreign economists tend to focus on analytic errors: an excessive faith in import substitution as a means of solving balance of payments difficulties, autarkical development of "basic" and consumer goods industries, protection of existing industry to the point of de facto prohibition of competitive imports, disregard of production costs, market size and plant scale, in promoting the establishment of new industries etc. This is not to say that

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1/ This appraisal is based partly on the unanimity with which a small number of knowledgeable industrialists and business advisors interviewed concurred on these points. Further support for the judgement on ALALC can be found in various issues of Análisis, an Argentine business journal which covers the ALALC scene rather fully. See, for example, "Primera Reunión Sectorial de Noldeadores Plásticos" VI No. 285 (29 de agosto, 1966) 2210-2213, detailing the problems of the Argentine plastics industry, which feels unable to negotiate mutual tariff concessions with its Mexican and Brazilian counterparts. Among the reasons given are the relatively high price of Argentine power rates, and the 60 to 100 per cent higher price of plastic materials supplied by the Argentine petrochemicals industry, attributed in part to undersized plants. The article suggests that with a parallel situation confronting a broad range of Argentine industries, the short and medium term prospects for an expansion of Argentine trade within ALALC are poor. For a similar appraisal, see "ALALC, Los Empresarios y la Protección industrial" Panorama de la Economía Argentine V No. 30 (1966) 61-65.

there is complete agreement as to where the analytic errors lay, how they molded the industrial structure, or precisely how to remedy the defects. Where there is broad common ground is in the conclusion that the Argentine economy has been excessively closed in the post-war period, and that the general lines of an economically feasible industrial policy should include opening up the economy by reducing the level of protection, using competitive import pressure as one means of forcing Argentine industry to reorganize and perform more efficiently.

This view, it is interesting to note, has come to be shared, apparently, by a fair number of Argentine economists, and one frequently encounters agreement -- in principle -- even among Argentine businessmen as well as among government officials administering tariff regulations and industrial promotion laws. These intellectual trends, however, cannot be said to have engaged public opinion openly or to be having any discernible operational effect as yet on industrialization policy. The purpose of this essay, therefore, is to explore the functioning of some of the agencies through which the state has sought to implement industrialization policy, and to suggest some factors and channels of influence which, despite the growing scepticism and disillusionment with autarkical industrialization have been preventing a reorienting of this policy. The presumption of an outsider speculating on such subtle and complex matters is obvious, but the excuse is two-fold: to obtain critical reactions to these speculations from knowledgeable Argentinians on these matters, and, if the speculations pass muster, to indicate to my fellow economists that exposing analytic error is not sufficient to change well-intrenched policies. Countries have a way of operating for a long time with apparently erroneous economic concepts, resisting attempts at clarification for reasons not entirely related to analytic confusion. Argentina is a particularly interesting case, since the analytic confusion implied by its industrialization pattern has been too glaring and the gains too meager to rationalize by appeals to external economies, linkage effects, maximizing capital accumulation over time, dynamic comparative advantage, or any other of the rubrics with which development economists have attempted to reconcile comparative cost orthodoxy with the fact that various countries

have successfully developed under quite disparate sets of industrialization policies.

The formal powers of Argentine Governments in the post-war

In this effort at explanation, we observe first that post-war Argentine governments have had, formally, an unusually ample array of policy instruments with which to plan and implement various industrial strategies, and in particular, that the executive branch has generally been given by the Congress or the military, as the case may be, broad delegated powers, which have allowed the executive -- again formally -- considerable freedom of action in implementing industrial legislation.

These instruments have included broad freedom to grant tax exemptions, credit subsidies and to manipulate tariff, foreign exchange, freight and energy rates in order to stimulate industrial investment. For the pattern has been for the Congress to pass very general enabling laws governing industrial policy, granting to the executive branch considerable latitude in implementing these laws by means of regulatory decrees. This is not to say that passage of such laws was not preceded by hearings and negotiations during which more specific insurances as to the use of the requested powers may not have been given than appear in the legal text. But the vagueness and the high level of generality with which the objectives of these laws were stated, combined with the scope given the executive power to interpret these laws, would seem to have been more than sufficient to have permitted a determined executive to range rather widely. Moreover, during period of military rule the legislative role was assumed directly by the executive, its decree-laws continuing to have legal force unless repealed by a subsequent Congress or military ruler. Thus on appearance, Congress has not been a major deterrent to coherent industrial planning and execution by the executive branch.

In addition, the Argentine government has directly controlled many of the "commanding heights" of the economy through public ownership. Railroads, gas, telephones and most electric power production have been publicly owned since the 1940's. The dominant domestic airline, major fluvial and oceanic fleets, pipelines, basic petroleum production and supply, and much of the refining and distribution capacity have also been in state hands. And although public ownership in manufacturing proper has been minor, the state

through Dirección General de Fabricaciones Militares and SOMISA has dominated basic steel production. 2/

The state also has dominated the allocation of domestic bank credit, not only through the central Bank's control of credit policy, but also through ownership of a number of major banks. The Banco de la Nación and the Banco de la Provincia de Buenos Aires hold between them about half the commercial deposits of the country, while the Banco Industrial and The Banco Hipotecario are the major domestic sources of medium and long term bank credit to industry and construction. The Banco industrial, moreover, as guarantor of credit granted by foreign banks to Argentine industry and mining, has had -- along with the Central Bank which sets minimum terms for foreign financing -- the power to guide the flow of foreign suppliers credits for imported equipment. Since 1957 the Banco Industrial, joined subsequently by postal Savings Bank, has also been investing savings deposits in

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2/ There are four groups of state manufacturing enterprises, three of them under military control: Dirección General de Fabricaciones Militares, an army appendage organized in 1941, controls the largest group of firms, mainly in metallurgy and ordinance, including SOMISA, the only fully integrated steel complex in Argentina; DINFIA (Dirección Nacional de Investigaciones y Fabricaciones Aeronauticas), an air force appendage, in addition to operating various aviation parts plants, also pioneered in Argentine automotive production and currently is producing utility trucks and motorcycles; AFME (Astilleros y Fábricas Navales del Estado) under navy control, is engaged primarily in shipbuilding and repair. About 80% of the output of these three groups is produced for commercial sale.

The fourth group, DINIE (Dirección Nacional de Industrias del Estado), controlled some 30 former German firms, mainly in medicinals, chemicals, metallurgy and construction, which were seized as enemy property at the end of World War II and nationalized. An appendage of the Secretaria de Industria, DINIE was largely liquidated in 1961 as part of the Frondizi government's policy of denationalization; all that now remains are 2 small chemical plants and a metallurgical plant. In August, 1966, the Ongania government announced plans to sell-off these vestiges.

The total value added of all these state enterprises in 1960 according to a CONADE estimate was about 1.6% of industrial value added, but these plants provided then about 6% of value added in metals and non-electric machinery. The beginning of SOMISA production in 1961, since it coincided with the liquidation of DINIE, probably leaves the first percentage unchanged, but may have upped the second percentage somewhat.

common stock in an effort to increase the rate of return to the depositors. Total holdings of the two funds at the end of 1964 was 150 million shares, with a value at purchase cost of m$n 25 billion. Although the share of ownership of private firms by the two banks as result of these purchases is not public knowledge, 3/ it is known that since 1961 the two banks have been by far the most important buyers in the stock exchange; in 1964 they purchased more than one third of the share turnover. Finally, the industrial sector has been allowed to accumulate unpaid taxes -- mainly excise and social security taxes to a remarkable extent. In August, 1966, unpaid taxes to the Treasury totalled m$n 70,000,000,000 and to the social security funds, m$n 110,000,000,000, the combined value being approximately 16.5 per cent of industrial value added for 1965. 4/

In sum, the executive branch throughout the post-war period has had, formally, more than sufficient instruments at hand for indicative planning á la Francais, and to implement a wide range of alternative industrialization strategies.

