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Structural Reform and Industrial Promotion in Argentina

LARRY SAWERS AND RAQUEL MASSACANE

Abstract. This article is a case study that shows the difficulty and complexity of structural adjustment by examining in great detail the reform of a single programme, the promotion of industrial investment in the less developed regions of Argentina. The article describes how the programme grew after 1956 when industrial promotion was first implemented so the reader can fully understand its intricate complexity. The reform process is described in detail, from the time that officials first became aware that the program was costing several percent of GDP to the present. Changing the system was an elaborate process of thrust and parry and counterthrust by government reformers and entrenched supporters of the old regime. The Congress, the Supreme Court, provincial officials and various international institutions were all able to exert considerable influence over the pace and nature of reform. The reform effort also illustrates the role of a free press and public opinion. A cadre of economists working within the government and in private research institutes carried out an effective campaign to inform the public about the programme's excesses. The end result is a precarious and far from simple or transparent, though decidedly less expensive, set of compromises that pleases no one.

Structural reform at first blush appears to be a relatively simple process. If the problem is excessive interference in the market by the government, the solution is simply for the government to cease its intervention. If the problem is the wrong kind of intervention, then the government must simply find and implement policies that are more effective. But two decades of experience shows that ending some kinds of ineffective or counterproductive manipulation of the market by the government is neither politically nor administratively simple.[1] Reducing tariffs, abolish-

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[1] Most studies of the political economy of economic reform do not analyze the administrative aspects of reform, but instead focus on the politics of reform, i.e., the groups that are likely supporters of reform, methods for converting or outmanoeuvring opponents, or the circumstances under which reform is politically easy or difficult. An early classic is John W. Thomas and Merilee S. Grindle, *Public Choices and Policy Change: The Political Economy of Reform in Developing Countries*, (Baltimore, 1991). See also Joan M. Nelson, 'The Politics of Stabilization', in Richard E. Feinberg and Valeriana Kallab (eds.), *Adjustment Crisis in the Third World* (London, 1984), pp. 99–118; Joan M. Nelson (ed.), *Fragile Coalitions: The Politics of Economic Adjustment* (Oxford, 1989) and *A Precarious Balance: Democracy and Economic Reforms in Latin America* (San Francisco, 1994).

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ing price controls, or devaluing the currency, for example, can be accomplished with the stroke of a pen, but other reforms, such as overhauling the tax structure, reforming the civil service, or privatising state-owned enterprises, are so complex that they may take years to accomplish.[2] The length and complexity of the process strain the administrative capacity of the government, and give political opponents of restructuring more opportunities to obstruct reform and more time to organise their opposition.[3]

This article deals with one of these difficult reforms. As part of a sweeping structural reform of its economy, Argentina has attempted to restructure the subsidies it gives to industry to locate in the less developed regions of the country. With few exceptions, the subsidies generated no apparent social or economic benefit to the country, but at their peak they were costing several percent of GDP annually, wreaking havoc with the fiscal budget, and helping to propel the economy into hyperinflationary chaos. The first few years of the effort to reform industrial promotion was devoted merely to finding out who was receiving the subsidies, determining the cost of the programmes, and identifying sham projects established only to collect the subsidy. Later the government was able to root out the worst of the corruption that had engulfed the programme, and greatly to reduce the number of new projects. While reducing though not ending the profligate waste of the taxpayers' money, the government has not been able to make any progress in restructuring industrial promotion so that it has a chance of producing socially desirable benefits. It took many years for Argentina to create this expensive morass; sorting out the mess has so far taken well over a decade and will surely take many more years.

In the late 1980s and early 1990s, a number of Argentine economists turned their attention to their country's industrial promotion programmes.[4] Their books and articles provided the rationale for reforming

[2] Brian Levy, 'An Institutional Analysis of the Design and Sequence of Trade and Investment Policy Reform', *World Bank Economic Review* **7** (1993), p. 250; Isharat Husain and Rashid Faruqee, *Adjustment in Africa: Lessons from Country Case Studies* (Aldershot, 1996), p. 432. See also Robert Klitgaard, *Tropical Gangsters* (New York, 1990).