The implementation of industrial policy

This suggests therefore, that Congress has not been the major obstruction to planning and executing a coherent industrial policy; that there have been other more direct and important channels by which ideological and sectoral interests could influence and confuse the formation and implementation of policy. A posteriori, merely eliminating

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3/ The Banco Industrial has set itself a maximum of 20% of the equity of any firm, but the Ahorros Postales may hold additional equity in the same firm since the investment policy of the banks is not coordinated.

4/ Argentine excise taxes, levied at the producers level, are largely concentrated on industrial products. The industrial sector has also been the major private employer of labor covered by social security. Since penalty interest rates on back-taxes have generally been below the rate of inflation, unpaid taxes, which are harder to evade outright than income taxes, until caught up with by the internal revenue, and then to try to bargain for easy payment terms. In 1955, 1962, and 1964, the government sought to clean up the tax debt by means of general "moratoria," which established uniform repayment schedules and penalty interest rates. Nevertheless, the debt has continued to mount, many firms managing to evade the terms of the moratoria by individual negotiations with DGI (Dirección General Impositiva). In August and September, 1966, the government decreed two new general moratoria, covering, respectively, the two types of unpaid indirect taxes.

Congress does little by itself to remove the conflicting pressures which militate against the adoption and implementation of a more efficient industrialization policy.

To illustrate, the industrial promotion laws of the post-war period have undoubtedly been strongly protectionist, with autarkical overtones, although the instruments of protection varied. In the Perón period by quotas and exchange restrictions rather than tariffs were the main instruments. With the post-Peronist "liberalization," the quota an exchange licensing system was gradually dismantled, and after 1958 almost entirely replac by a system of "exchange surcharges" (recargos camiarios). 5/ These were in effect, additional import tariffs which performed the same function as the previous system of direct controls of restricting competitive imports while favoring the importation of non-competitive industrial requirements. Formally, moreover, the executive branch appeared to be given full freedom to alter these surcharges in order to protect existing industries and promote new ones.

In addition, throughout the post-war period the stress in the industrial promotion laws has been on the development of "basic" industries, usually identified for the legal purpose of receiving special tax and other favors, as "industries of national interest." These have included steel, machinery, chemicals and petro-chemicals, tractors and agricultural machinery, building materials, paper and cellulose, trucks and motor cars; broadly capital goods and processed industrial materials. A third consistent thread through all the industrial promotion legislation has been a stress on geographic decentralization of industry away from Greater Buenos Aires to the interior regions.

5/ The term was a legal fiction to get around the existing tariff treaties. The surcharges were designated as provisional, and the government promised to unify the tariff rates at a future date. In 1964 initial work was begun on the technical problem of unifying the basic tariff rates (derechos aduaneros) and the surcharges, and in 1965, Congress in part reflecting also the exasperation of businessmen with the complexity of the double tariff system, passed a law characteristically giving the executive complete freedom to unify the two rates and to alter individual rates as it saw fit. Work on this unification effort was to have been completed by November, 1966, but has been suspended since the overthrow of the Illia government. Again, characteristically, there was no intent, according to the secretary-general of the Tariff Commission in charge of the unification task, to alter the combined level of the tariff in the process.

The strong protectionist thrust of the industrial promotion legislation and the autarkical overtones are thus undeniable. But it is also true that the laws included other objectives and general criteria -- "harmonic development," "economic production," "earn foreign exchange" etc. which determined administrators could have seized upon, in principle, to temper the thrust. The recent Plan de Desarrollo was indeed more specific than has usually been the case, in stressing these tempering criteria.

> "...it is necessary that the process of vertical integration and of import substitution be done in such a way as not to increase the cost of the final goods industries producing consumer and capital goods. On the contrary, the exploitation of external economies and of modern industrial complexes should permit a reduction of costs which improves the competitive situation. This is possible because the major sectors around which such developments would occur -- steel and metallurgy, cellulose and paper, chemical and petrochemical products -- have a market of sufficient size to insure the economies of scale permitted by present day technology... This direction of industrial growth in the next few years will also contribute significantly to the diversification of exports, for which the initial conditions are already given by the technical progress and level of entrepreneurial developmen reached by the mechanical industries ... Through this, the increase in demand for nationally produced capital goods will permit the achievement of greater efficiency and the cost reduction, while the initiation of the new projects for the production of intermediate goods will make possible the achievement of important external economies in their supply. 6/

In fact, however, there was no visible effort by the Illia government to use the instruments at hand -- tariff cuts, tax and credit subsidies -- to impose acceptable price and cost performance on a new projects, or to promote mergers and industrial rationalization among existing firms either prior to or during the plan period. The nee for the government during its troubled existence to concentrate on short-term fire fighting, in particular to revive industrial activity from the depths into which it had falle in the 1962-63 depression while avoiding aggrevating a very weak balance of payments, explains in part its reluctance to lower tariff levels. 7/ It does not explain, however, why the CONADE industrial sector charged with longer run industrial planning for the Plar de Desarrollo limited its role mainly to correlating domestic output projections with

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6/ CONADE, El Plan de Desarrollo (Buenos Aires, 1965) pp. 115-116.

7/ This was the reason advanced to me by a high ranking member of the Illia "Economic Team."

demand projections in order to determine how much additional imports could be replaced by expanding domestic capacity. Nor why, although some of the studies included economy of scale data obtained from international sources and commented in passing on the small size of many existing Argentine plants, no rationalization studies were underway to deal with the problem. Neither does it explain why neither the industrial sector nor the foreign trade sector of CONADE had studies of tariff revision in relation to industrial programming underway or the planning stage. Moreover, according to the Secretary-General of the Tariff Commission, his efforts to get CONADE to recommend tariff changes in the light of the Development Plan, were unavailing, CONADE representatives on the Commission playing a purely passive role in the deliberations. This reticence cannot be explained by ignorance. In 1963 for example, a group of European economists contracted by CONADE drew up a pre-plan study which made a detailed comparison of French, Italian and Argentine industrial development programming, placing great emphasis on tariff reform and other instruments for promoting industrial nationalization.

The reticence also extended to other agencies involved in industrial development programming. The Direccion General de Promocion Industrial, established by Decreto 8037/1962 to centralize the review of all industrial projects -- with the exception of steel -- requesting tariff and tax concessions, showed a similar reluctance to deal with selling price and unit cost questions. Although the successive decrees regulating the review and subsidy mechanism, (Decreto 11.324/1961, Decreto 5338/1963 and Decreto 3113/1964 as well as the special decrees on favored industries such as petro-chemicals, cellulose, etc.) included production costs and price as one of the criteria by which the projects were to be judged, such considerations apparently played no part in the deliberations unless brought to the attention of Promocion Industrial through complaints of user industries. In such cases an effort was made by Promocion Industrial or by the Secretary of Industry and Mining to which the agency reported, to get the two contending parties to recommend a compromise solution. Otherwise, Promocion Industrial and its Advisory Com-

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8/ Europexpert, Estudio para la Determinacion de un Programa de Desarrollo Industrial en la Argentina (CONADE, 1963)

mission on Capital Goods -- made up overwhelmingly of representatives from the various capital goods trade associations -- concentrated on the financial and technical competence of the petitioning enterprise, and on whether additional production of the proposed product was desirable in view of existing capacity relative to the size of the domestic market. A major consideration was also whether or not the import plans of the project were for equipment and materials which could be supplied domestically. Needless to say, the composition of the Advisory Commission insured that the last criterion was given top priority in the deliberation. 9/

The review procedures in the case of steel projects have been similarly circumscribed. The Direccion General de Fabricaciones Militares, an army appendage, was charged under Ley 12.987/1947 with initiating and reviewing steel projects for the Secretary of Industry and Mining. Basic iron and steel production was restricted as a vital defense activity under this law to state or mixed corporations, and during the Peron era a couple of small iron and steel plants were established by the army and planning for a large integrated steel works (SOMISA, Sociedad Mixta Siderorgia Argentina) was initiated. SOMISA did not enter into production until 1961, financed almost entirely by state and Export-Import bank funds. In 1961, Ley 15.801 modified the steel promotion regimen, permitting private firms, which formerly could engage only in rolling and fabricating, to set up integrated or semi-integrated works. Generous tariff and tax subsidies as well as foreign credit guarantees were made available to stimulate interest and Fabricaciones Militares was left in charge of reviewing the proposals and making recommendations to the Secretaria de Industria.