[3] For a discussion of the importance of speed in implementing reforms, see Stephen Haggard and Steven B. Webb, 'What Do We Know about the Political Economy of Economic Policy Reform?', *World Bank Research Observer*, vol. 8 (1993), p. 159.

[4] The most comprehensive treatment of the subject is by Jorge Schvarzer, the director of Centro de Investigaciones Sociales Sobre el Estado y la Administración in Buenos Aires, in his book, *Promoción industrial en Argentina: Características, evolución y resultados* (Buenos Aires, 1990). It is cited frequently in the discussion that follows. Other useful sources include Daniel Artana, 'Efectos económicos de las desgravaciones fiscales', in Alberto Porto, et al., eds., *Regulación de actividades económicas y financieras* (Buenos Aires, 1991), pp. 27–46; Daniel Artana and Mario Salinardi, 'Régimen de promoción industrial', in *ibid.*, pp. 47–70; Mario Salinardi, 'Régimen de promoción de Tierra del

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industrial promotion by describing the nature of the programmes, their chief drawbacks, and their extraordinary fiscal costs. The actual implementation of the reforms has been reported in the popular and business press, but there are no published in-depth treatments of this subject. Furthermore, industrial promotion is not even mentioned in virtually any of the academic journal articles and scholarly books that analyse Argentina's structural reforms in general.[5] Despite this neglect in

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Fuego', in *ibid*., pp. 72–83; Daniel Azpiazu, 'La promoción a la inversión industrial en la Argentina. Efecto sobre la estructura industrial, 1974–1987', Documento de Trabajo No. 27, CEPAL, Buenos Aires, 1988; Daniel Azpiazu, 'La promoción industrial: instrumento de política sectorial o mecanismo de transferencia de recursos?', *Cauces* (Buenos Aires, 1990), pp. 27–37; Daniel Azpiazu, 'Fue un sistema perverso', *Clarín*, 16 November 1992, p. 18; Daniel Azpiazu, Eduardo Basualdo and Miguel Khavisse, *El nuevo poder económico en la Argentina de los años 80* (Buenos Aires, 1989); Eduardo Basualdo and Daniel Azpiazu, *Cara y contracara de los grupos económicos. Estado y promoción industrial en la Argentina* (Buenos Aires, 1989); Horacio Boneo, *Desarrollo regional, incentivos fiscales y localización industrial* (Buenos Aires 1985); Domingo F. Cavallo and Juan A. Zapata, *El desafío federal* (Buenos Aires, 1986); Francisco Gatto, Graciela Gutman and Gabriel Yoguel, 'Reestructuración industrial y sus impactos regionales', Internal document, No. 14 (Consejo Federal de Inversiones-Comisión Económica para América Latina: Buenos Aires, 1987); Bernardo Kosacoff, and Daniel Azpiazu, *La industria argentina: Desarrollo y cambios estructurales* (Buenos Aires, 1989); Ugarte F. Sánchez and Martí A. Zabala, 'Argentina: incentivos fiscales para el fomento del desarrollo' (Department of Public Finance, Internacional Monetary Fund, Washington, 1986); Manuel Solanet, 'La mejor ayuda es la estabilidad', *Clarín*, 16 November 1992, p. 19; Gabriel Yoguel et al., *El impacto de la promoción industrial en la provincia de La Rioja* (Buenos Aires, 1987). The Fundación de Investigaciones Económicas Latinoamericanas (FIEL) in Buenos Aires has produced two excellent studies that discuss industrial promotion. They are *Hacia una nueva organización del federalismo fiscal en la Argentina* (1993) and *Regulaciones y estancamiento: El caso argentino* (1988).