Heartened by the 1960-61 boom and by projections of a rise in domestic demand for steel products from 2.6 million tons in 1961 to 4.0 million tons by 1965, three major projects were received: two from private entrepreneurial groups and one calling for the

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9/ This description of the work of Promocion Industrial was obtained from interviews, including one with the former head of the agency, who though critical of the procedure, indicated that given the commission structure and other subtleties it was necessary to play by these rules. The decrees referred to in the text derived from the Congressional enabling laws: 14.781/1959, Regimen Legal de la Promocion Industrial, and 14.780/1958, Regimen Legal para la Inversion de Capitales Extranjeros.

expansion of SOMISA capacity, to meet the expected growth in demand for ingots, constructio rods and sheet steel. Shortly after, however, the boom collapsed, and in the entire period 1962-66, the 1961 level of steel demand was reached in only one year, 1965. Despite the dimming of market prospects, the apparent underscale of one of the projects (800,000 tons ingot steel capacity) and a considerable over-expansion of cold rolling capacity were both the other two projects to be carried out, the government chose to try to satisfy the competing groups by giving all three projects the go-ahead, provided they could arrange the foreign financing required. Efforts by one of the projectors, (a foreign owned firm) to negotiate with the others to integrate the three projects in order to reduce costs and avoid excess capacity, were fruitless, Fabricaciones Militares apparently playing a completely passive role in these efforts. 10/ Since the projects required some $500,000,000 foreign financing, however, their implementation has been stopped thus far by the reluctance of the World Bank and other sources of foreign finance to provide the requisite funds. Thanks only to this delay, the Argentine economy was spared still another costly venture in excess capacity.

These incidents are designed to illustrate two main points:

1) The agencies administering the industrial development programs have interpreted their function to be much more limited than either the formal power given the executive branch by the Congress or the decrees of the executive interpreting these powers would imply. In fact, the agencies have chosen to act mainly as mediators, negotiating accords between the projectors and other firms or industry associations who for one or another reason objected to the projects.

2) Cost and price questions were given serious consideration only when the projectors sought tariff exemptions for equipment or industrial materials for which a domestic source

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10/ According to one source -- a high official of one of the petitioning firms -- the supervisory role of Fabricaciones Militares was risible. The major concern of that agency through much of the period was to have the steel works built in Patagonia, where Rio Turbio a small coal deposit unsuitable for coking without washing and mixing, and Sierra Grande, a small highly phosphoric ore bed are located. Not only are the two deposits hundreds of miles apart, but the proposed millsite would require major investment in power, port facilities, railroads, housing and other amenities, while the steel market was hundreds of miles to the north.

of supply was available, or when the project involved tariff increases in order to force user industries to shift from importing to purchasing from the new activity. In such cases of course, arguments and evidence on comparative prices, quality, security of supply and similar criteria would be brought to bear by the contending parties. This might suffice, where one side's evidence was overwhelming, to obtain the rejection or drastic modification of project. But apparently the more common procedure was to invite the parties to work out a compromise and submit it to the administrative agency or to the supervising ministry. The consequence could well be a compromise of rather byzantine complexity. 11/

11/ A recent illustration of this involved PASA (Petro-quimica Argentina S.A.) and the rubber products industry. PASA, a foreign owned enterprise (mainly U.S. capital), was authorized in 1961 to build a petro-chemical complex, producing butadiene rubber and some other by-products. The complex was originally projected to be a $60,000,000 investment, but delays, pressure to purchase local rather than imported equipment, and other factors raised the cost of the completed complex to $100,000,000. Shortly before the completion of the plant in early 1966, the Argentine government, at the behest of the rubber products industry made an ALALC tariff concession to Brazil on synthetic rubber, lowering the duty from 80 to 15 per cent. The tariff on natural rubber, which can be mixed in varying proportions with synthetic, was similarly lowered. With the completion of PASA imminent, the rubber products firms also began to stock up or imported rubber, so that PASA was confronte with the prospect of a completed plant and virtually no customers, its selling price being considerably higher than the CIF price plus the 15 per cent tariff.

On receiving PASA's complaint, the sub-secretary of Industry and Mining requested the contending parties to bring him a compromise solution. Having nothing to gain from arrivin at a compromise, the rubber products industry dragged its feet, so that the sub-Secretary felt impelled finally to impose a solution rather than leave PASA stand as an expensive white elephant. Accordingly, Decreto 4535/1966 ruled that rubber products firms could import natural and synthetic rubber at the 15 per cent tariff rate only if they presented to customs an authenticated invoice demonstrating that they had purchased an equivalent amount from PASA. Otherwise the pre-concession duty of 60 per cent on natural rubber and 80 per cent on synthetic rubber would apply.

The solution failed to satisfy the rubber products industry, which pressed for modification. The sub-Secretary of Industry of the new "Revolutionary" government which had meanwhile assumed power, therefore advised the contending parties to negotiate a new compromise. In August, 1966 an agreement was reached, eliminating the certified bill of sale requirement. Instead a single import quota was established for natural rubber and for special synthetics not produced by PASA, the quota to be distributed by the sub-Secretary with the assistance of the the trade association of the rubber products industry. Imports beyond the quota would have to pay the high duty rates.

Source: interview with the former head of Promocion Industrial and Economic Survey, Vol. XXII No. 1048 (August 16, 1966).

Trends in Policy Implementation

This mediatory pattern seems to have characterized industrial development programming throughout the post-war period, even under Peron. Although Peronist industrialization has been widely criticized for giving excessive emphasis to light industry, permitting too heavy an industrial concentration in Greater Buenos Aires, and neglecting the development of basic industries, this criticism applies much more validly to the results rather than to the intent of Peronist policy. The Peronist industrial promotion laws no less than subsequent legislation and decrees emphasized the development of basic industries and industrial dispersion to insure the development of the interior.

However, despite the greater centralization of the administration of economic policy -- primarily in the Banco Central -- and Peron's greater freedom of action, at least during his first presidential term, than was in fact enjoyed by subsequent governments, the gap between intent and fulfillment was not much narrower. The basic industry effort encountered increasing resistance from the growing number of user industries objecting to projects which would divert them to higher cost domestic sources of supply. Only 40 projects were approved as "industries of national development," eligible for various types of preferential treatment and subsidies, almost all of these during the first presidential period, while 132 projects received no favorable action. 12/ To quote from the 1958 report of the Advisory Commission on Industrial Promotion to the Minister of Commerce and Industry, 13/

> It was to be expected that an effort to change the economic physiognomy of the country would arouse resistance from sectors organized along the old system of interests, and it did not take long for the effect of their reactions to become visible. After 1952, there was an increasing paralysis in the appraisals of the Advisory Commission on Industrial Development of projects submitted to it, and some projects approved by the commission never received the necessary aprobatory decree.

Apart from domestic opposition, the basic industry development effort faltered because many of these activities required more substantial capital investment than the Peronist regime was able to accumulate and channel in the form of subsidies or

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12/ Felix Herrero, Aspectos Legales de la Promocion Industrial en la Argentina (Buenos Aires, Instituto Torcuato Di Tella, 1965) 2nd edition, pp. 18-20.
13/ Cited in ibid, p. 17

participating investments to such projects, particularly after the war-time accumulation of foreign exchange had been exhausted. Their development had largely to await the inflow of foreign capital during the post-Perónist period. Indeed, the Peron regime toward the end had itself come to realize the need for foreign financing of its industrial aspirations thus evincing still another element of continuity with post-Peronist industrialization policy. In 1953, Ley 14.222 liberalized regulations on profit transfers and offered other inducements designed to encourage the flow of foreign investment to preferred activities such as tractors, agricultural machinery and petroleum, with relatively little immediate effect however.