[5] Larry Sawers in *The Other Argentina: The Interior and National Development* (Boulder, 1996), pp. 231–9, discusses the reform of industrial promotion in some depth. We have been able to locate only two articles on economic reform in Argentina that mention (though without any discussion) industrial promotion: Omar N. Toulan, and Mauro F. Guillén, 'Beneath the Surface: The Impact of Radical Economic Reforms on the Outward Orientation of Argentine and Mendozan Firms, 1989–1995', *Journal of Latin American Studies*, vol. 29, Part 2 (1997), p. 400; and William C. Smith, 'State, Market and Neoliberalism in Post-Transition Argentina: The Menem Experiment', *Journal of Interamerican Studies and World Affairs*, vol. 33, no. 553 (1991), pp. 53, 55. Studies of Argentina's reform that do not even mention industrial promotion are Evan Tanner, and Pablo Sanguinetti, 'Structural Reform and Disinflation: Lessons from Argentina's Convertibility Plan', *The Journal of Developing Areas*, vol. 31 (1997), pp. 529–52; Vicente Palermo, 'Moderate Populism: A Political Approach to Argentina's 1991 Convertibility Plan', *Latin American Perspectives*, vol. 25 (1998), pp. 36–62; Mark P. Jones, 'Argentina: Questioning Menem's Way', *Current History*, vol. 97, no. 616 (1998), pp.71–5; Esteban A. Mancuso, 'Financing the Argentine Provinces', *International Financial Law Review*, vol. XVI (1997), pp. 11–4; Kurt Weyland, 'Swallowing the Bitter Pill: Sources of Popular Support for Neoliberal Reform in Latin America', *Comparative Political Studies* vol. 31 (1998), pp. 539–68; Domingo Cavallo, 'Argentina's Convertibility Plan and the IMF', *American Economic Review*, *Papers and Proceedings*, vol.

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the literature, the reform of industrial promotion in Argentina is a significant topic that carries important lessons about how to undertake structural reform.

To appreciate the administrative and political difficulties of the reform of industrial promotion in Argentina, it is necessary to understand the character of the industrial promotion programmes and how and why they have proliferated. This article begins with a brief description of the economy of the interior in order to build a context for the analysis that follows. This is followed by a discussion of the motivation that led the Argentine government to implement industrial promotion. The article then gives a chronological account of the many different programmes that the government sponsored to stimulate industrial development in the country's interior provinces, and offers an explanation for why the programmes failed to deliver on their promises. It then examines the reform process, beginning in the mid 1980s when spending on industrial promotion ballooned out of control and continuing to the late 1990s. This final section shows how the present government has been able to eliminate the worst excesses and sharply reduce the fiscal cost of industrial promotion, and why the reform process, though achieving some of its goals, has been so difficult and frustrating.[6]

87, no. 2, May 1997, pp. 17–22; Jeremy Adelman, 'Post-Populist Argentina', *New Left Review*, no. 203 (1994), pp. 65–91; Gary W. Wynia, 'Argentina's Economic Reform', *Current History*, vol. 90, no. 560 (1991), pp. 57–60; Judith Teichman, 'Mexico and Argentina: Economic Reform and Technocratic Decision Making', *Studies in Comparative International Development*, vol. 32 (1997), pp. 31–55; Juan E. Corradi, 'The Argentina of Carlos Saúl Menem', *Current History*, vol. 91, no. 562 (1992), pp. 80–4, and 'Menem's Argentina, Act II', *Current History*, vol. 94, no. 589 (1995), pp. 76–80. The lack of serious published analysis of the reform of industrial promotion explains the scarcity of citations in the section of the paper dealing with the reforms. That section is largely based on information supplied by one of the paper's coauthors who was a participant in the reform process.

[6] The paper is mostly about administering the reform of industrial promotion. On occasion, a discussion of the political opposition to the reform is necessary to put the administration of the reforms into an understandable context. That political opposition was led by politicians in the national Congress and by provincial politicians. Undoubtedly, business interests played an important role in lobbying politicians to oppose the reforms, but neither media accounts nor scholarly analyses focus on this lobbying. For an analysis of business lobbying to protect industrial promotion, see Sandra L. Suárez, 'Lessons Learned: Explaining the Political Behavior of Business', *Polity*, vol. 31 (1998), pp. 161–86. For a more general analysis of business lobbying in developing countries, see Sylvia Maxfield and Ben Ross Schneider, eds., *Business and the State in Developing Countries* (Ithaca, 1997).

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Rationale for industrial promotion in Argentina

Argentina is a country full of sharp geographical, cultural, and economic contrasts. The pampa is the grassland within a few hundred miles of Buenos Aires. The wool, grain, and beef that these fertile fields sent to European markets made Argentina one of the world's most prosperous countries in the early part of this century. Since the 1930s modern manufacturing plants sprouted in pampean cities. Already the most industrialised country in Latin America, Argentina enthusiastically embraced import substituting industrialisation, producing the largest middle class on the continent. After 1950, the economy of the pampa stagnated, but the standard of living there was still far higher than it was in the interior, the part of Argentina that lies beyond the pampa. As early as the 1870s, the federal government began pursuing a policy of import substituting agriculturalisation for the interior, erecting enormous tariff walls and offering huge subsidies to crops such as sugar, wine, cotton, and tobacco. The only important mechanised manufacturing in the interior until the 1950s were plants that processed agricultural output (for example, sugar mills and cotton gins).

The federal government's support of agriculture kept the economies of the interior from collapsing, but brought prosperity to only a handful of the very wealthy. The reasons for this are not hard to find. The social and economic structure in most of the interior more closely resembled that of the rest of Latin American than that of the the pampa. The majority of those who worked in agriculture laboured on tiny plots, while the majority of the land was in large estates. Chronic poverty was thus endemic. In most provinces of the interior, the only important city was the provincial capital. With only one or two exceptions, urban areas had a commercial or administrative economic base, but had little if any manufacturing. Most extractive industries were sponsored by the federal government and were not organised so as to produce any stimulus to development in the interior. The economic base of the interior was, therefore, almost entirely agricultural. Moreover, the interior is not richly endowed with agricultural resources: most of it is arid, and crop cultivation requires irrigation. Where rain is more plentiful, the terrain is either so flat that flooding is a problem or so steep that erosion strips away the soil. The growing season is too short, or the rains come at the wrong time of the year. Decades or centuries of overuse and abuse have substantially degraded the original endowment of resources.[7] Beginning

[7] Larry Sawers, 'Income Distribution and Environmental Degradation in the Argentine Interior', *Latin American Research Review*, vol. 35, no. 2 (2000), pp. 3–33.

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in the 1960s, in one part of the interior after another, product markets soured and prices tumbled. The crumbling economies of the interior forced several million people to emigrate to pampean cities. The interior now has just less than a third of Argentina's population, but without this emigration, it would have about half.[8]

In the 1930s the federal government began to address the dramatic disparities between the pampa and the interior through a federal revenue sharing scheme. In the late 1940s the Perón government built on these first tentative efforts by greatly expanding the redistributional nature of revenue sharing and dramatically increasing the construction of roads, hospitals, clinics, and schools in the interior. An obvious next step was to promote the building of modern factories in the interior. In 1956 the military government that followed Perón took this step. The first industrial promotion scheme in the interior established a duty-free zone south of the forty-second parallel, roughly Patagonia south of the Río Negro valley. Many more schemes were promulgated in subsequent years.

The perceived injustice of regional disparities in *per capita* income and levels of development have prompted governments in many countries to mount policies aimed at stimulating employment in disadvantaged regions.[9] At the time that regional development policies were coming into vogue in the 1950s and 1960s, it was typically assumed that development and industrialisation were more or less synonymous. It is not surprising, then, that regional development policies have usually emphasised growth in manufacturing.[10] In addition to equity issues, concern for efficiency has also motivated regional development policies. There may be a smaller resource cost is having industry move to where the unemployed live rather than in having the unemployed move to find jobs. In addition, industrial decentralisation would enhance the efficiency of the economy if there were spatial diseconomies of scale (such as pollution or congestion) associated with existing concentrations of industry. Especially by the 1960s and 1970s, as awareness of the costs of industrial pollution mounted, scale diseconomies figured more prominently as a motivation for industrial decentralisation.