Most of the industrial growth of the Peronist era took place, in fact, as a by-product of import restrictions on consumer goods rather than as the result of a deliberate desire to promote such industries. But once established, the firms could invoke provisions of the industrial promotion laws and decrees which gave protection to existing industries, and could through various channels negotiate for preferential exchange rates on import raw and semi-finished products and for low interest credits from the Banco Industrial. The change in the latter's portfolio, -- the bank supplied over 50 per cent of total domestic credit to industry during the Peron period -- is particularly revealing. Banco Industrial medium and long term loans fell from 28.8 per cent to 13.8 per cent in the same period. Moreover, the distribution of the bank's total loans does not appear to have conformed closely to the industrial priorities of the government, as is indicated by the high ratio for textiles and clothing on the one hand, and the low ratio for petroleum and chemicals on the other in the following table for 1952.

	% distribution Banco Industrial Loans 14/ / % distribution Gross Value of Output
Textiles y Confecciones	1.78
Maquinaria no-electrica y Vehicules	1.69
Metales y manufacturas	1.27
Madera	1.22
Piedras, Vidrios y Ceramica	0.98
Alimentos, Bebidas y Tabaco	0.87
Cuero	0.74
Petroleo y productos quimicos	0.63
Papel y Carton	0.46
Articulos y Aparatos Electricos	-

The mediating role of government agencies and the search for lines of least resistance seems, however, to have become even more pronounced after the fall of Peron. This was due in part to the strengthened ideological pressure from the business community, -- the stress on "free enterprise" and the privatization of the economy -- which post-Peronist governments had to try to reconcile with the nationalist autarkical character of the industrialization policy. The Peronist self-image of a government with centralized economic control directing a syndicated economy along pre-determined lines and dispensing favors to the private sector according to plan, was always more fiction than fact. What followed was another illusory image which dominated the pronouncements of the major business associations and the mass press and which influenced the implementation of industrial promotion measures, that of an economy basically directed by free market forces, with the government' industrial policy limited to establishing general guidelines and inducements for private investors.

But coterminous with this liberal imagery, the pressure to develop basic industry was also being reinforced by the chronic balance of payments weakness of the economy. Post-Peronist governments felt impelled, therefore, to push the development of such industries more actively than in the Peron era in hope of alleviating the demand for imports, since fuels, industrial materials and equipment had by the early 1950's come to make up most of Argentine imports. The phrase, "para ahorrar divisas" appears prominantly in all

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14/ "Los Mecanismos de Promocion Industrial" unpublished study of CONADE. In the period 1946-48, food, drink and tobacco, according to this study, was the most favored group in terms of % of Banco Industrial credits per industry. Textiles and clothing took first place after 1948.

of the post-Peronist industrial promotion legislation and regulatory decrees, whereas it is absent in most of the Peronist legislation.

The result was a "come one -- come all" approach to the administration of industrial promotion, particularly noticeable in the special regimens for promoting basic industries, and extending to foreign investors whom the Argentine governments avidly sought to attract. To quote Antonio J. Vila, the chief technician charged with drawing up the auto regimen, which resulted in some 23 firms scrambling for position in a market of less than 200,000 units per annum. 15/

> If the government selects the enterprise it is a responsibility and a risk, besides being an injustice. If we accept an offer from Ford to locate in Argentina and General Motors and Chrysler offer the same, what could we say to them? Besides, there is FIAT which already has interests in the country, and Mercedes-Benz already installed; and other firms equally solvent and well known. To whom and for what reasons are we to say no? And tomorrow, if Argentine enterprises -- as SIAM did -- obtain a foreign license and want to manufacture cars, how can we oppose them? It is necessary to establish rules of the game, valid for all, toward which the government takes an impartial attitude.

Thus, whereas the Peron regime had no compunctions about limiting negotiations to a single firm -- viz. the agreement reached with the Kaiser Motor company in 1955 -- or in selecting from a large list of applicants, as in the case of the incipient tractor industry, 16/ the later regimes became wedded to a doctrine of non-discriminatory access to discriminatory privileges.

Applied to basic industries where economies of scale are of major importance and fixed capital costs are usually high, the doctrine contributed significantly to the growing excess capacity and accumulation of under-scale plants characteristic of the Argentine industrial sector in the past decade. Each of the basic industries favored during the past ten years -- tractors, ship construction, motor cars and trucks, internal combustion engines,

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15/ Primera Plana IV No. 188 (August 2-8, 1966) p. 86. This view is affirmed by Juan A. Puiggari, Sub-secretary of industry in 1959-60, who had charge of administering the auto regimen. According to Sr. Puiggari, "I always preferred that the market do the selecting. Outside of the market, who is to say what should take place and what shouldn't? Ibid p. 87.
16/ Four firms were chosen out of 34 applications.

petro-chemicals, cement, and cellulose 17/ -- has operated with substantial excess capacity and for the most part with uneconomically small-sized plants.

Shronic excess capacity has not been limited to the basic industries, although it ..... generally been more severe among those activities. In 1959-61, most firms as well as the government overestimated the growth of domestic demand and the ability of the economy to finance the foreign exchange costs of expanding capacity and of operating at the higher projected levels of output. In the case of the basic industries, however, the problem was evidently compounded by a scramble -- in many cases by foreign firms -- for position within a market safely protected from import competition and spiced further by ample tax and tarif exemptions.

The economy of scale deficiency seems mainly to have been due to neglect rather than ignorance, since the scale-cost information readily obtainable by the industrial promotion agencies should have at least alerted them to the problem and the need to consider its implications for the economy. The individual enterprises could bank, of course, on a protected market with cartelized pricing to permit them to subsist despite high production costs. But it took a particularly odd concept of free enterprise for the government to underwrite such scale deficiency and to force its social cost on the economy.

Where the agencies administering the special industry regimens did concentrate their efforts was in ensuring compliance with schedules requiring a progressive increase in the domestication of value added in the final product. This was no easy task. In the case of the automotive industry, foreign subsidiaries with their very small model runs sought in various ways to evade the stringent schedule which required them within five years after beginning production to reduce parts imports in the case of passenger vehicles to 7 per cen of the CIF value of the model, (CIF value was about one third to one half of the domestic price of such vehicles at prevailing exchange rates), or pay 200-300 per cent surcharges on imports over that amount. The sub-Secretariat of Industry and Mining attempted in turn

17/ All of the above except cement received special promotional legislation, although cement investment received tariff exemptions and special tax subsidies only when the plant was established in a preferred geographical zone. There has been excess capacity also in some of SOMISA's rolling lines, but this was evidently due to poor analysis of the steel demand mix by SOMISA and Fabricaciones Militares. As indicated earlier, Argentina was saved from major excess capacity in steel by the reluctance of flinty-eyed foreign bankers to provide financing of projects approved by the Argentine government.

to check evasion by requiring each firm to submit for prior approval very detailed production plans, specifying the parts to be used and their origin. When it became evident that firms were still overstating their output targets in order to increase parts imports at the low surcharge rate, the frequency with which the detailed plans had to be submitted was increased -- currently every three months. Firms were permitted, however, to import an additional 5 per cent at low surcharges if introducing a new model. This opened up a new fencing arena between the firms and the agencies as to what constituted a new model, and has had the effect of proliferating the number of models and the rate of model changeover. The strenuousness of the regularity effort is indicated by the 3 feet of bound volumes of regulations issued in the past 6 years.