Concern for equity has motivated many in Argentina to advocate regional industrial promotion. It is safe to say that most residents of the interior feel aggrieved by what they see as centuries of exploitation by Buenos Aires, and thus believe that any effort to redress these old wrongs

[8] Sawers, *The Other Argentina*, p. 14, endnote 2.

[9] A good review of the motives behind regional policies is in Edgar M. Hoover, *An Introduction to Regional Economics* (New York, 1975), pp. 251–76.

[10] Keith Chapman, and David F. Walker, *Industrial Location: Principles and Policies* (Oxford, 1991), p. 224.

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is due them as a simple matter of justice. Nevertheless, the facts that military governments initiated all of Argentina's industrial promotion schemes of any importance, and that military governments have been far more generous than civilian governments in providing funding for continuing programmes, suggest that addressing regional inequities was not an important motivation behind industrial promotion in the interior. The generals who have governed Argentina have not been noted for their benevolence toward the underprivileged. Moreover, a penchant for intervention in the economy cannot be used to explain the military's enthusiasm for industrial promotion. On economic matters, military governments in Argentina have tended to be more liberal and less interventionist than have civilian governments.

Industrial promotion in the interior has much to do with the military's preoccupation, not with equity or efficiency, but with defending the territorial integrity of the nation against the menace of an invasion by neighbouring countries.[11] Chileans or Brazilians who drift across the frontier and settle in thinly populated border regions were seen (and still are by many) as a potential fifth column, or entering wedge, of expansionist neighbours. Development of the interior would keep the Argentine population from leaving, attract new settlers, and give the country a stronger claim to the area. It is no accident that the first industrial promotion scheme benefited Patagonia, a region felt by many Argentines to be threatened by both Chile (since so many Chileans live in Patagonia) and Britain (from its base in the Falkland Islands/Islas Malvinas).[12]

Furthermore, when military governments imposed limits on factory expansion in the major pampean cities and supported industrial development in the interior they were more concerned with politics than with congestion and pollution.[13] The urban industrial workers of the pampa were important supporters of the Peronists and of left-wing causes, against which the military struggled so energetically for decades. The

[11] We might note that similar geopolitical motives behind industrial promotion have been found in a number of other countries. See Boneo, *Desarrollo regional*, p. 9. Carlos Escudé has analysed the military's territorial nationalism in a variety of works. See especially his 'Argentine Territorial Nationalism', *Journal of Latin American Studies*, vol. 20, Part 1, 1988, pp. 139–65.

[12] In the wake of Argentina's defeat in the war with Britain over the Falklands, and after many years on the brink of war with Chile over Tierra del Fuego, Alfonsín proposed moving the federal capital from Buenos Aires to Viedma, a small town in Patagonia, as part of his strategy to bolster Argentina's presence in the region.

[13] Scharzer, *Promoción industrial en Argentina*, pp. 83–5. In addition, the aggressive pursuit of trade liberalisation by the military government after 1976 led to a sharp contraction of the industrial labour force. The same fear of a politically active working class help to motivate both industrial decentralisation and deindustrialisation.

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industrial working class played a dominant role in the uprising in Córdoba in 1969 that ultimately undermined Onganía's military government and paved the way for Perón's return to power in 1973. Dispersing the working class geographically meant reducing its ability to cause trouble for the country's military rulers.

Some of Argentina's industrial promotion is purely pork-barrel spending with no coherent rationale other than the satisfaction of some immediate political demand.[14] The most obvious example is in San Luis. This province is not a border province with strategic significance; it is not close to being the poorest, most disadvantaged province. (See Appendix, Table 1, for characteristics of the interior provinces.) There is no obvious reason why San Luis should receive any more benefits than six or eight other underdeveloped provinces. But per capita spending on industrial promotion in San Luis is second only to Tierra del Fuego, and about five times as great as that of the next most favoured province, for reasons that no one has attempted to justify publicly.

The military government left power in 1983, and the new president, Raúl Alfonsín, began to take a far more conciliatory stance toward Chile and Brazil. The chief challenge to the government's authority was not left-wing insurgency but right-wing military mutinies. If the military's fear of border incursions or political unrest in the major industrial centres drove industrial promotion, one might anticipate that spending on industrial promotion under the new civilian government would decline. Yet the opposite occurred. The reason for this is that the military decreed several important changes to promotional programmes in their last two years in power that allowed subsidies to industrial promotion to balloon out of control. Moreover, Alfonsín simply did not have the political power to restrict the benefits that were being showered on the interior provinces. The Senate from 1984, and the House of Deputies by 1988, were dominated by the Peronist opposition party and its allies whose electoral base was disproportionately in the interior.[15] Alfonsín's electoral strength, on the other hand, was in the pampean provinces. Furthermore, the interior provinces are over-represented in the Congress. Representation in the Chamber of Deputies is supposedly based on population, but since

[14] For example, see the discussion of the program for San Juan in Schvarzer, *Promoción industrial en Argentina*, p. 70.

[15] In 1973, 37 percent of Perón's votes came from the poorer provinces where only about 30 percent of the population lived. Since 1973, support for the Peronists continued to be disproportionately strong in the interior. See Manuel Mora y Araujo, 'Las bases estructurales del peronismo', in Manuel Mora y Araujo and Ignacio Llorente, eds., *El voto peronista: Ensayos de sociología electoral argentina* (Buenos Aires, 1980), p. 424, and 'La estructura social del peronismo, 1983–1987', in José Enrique Miguens and Frederick C. Turner (eds.), *Racionalidad del peronismo* (Buenos Aires, 1988), pp. 167–87.

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Table 1. *Characteristics of the Interior Provinces of Argentina*

Province	Population, 1991 (000s)	Proportion of households with unsatisfied basic needs		Proportion of population without sufficient food, 1980	Number of industrial plants, 1993	Ratio of per capita provincial industrial output to per capita national industrial output, 1993
		Total 1991	Rural 1980			
Argentina	32609	16.5			93156	1.0
Buenos Aires Province	12582	14.7	27.9	21.4	36270	1.2
Northwest						
Salta	867	33.9	76.2	61.3	1221	0.27
Jujuy	514	33.6	68	66.3	740	0.32
Tucumán	1142	24.6	65.2	56	1238	0.35
La Rioja	221	23.6	54.8	50.3	359	1.03
Catamarca	266	24.6	58.2	48.3	428	0.57
Santiago del Estero	672	33.6	71.4	47	745	0.02
Northeast						
Misiones	790	30	57.6	53	1381	0.28
Chaco	838	33.2	70.6	54.7	1513	0.17
Formosa	404	34.3	69.7	49.6	705	0.08
Corrientes	795	26.9	64	50	892	0.43
Cuyo						
Mendoza	1414	15.3	40.4	37.9	4258	1.02
San Juan	530	17.2	47.8	28.2	1115	0.69
San Luis	286	18.7	54.2	59	898	3.81
Patagonia						
Neuquén	389	19.1	60	32.9	798	0.39
Chubut	357	19.4	47.3	40.7	791	0.85
Santa Cruz	160	15.2	27.3	47.8	260	0.31
Río Negro	507	20.7	51.3	30.9	1033	0.26
Tierra del Fuego	69	25.5	25.3	53.3	238	6.31

Sources: Column one, Instituto Nacional de Estadsticas y Censos, *Censo Nacional de Poblacion y Vivienda*, 1991 (Buenos Aires, 1991), p. 19; columns two and five, INDEC, http://www.indec.mecon.ar; column six, computed by author using data from these two sources; column three, derived from INDEC, *La pobreza en la Argentina: Indicadores de necesidades básicas insatisfechas a partir de los datos del Censo Nacional de Población y Vivienda 1980*, Estudios No. 1 (Buenos Aires, November 1985); column four, Alejandro Rofman and Nora Marqués, *Desigualdades regionales en la Argentina*, Cuadernos del CEUR, No. 22 (Buenos Aires, 1988).