The enthusiasm for maximizing backward linkages was tempered, however, when the purchasers were organized industries rather than scattered consumers. Thus the import provision for trucks and buses has been much more liberal -- 20 to 30 per cent of CIF value at low surcharges -- than for passenger cars. The tractor regimen went through a long series of modifications involving since 1954 some 15 presidential decrees, in an effort to reconcile the inducements needed to promote tractor production with the reluctance of the powerful farm lobby to pay high prices for tractors. Initially the government sought to resolve this conflict by giving direct producer subsidies to the industry in addition to preferential exchange rates, tariff exemptions on parts and equipment, and exemption from excise taxes on the sale of tractors. 18/ The direct production subsidies and preferential exchange rates were subsequently eliminated, but the government sought to encourage the sale of tractors and agricultural machinery by allowing farmers to deduct the full purchase price of such equipment from taxable income. 19/ The Banco de la Nacion was also

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18/ Decretos 11,954/1957 and 15,385/1957

19/ The 100 per cent tax exemption was introduced in 1956. In addition, farmers could deduct depreciation on the equipment from their taxable income, so that the total tax saving could exceed the value of the purchased equipment. Cf. illustrative table in CONADE, "Los Mecanismos de Promocion y Fomento Industrial."

In an effort to reduce the budget deficit, the government eliminated these tax exemptions in 1965. The sharp drop in tractor and agricultural machinery sales--the tractor industry was producing at less than 40 per cent of capacity in 1966--however, set off considerable pressure--press commentary, interviews of trade association spokesmen with high government officials and the like--to restore exemptions in some form, so that in September, 196 tax exemptions of up to 60 percent of the unit price of tractors and farm implements were reintroduced.

authorized to provide low interest medium term credits to farmers for such purchases.

There is a rather obvious general reason why post-Peronist governments could not effectively reconcile a highly protectionist industrialization orientation tinged with autarky, with the doctrine there should be general rules of the game within which each would have equal access to privileges. However sincere the intentions, a myriad of contradictory pressures originating in the complex interdependence between producers and in conflicts of objectives requiring ad hoc judgments forced themselves on the agencies administering industrial policy. The solutions were at times ingenious compromises hammered out by the contending groups, but they were probably not much less discriminatory than in the Peron era. While the prior import license system was no longer used (except in the case of capital goods and a few current products, as for example, in footnote 5), the tendency was to multiply the regimens under which individual firms could obtain tax or tariff exemptions, and to differentiate with increasing fineness between products subject to duty.

Since the industrialization policy pursued by Argentina continued to be inherently discriminatory, what was badly needed if the general approach was to be used effectively, was the development of intelligent economic analysis and sensible criteria to link the decisions of the administering agencies more rationally with broader social objectives. The doctrine of impartial rules of the game with its unwarranted faith in the ability of competitive forces in a small highly protected domestic market like Argentina's to correct economic distortions, merely added an additional obstacle to the other barriers standing in the way of sensible decision making.

Cyclical Patterns -- The Bandoneon Effect 20/

The general continuity of Argentina's approach to industrialization does not mean general satisfaction with the specific methods, much less the results. On the contrary,

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20/ After the Argentine accordion used by tango orchestras. See the seminal study by Martin Bormann, The Tango and the Jewish Question (Editorial Jujuy, 1946).

the excessive ad hocism and ill-thought out discriminatory decisions, have aroused periodic reactions in favor of massive simplification of the regulations. These, however, under the incessant pressure of ad hoc adjustments have in turn become increasingly complex, resulting in renewed demands for simplification. This bandoneon effect can be illustrated by the shifts in import control policy, the operations of the Banco Industrial, and is probably underway as regards the more recently introduced legislation on industrial export promotion.

The system of multiple exchange rates and import quotas, introduced in the 1930's, reached a high degree of complexity under Peron. The system, plus prior import deposits and bilateral state trading under IAPI (Instituto Argentino de Intercambio) were major instruments of industrial promotion, protection and balance of payments defense. The growing complexity of the system, particularly as foreign exchange became scarce after 1948, made it increasingly difficult for businessmen to know how to play the game effectively, and the system was further discredited by its association with excessive favoritism and corruption. Hence it became a prime target for abolition by the business community when Peron was overthrown. Between 1955 and 1958 the system was progressively simplified, but not until Frondizi's presidency were multiple exchanges and import quotas eliminated.

Under Decreto 11,917/1958 which established a single exchange rate a comprehensive system of exchange surcharges was also introduced to provide protection for domestic products and low duties on non-competitive imports equivalent to that obtaining under the previous import control system. Initially imports were classified under four lists, the duties ranging from zero for list 1, to 300% for list 4. The surcharge system, however, rapidly was made more complex: new lists were added, and items reclassified; by 1963 there were 12 lists with surcharge rates ranging from zero to 300 per cent. In addition, special low rates were established for non-competitive capital goods imports, the rate ranging from zero for the import of a full production line to 40 per cent for individual pieces of equipment. Foreign firms were allowed to import under their own exchange cover at zero duty. Equipment imports under the various basic industry regimens could receive exemptions

from both surcharges and basic tariff rates (derechos aduaneros), while parts and materials were allowed in under what amounted to tariff quotas (e.g. the automotive and tractor industries). The various state enterprises: power, petroleum, roadbuilding, railroads, gas, shipbuilding, Fabricaciones Militares, the Ministry of Agriculture, etc. could grant tariff exemptions on equipment and materials imports to their contractors and suppliers. In all it is estimated that by the mid-sixties there were seventy different surcharge rates ranging from zero to prohibitive levels. One paradoxical result was that between 1959 and 1963 in Argentina with the highest nominal tariff rates in the world over half of imports came in free of surcharges. As indicated by Table 1, over 90 per cent of the surcharge free imports by 1963 were being admitted under the special exemption systems.

Pressure for ad hoc rate adjustments from various industry groups caused the system also to abound with anomalous rates from the point of view of the industrial promotion targets; e.g. newsprint carried a zero rate while cellulose had a 40 per cent surcharge.

Table 1

Surcharge Exemptions in Argentine Imports, 1959-63

	1959	1960	1961	1962	1963
1. Percentage of imports exempt.	65.1	68.3	60.5	54.3	53.1
A. Under List 1 (zero surcharge list)	42.0	28.4	29.1	15.2	9.5
B. Under special exemptions	58.0	71.6	70.9	84.8	90.5
1. Machinery	29.0	47.8	50.8	66.1	60.5
2. Current Imports	71.0	53.2	49.2	33.9	39.5

Source: Direccion Nacional de Estadisticas y Censos, Comercio Exterior: Recargos y Retenciones, 1959-63 (Buenos Aires, September, 1964).

Once again sentiment built up to simplify the system by unifying the system by unifying the tariffs and surcharges. In 1964 a tariff commission consisting of government and industry representatives was appointed to convert the tariff nomenclature to the modified Brussels code (NABALALC) and to prepare a set of unified rates. Under Ley 16,690/1965, Congress also gave the executive freedom to make such rate adjustments in the

process as was necessary. Characteristically, although no limits were set on the execu tive power to raise or lower rates, it was generally understood that this power would n be used to lower levels of protection. 21/

A somewhat similar cyclical pattern is evident in the evolution of the Banco Indus trial. It has already been shown that during the Peron period the bank was progressive diverted from its original function of a supplier of medium and long term loans for in- dustrial investment to becoming a supplier primarily of working capital to industry, an that its loan portfolio distribution between industry branches did not conform very clo to the government's industrial priorities.

In 1957, in an effort to return it to its original purpose, the bank was reorganiz under Decreto-Ley 13.130/1957 into purely a long term industrial credit bank Neverthe opposition from industrial sources forced the government the following year to restore the Bank's short-term lending powers. However, to revive the Bank's lending capacity (the Bank did not receive deposits and so was unable at the low interest rates it charg to protect its real asset position against the rising inflation) the Central Bank was ordered to transfer 50 per cent of its annual profits to the Banco Industrial. In 1959 the Bank's lending powers were also increased by loans from the Export-Import Bank and Credit Lyonnais. As a result the proportion of fixed investments to total loans rose from 18 per cent in 1959 to almost 50 per cent in 1961 only to fall to 8.7 per cent in 1963 and to 10.4 per cent in 1964. Apparently the Bank tended progressively to commit its own resources almost entirely to supplying working capital to its clients, so that i long term lending revived only when it could get access to new foreign credits. 22/

21/ According to government members of the Commission, no high level directives were given, to press for lower rates, nor could this have been accomplished with the heavy complement of industry representatives on the tariff commission.

22/ According to unpublished figures supplied by Bank officials, the proportion of fixe investment rose in 1965 and reached 47 per cent in the first quarter of 1966, thanks apparently to a 1963 loan from the Ex-Imp Bank and a recent BID loan.

The distribution of Bank credits among industry branches for 1959-64 again shows a pattern not very disimilar to that indicated for the Peron period. Textiles continued to be the favored industry in 1959-64, its share of Bank loans being twice its share in total industry value added, with clothing, tobacco, wood products, metals and leather also being favored, although to a lesser degree. In all, the "dynamic" industries, within which fall the high priority "industries of national interest" received a smaller share of Bank credits than their share in industry value added. 23/ Evidently, the Banco Industrial like any commercial bank has tended to give priority to old established customers.

The promotion of industrial exporting is a recent development, initiated seriously in 1962, 24/ the propelling forces being the desperate need for additional sources of foreign exchange and the equally desperate need of many of the "dynamic" industries, hard hit in the 1962-63 depression, for additional sales outlets. The promotional measures were three-fold: drawbacks on import duties for the exported products, rebates on domestic taxes, and special export financing for capital goods exports.

The regulation of these measures has undergone frequent alteration since 1962, reflecting only partly the shakedown problems to be expected of new policy departures. A more basic difficulty has been to reconcile various conflicting pressures.

For examples, since both draw-backs and reintegros lower tax revenue, it was necessary to limit the drain by excluding the traditional agricultural exports from the benefits. Apparently legal decorum required the exclusion to be stated positively and generically, as granting benefits to a general category of products exported. There were thus successiv

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23/ The average ratio obtained by dividing the share of Bank loans received by the dynamic industries by their share of industry value added was 0.85 for 1959-64. Calculated from data in the annual memoria of the Banco Industrial de la Republica Argentina, and the Argentine National Income Accounts.

24/ Some very limited pre-war antecedents to the drawback system for selected products are cited by Herrero. The first general drawback decree was issued in 1960, but Decreto 8.051/1962, which amplified the range of drawback, and sought to simplify the procedures, is considered the basic drawback decree. Cf. Herrero, op. cit. pp. 127-29

modifications of the language: eligible products were identified as those included in specified surcharge lists and later, as those products subject to excise tax (impuestos a la venta), since agricultural products generally were not subject to these taxes. None of these versions, however, provided either sufficient flexibility or the desired coverage and the generic language, moreover, meant that producers, not always knowing in advance whether their products were eligible, had to engage in involved negotiations with customs and the treasury to get reimbursement after the export sale. A system of "typification" was therefore introduced in the case of both types of rebates. Lists of products with the appropriate rebates were issued. In addition, producers could petition the Secretary of Commerce prior to looking for export prospects to ascertain if the product was eligible and at what rebate. Unless removed or altered by the Secretary of Commerce, the "typification" applied automatically to future exports of the product.

The drawback system also came into conflict with the desire to protect existing domestic raw and intermediate goods producers, it being feared apparently that the exporting producers assured of drawbacks would shift to foreign sources of supply. Consequently, drawbacks were limited to imports subject to less than 100 per cent surcharge, since the lower surcharge rates generally applied to non-competitive imports. The Secretary of Commerce could, however, in individual cases grant drawbacks on imports subject to higher surcharges.

Since the government was under particularly heavy pressure to help the machinery, durable consumer goods and metal working industries, products eligible for reintegro were divided under decreto 46/1965 into three lists, each with an overlapping semi-generic categorization. List A included products "involving minimal processing of raw materials," which were eligible for a reintegro of 6 per cent of the FOB value of the export. List B, covered products of "complex manufacturing processes and powdered, milled or sawed minerals" which were eligible for a reintegro of 12 per cent of the FOB value. List C covered "capital goods and parts, intermediate goods and consumer durable products with a high grade of manufacturing, and processed mineral products." These could obtain 18 per cent reintegro on FOB value. The seriousness of this classification is cast into doubt, however, by the press statement of the sub-Secretary of Commerce announcing the decree,

in which he stated that in typifying products an effort was made to include the greatest number of products possible within the 18 per cent category, and he only regretted that he couldn't have raised the rate to 24 per cent. 25/

How stable a compromise the present arrangements are is open to doubt. The enthusiasm of the promotional agencies for granting ample rebates has not been shared by customs and the treasury in charge of issuing the rebates in the form of negotiable certificates which can be applied to tax payments. Exporting groups complain that the long delays in getting the certificates from the treasury greatly reduces the benefits for them. Nor has the system achieved its objective of a major expansion of non-traditional exports. Pressures from the private sector for additional benefits and resistance from the Treasury to the revenue drain seem destined to generate further alterations.

The stability of the system and pressures for change

How stable in the large is the industrial promotion system? Despite widespread complaints and self-criticism and frequent and abrupt changes of government, one is struck by the great continuity of industrialization policy over the past 20-25 years. The same general objectives prevail: very high protection of existing industry, the stress on import substitution and the development of basic industry, and the geographic decentralization of industry. The same general sets of policy instruments are invoked: exclusion of competitive imports, tax, credit and import subsidies, and encouragement of foreign investment. The progressive distorting of these instruments in their application has led to periodic lurching efforts at simplification, only to lead again to renewed complications and distortions, but all within the same framework of objectives and instruments. Efforts to open up industrial exporting through export subsidies and ALALC agreements do represent a new departure, but not a particularly successful one to date and even proponents of this departure do not expect the effort to be invigorated in the near future. On the contrary, they sense a decline in the initial enthusiasm for ALALC and interest in export promotion schemes on the part of Argentine industrialists. The institutional and ideological fabric

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25/ Herrero, op. cit. p. 134

of the system seems thus to be fairly resistant to major changes.

What is the broader rationale for the industrial promotion system and what are the ideological and sectoral pressures which keep it intact?

Looked at broadly, the Argentine approach to industrialization is based on three premises, none of them novel, all of them in principle quite reasonable.

1. Argentina has exploitable natural resources, and a work force with ample capabilities for absorbing industrial skills, but both advantages have been under exploited.

2. Import substitution under a protective bulwark against external competition is an effective system for reducing the illiquidity and insolvency risks inhibiting the incipient private industrial investors. This is particularly so when these investors are drawn either from commerce where they are accustomed to dealing in relatively liquid assets, or traditional agriculture where liquid capital requirements are low and marketing experience relatively simple.26/ Import substitution can also, up to a point overcome the capacity to import constraint to the implementing of industrial investment.

3. The system of producer syndicates bargaining with each other, fixing prices and market shares, and in general limiting the play of market forces, and of government decisions made through negotiations with those groups, is not only congenial to Latin American tradition, but can be used effectively for general economic development, as witness France, Italy, West Germany and Japan.

Industrialization efforts based on these premises are, however, especially vulnerable to sub-optimizing distortions. They desperately need a governor, whether this be external competition, government planning to ensure reasonable resource allocation and industrial efficiency, or a combination of the two to force the syndicated groups to perform in the interest of broader social objectives. This has been lacking in Argentina. This doesn't mean that the groups have had free sway. Rather they have bumped against each other, and

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26/ I have in mind the estancia system and its Latin American variants at the beginning of the post-war, where tenant labor enabled the work force to, in effect, feed itself, where land taxes were low, and where much of the motive power was raised on the farm, viz. horses and oxen. Although profitability and cash receipts of such an enterprise may vary greatly with fluctuations in market prices and weather, the risk of insolvency is very low. As agriculture becomes mechanized and shifts to fertilizer, pesticides, wage labor, etc., the risks begin to approach that of industry.

the economy as a whole has bounced ineffectively since 1949 between inflation and balance of payments constraints and plunged every three to four years into recessions. The recessions, however, have evoked government salvage measures to save the existing industrial structure, but not measures to try to rationalize it. And this raises again the question implicit in the beginning of this essay. Why hasn't the government with its considerable formal power been able to regulate this syndicated economy in the interest of broader development goals?

A useful entry is to refer again to some earlier observations: that the ideological currents guiding Argentine industrialization policy have been autarkic nationalism and an extremely truncated notion of free enterprise; that one also encountered growing doubts as to the efficacy of the import substitution and highly protectionist twist which these ideological currents have given to industrialization policy even among officials administering aspects of the policy; that nevertheless policy decisions continue to be based on these criteria with little evidence that they will be significantly modified.

But perhaps this is not really very paradoxical. We need only refer to the problem of inflation by way of analogy. It is very hard today -- in contrast to ten years ago -- to find anyone in public life or in business in Argentina or other Latin American countries who doesn't roundly denounce inflation and who is not aware that a condition for halting inflation is drastically to slow the expansion of the money supply. But he is also likely to be aware that there may be serious side effects in the process of deflating for himself or the group he identifies with. Hence shorn of faith, he presses according to his positio for more credit for business, for central bank emissions to cover the fiscal deficit, for money wage adjustments, etc. The expansion of the money supply may be no more than a line of least resistance, but it goes on. If a reason for the continuance of inflation is analytic weakness, it is a deficiency shared by economists, who have been unable thus far to agree on the side effects of anti-inflationary policy, the timing problems and other relate issues. The alternative is for a government with sufficient power and longevity to cut the Gordian knot -- impose a stabilization policy -- and hope to survive it.

Similarly, import substitution and the excessive defense of existing industries may change from an act of faith to a line of least resistance, but faut de mieux it continues to serve. For to shift policy may not merely do serious damage to many existing enterprise but requires finding a politically acceptable alternative which can provide a sufficient degree of security for risk averting investors to ensure a high rate of investment which eases the severity of the adjustment for the economy. It evidently will take an extremely blatant exhibition of misallocation and excess capacity to stimulate a serious search for a more efficient alternative. Meanwhile, just as doubters may continue to attend church for lack of a sure alternative route to salvation, adherence to doctrinal underpinnings of Argentine industrialization policy and its rituals continues.

Like most analogies, the comparison with inflation has its limits. Although it is not uncommon to read observations that opportunities for further import substitution in Argentina are meager, or to hear criticism that Argentine industry is excessively protected, it is much easier to find vigorous public defenders of more import substitution and the continued defense of Argentine industry a la ultranza. 27/ This does not necessarily mean tha the weight of informed opinion is fervently for the continuation of these policies. It may only mean that in contrast to inflation, which like sin is an abstact evil, and can be safely denounced without necessarily pointing a finger at any single group, denouncing excessive protection, basic industry autarky, or cartelized free enterprise is a more delicat matter since it fingers major syndicates which have determined and been nurtured by the industrialization policy.

My impression is that the doctrinal underpinnings of Argentine industrialization policy have become since Peron a sort of calculated social compromise between the major groups determining economic policy -- the military, industrialists and agriculturalists, rather than a fanatic article of belief of all of the members of these groups. Particularl within the first two groups it also represents a compromise, a sort of common denominator, to soften internal differences of interests and views, while the agriculturalists accept th

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27/ The morning daily, Clarin and the weekly news journal, Confirmado, are particularly active campaigners along these lines.

industrialization part of the doctrine without enthusiasm. This doesn't necessarily make the doctrine more easily amenable to change, than if it were the product of unquestioned belief without arriere-pensees. Bishops do not have to believe unqualifiedly in the doctri of the Trinity in order to defend the institution of the church against unitarian heresy.

The evidence for the social compromise hypothesis is not merely the fervent support for the doctrine and the effusive mutual admiration expressed by spokesmen for the three groups in public conferences and festive occasions, since this may represent in part only an application of Humbug's law. 28/ There are also some more convincing reasons and bits of evidence to support the hypothesis that each of the sectoral interests finds it politic to adhere to the doctrine, whatever doubts and differences of interpretation they may have concerning its component parts.

The Argentine military from the time it was brought from relative obscurity onto the political stage in 1930 by the agricultural-commercial interests who, panicking at the onset of the world depression, engineered the overthrow of President Irigoyen, have obviously been a major political force in Argentina. Since they assumed the role of intervento making and breaking governments, they have become a major channel through which sectoral interests have attempted to influence economic policy. This applied not only to policy formation, but also to the detailed implementation of policy. Foreign industrial subsidiaries have appointed retired generals to their boards of directors not to gain preferred access to military equipment orders as in the United States -- the Argentine military marke is relatively small and in large part is either self-supplied or furnished with second-hand imported equipment, mainly from the United States -- but to strengthen their hand in negotiations with the government on details of policy affecting their enterprises.

28/ Humbug's Law was discovered by the great German sociologist, numismatist and astrologe Alexander von Humbug during his voyage through Latin America, and was reported in the Stuttgerter Sozialwissenshaftliche Archiv. LXXIV (1847). Briefly, Humbug's Law states that If conferees cannot agree on substance yet cannot afford to disagree publicly, they will raise progressively the degree of abstaction until they arrive at a level of generality on which unanimour agreement can be reached.

For a recent application of Humbug's Law, see the concluding speeches of the agricultural and industrial representatives at the Congreso Agro-Industrial, reported in Clarin, Sunday, September 4, 1966.

Although the military has thus been linked in recent years to a wide spectrum of sectoral interests, it has also out of its logistics bias been a major impellent for self-sufficiency, the development of basic industries, and geographic decentralization. The main push within the military for such a policy seems to have come from younger officers groups, who when the army assumed its role of ultimate political arbiter rejected the limit function of protecting the landed-commercial oligarchy and turned from devising plans against potential invasions from Chile and Paraguay to larger tasks. Since the greatness of Argentina, its destiny as the dominator of el Cono Sur, depended on the development of a modern industrialized economy producing steel, chemicals and other basic defense requirements with national raw materials, and controlling its own means of transportation and public utilities, it was necessary to push such developments.

Peron, emerging from this young officer planning and plotting, proved, of course, to be a maverick with a touch of political genius, who with considerable success for a time was able to shift his base of support from the military to workers and some of the industrialists. However, his approach to industrialization was evidently heavily tinged with military logistics. 29/

The logistics approach of military planners, the stress on economic self-sufficiency in basic industries, continues to exercise force. Despite the disparate linkages of the senior officers with different Argentine economic groups, professional solidarity requires accomodating to this approach. For example, although the announced industrial development policy of the current military government is still at the platitudinous level and the important questions of emphasis and implementation are being fought behind closed doors, a broad "Plan for Economic Development and Security," built around the same doctrinal point

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29/ According to Gomez Morales, head of Peron's National Economic Council, the industrialization policy immediately after the end of the war was guided by military intelligence that war would soon break out between the United States and the Soviet Union. As a result, Miguel Miranda, president of the Banco Central and the chief economic policy advisor to Peron until 1949, "decided to speculate on the war in his economic policy, using the foreign exchange reserves to stock the country, since a new war would block their use and depreciate their value, while if there was no war the reserves could be replaced in time. Miranda bought machinery, industrial equipment and war materials..." Quoted in "Historia del Peronismo: La Primera Presidencia" Primera Plana IV No. 192 (August 30, 1966) p. 38.

as previous efforts has been ordered prepared by a mixed group of military and civilian planners for implementation by 1968.

Under Peron this logistics approach contributed substantially to the erection of the formally imposing Leviathan described at the beginning of this essay. But Peronist policy also took a strong populist egalitarian direction; the controls were also used to shift income distribution in the first half of this regime substantially in favor of the urban workers, largely at the expense of the grain and cattle estancieros. Even the industrialists, most of whom flourished in the early years of the regime, resented the populism, the government's bias toward the trade unions, and chafed during the last five years of the regime, as the chronic exchange shortage and the effort after 1951 to revive agriculture by raising relative prices increased the complexity of the controls and diminished the benefits to industry.

The overthrow of Peron with the enthusiastic support of agriculturalists and most industrialists, brought into play the remaining features of the compromise. The Leviathan was bound by the silken cords of free enterprise ideology: the doctrine of non-discriminatory access to discriminatory benefits, the increased participation of private groups through advisory commissions as well as easy access to higher authorities in the actual allocation of benefits affecting their activities, and where possible, the denationalization of public enterprises. What remained was a system for administering protective controls and benefits and for reducing private risk which the private sector could exploit, but which no longer threatened it. The arrangement had, however, to be linked to the industrialization doctrine, both to satisfy the military and because given the constraints on the use of the state's formal powers, import substitution seemed the easiest way to sustain the rate of investment. And since by the early 1950's industrial materials and capital goods dominated the import mix, substitution had to be largely at the basic industrial level. Part of the compromise apparently, was also the cessation of open criticism

by agricultural spokesmen of industrial protection and high industrial prices. 30/ In turn, the industrialists through their dominant syndicate, the Union Industrial, became public proponents of devaluation to raise relative agricultural prices, and of tax subsidies to agricultural investment and a greater channelling of credit to agriculture. 31/

The industrialization doctrine also has its sticky points for some of the industrialists, notably those who have had to rely on high cost domestic steel, petrochemicals and capital equipment, as these industries became established to replace imports. Nevertheless there is no visible evidence that any major organized industrial group is willing to tamper seriously with the levels of protection. It is more politic to use the various special

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30/ Prior to the war, efforts of industrialist groups to get industrial promotion legislation passed were unavailing. Even with the upsurge of industry in the 1930's, an unplanned by-product of exchange controls and import quotas to protect the balance of payments, the oligarchical governments of the period resisted pressures to institutionalize protection and to improve the allocation of credit to industry. Cf. Herrero, op. cit. pp. 4-13, for a summary of these legislative proposals and the criticism by contemporary Listian intellectuals of the neglect of industry.

Today, one gets impressionist evidence that agriculturalists are still less than enthusiastic about the industrialization doctrine and protection, but the pronouncements of the Sociedad Rural Argentina and the opening up of its annual exhibition to industrial products emphasize only the love-feast aspects of the industry-agriculture relationship.

For the views of an unreconstructed oligarch, see, however, the recent set of articles in The Economic Survey by Federico Pinedo, former treasury minister in the 1930's, in which the acuity of oligarchic economic policy and the high cost to Argentina of the industrialization effort is sardonically emphasized.

31/ The position of the Union Industrial is a rather complex one. On appearance, its advocacy of lower exchange rates in the face of rather obvious evidence that in the past ten years, devaluations have raised import and wage costs to industry and have been followed by industrial depressions, is difficult to rationalize, and I had for some time accepted the judgement of a number of Argentine observers that the only explanation was economic naivete. More recently, on discussing the point with some industrial advisors and members of the Union Industrial, I have been persuaded that there may be method to the apparent madness. The leadership of the Union evidently feels that agriculture offers the only prospects for increasing exports, and that without such an increase the position of industry will become increasingly precarious. Hence they are willing to support devaluation to promote agricultural exports. Some sub-groups within the Union Industrial would like to tie devaluation to increased export retentions to keep domestic food prices from rising so as to dampen wage pressures and would lower tariffs by the amount of devaluation in order to keep devaluations from raising import prices. In return, they hope to maintain exclusive control of the domestic industrial market by retaining the present effective degree of protection. They have been unsuccessful to date, however, in selling this more elaborate scheme to the top leadership of the Union and doubt whether the export retentions would be acceptable to the Sociedad Rural Argentina, the chief agricultural syndicate.

regimens for obtaining import exemptions and for negotiating ad hoc modifications between suppliers and users.

Political threats to the compromise do not appear imminent. The recent elimination of the Congress removed the danger of revived populism via a Peronist electoral victory, but the virtual lack of protest at the dissolution of the legislative system even from the Peronist parties has brought out rather clearly the minor role which Congress and the political parties have played in policy formation, and has made more evident what the important channels of influence on policy have been. To quote former president Arturo Frondizi, 32/

> We must accept that the parties of traditional politics were dissolving themselves. They were miniscule factions of the political community. The latter expressed itself through the activities of the unions, the entrepreneurial groups, the forces of power (sic) and economic and cultural groups which had nothing to do with the old parties. The nation went one way and the parties the other.

Moreover, neither the unions under their present leadership nor the "cultural groups" appear as a serious immediate threat to the arrangements. Another of Peron's important contributions to the stability of the present policy compromise is a highly nationalistic union movement, whose Peronist chieftains have carried forward their antipathy to Argentine intellectuals developed during the Peron era, when for a time the most active opposition to the regime came from the universities and the intellectuals. The unions are a source of pressure for redistributive measures, but have remained largely impervious to the efforts of Marxist and left wing Catholic intellectuals to erect alliances with them in order to build a mass base for revolutionary or social reformist programs. The interventio of the universities by the current military regime, at the cost of major damage to the scientific and technical schools, is evidently further designed to discourage the possibility of such an alliance being formed. With intellectuals isolated and relatively uninfluential as critics and reformers, some of the latter with strong political ambitions --

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32/ "Los Viejos Partidos y la Nueva Politica" Confirmado II, No. 63 (September 1, 1966) p. 14. The article along with others in Confirmado by Frondizi are written under a widely publicized pseudonym, Dorrego.

the so-called "desarrollistas" led by Arturo Frondizi -- have in effect joined the compact, seeking to gain influence by beating the drums enthusiastically for the recent coup and espousing a crash program of development of basic industries and hinterland resources, rejection of Latin America integration, and additional stimuli to domestic and foreign investors.

The vulnerability of the compromise stems not from the open opposition of any importan syndicates, but from the fact that the economic consequences of the policies followed have been poor, and may well get worse. In this sense the system may yet prove unstable, not merely in the sense that one military chieftain may follow another, but that at some point political conditions might be created for major policy alterations.

Although much of the cost of the effort to revive agriculture by raising prices has fallen on the wage share of national income, it has also been costly to industry. The payoff in increased agricultural exports thus far has not been sufficient to rectify the perlous disorganized state of the industrial sector; its substantial idle capacity, excessively fragmented industries, and other consequences of indiscriminate reliance on import substitution and the lack of national industrial development planning and implementation.

Industry's share in the supply of credit has fallen, the wage share of industrial output has fallen considerably less than the wage share of national income; successive devaluations have raised the price of agricultural and imported materials relative to the price of industrial products, and many firms still carry large dollar debts from the disorganized industrial investment boom of 1960-61. The effort to raise relative agricultural prices has, moreover, accelerated the rate of inflation, and attempts to slow the rate by reducing the expansion of credit, have created periodic liquidity problems and production cutbacks, while high costs have retarded industrial exporting. The periodic crises through which industry has been passing, have not, however, generated significant efforts between firms to merge and rationalize production. The efforts have been impeded by the high level of protection and by a strong sense of feudal autonomy among firms, which, while permitting

them to band together against outside pressures, leads them also jealously to protect thei individual patronomy. 33/

While government tax revenue has fallen off as a percentage of GNP in the past decade due in good part to increased tax evasion and tax delinquency by industry -- this has also resulted in enforced cutbacks in infrastructure investment, a deterioration of the quality of government services and administration, and has reduced the ability of the government to give effective tax subsidies to industry and agriculture. It is part of the ideology of the compromise to attribute the problems of the private sector to deficienceis of the public sector, but it is quite evident that any serious remedy of the deficiencies must include substantial increases in railroad and some utility rates, higher salaries to attract competent personnel, and much more public investment. Cutting back the tax take in order to ease the more immediate financial pressures on the private sector, is not likely to improve the performance of the public sector.

The continuity of the compromise depends therefore on whether agriculture will produce the exports needed to sustain the present industrialization policies. If not, then despite Argentina's remarkable ability to butt over and over into the same stone wall, political coalitions may eventually build up to seriously change the approach. At the moment the contour of forces are too blurred to be identifiable in my clouded crystal ball.