1983 each province has had a minimum of five deputies (another booby trap set by the military government). This left the interior provinces with 43 percent of the deputies and 75 percent of the senators even though they had only 31 percent of population.[16] Alfonsín, therefore, was unable to enforce his will upon a recalcitrant Congress. For example, in the mid 1980s, the Senate refused to approve the government's budget unless it included increases for industrial promotion projects in the interior, despite the government's strenuous objections.[17] The first efforts to discipline the industrial promotion programmes were also frustrated by uncooperative provincial officials, the rapidly deteriorating economy that drew the government's attention to other issues, and the political chaos engendered by the upcoming presidential election campaign. Even though Alfonsín was unable to implement any serious reforms of industrial promotion, he did for the first time place the issue on the nation's political agenda.

The ability of the Menem government to decrease the costs, increase the transparency, and reduce the corruption associated with industrial promotion contrasts sharply with that of the preceding government. Part of the reason for this is simply that Menem was able to build on the initial efforts of his predecessor, continuing work on a project that was already underway. In the three or so years that Alfonsín tried to do something about industrial promotion, however, he made very little headway so there is more to the story than just timing. There are several reasons why Menem was more successful than Alfonsín in implementing the reforms. First, the two presidents had very different mandates from the electorate, and very different historical missions to fulfill. Alfonsín was elected to restore democracy and a series of military mutinies forced his attention to institution-building rather than economic reform. Menem's election affirmed the success of his predecessor's efforts to strengthen Argentina's democratic institutions. Menem was elected as hyperinflation built to a crescendo; the challenge he faced was to rebuild a shattered economy. In doing so, he had the support of Congress, both houses of which were dominated by his party. The main opposition party (Unión Cívica Radical) was in disarray because of the failure of Alfonsín's economic policies; the army was back in the barracks; the voters had just written Menem a blank check; and the labour movement was demoralised by two decades of deindustrialisation.[18] Whenever opposition did arise, Menem

[16] Sawers, *The Other Argentina*, p. 194.
[17] Schvarzer, *Promoción industrial en Argentina*, p. 98.
[18] Industrial blue-collar employment fell by nearly one-half between 1974 and 1991 (Smith, 'The Menem Experience', p. 66).

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simply ruled by decree. In his first five months in office, he issued more emergency decrees (thirty) than had all previous presidents combined. In the next three years, he issued more than 200 additional decrees. The Congress was supposed retroactively to approve decrees if they were to retain their validity. Menem pushed through Congress a law that allowed him to expand the supreme court from five to nine members and then appointed his political associates as justices. The new court then ruled that the Congress did not have to approve his decrees.[19] An additional factor in explaining the pace of reform is the appointment of Domingo Cavallo as Economy Minister in 1991, and his sacking in 1997. The pace of reform was most vigorous while Cavallo was minister and the team that he organised in the Ministry of the Economy was in place.

Layer upon layer of industrial promotion programmes

Argentina's first effort to spur industrial development in the interior was a programme implemented in 1956 that gave tax breaks to new factories in Patagonia.[20] (See Appendix, Table 2, for a listing of major industrial promotion programmes in the interior.) By 1960, 62 factories had opened in the promoted region, employing 3,000 workers; industry expanded rapidly in the region during the following two decades. The promotional benefits were extended to areas just to the north of Patagonia in 1961. In a series of decrees, the promoted zone was rapidly expanded through the interior; by 1967, nearly 70 percent of the country was covered by the provisions of the 1956 law.

In 1966, the government enacted the country's second regional industrial promotion scheme in Tucumán.[21] Sugar prices collapsed in the mid 1960s and economy of Tucumán – dominated by sugar production – was devastated. In the next few years, a fifth of Tucumán's population left for the pampa. Social tensions and economic crisis produced a guerrilla war in the province that took nearly a decade to stamp out. The military government responded with Operación Tucumán, an industrial promotion scheme patterned on its predecessor in Patagonia. By 1971, tax subsidies of $30 to $43 million (depending on how they were calculated) had attracted only $27 million in investment. In the first ten years of Operación Tucumán, 134 factories were built with the promotional subsidies. Many of these did not survive, so that by 1975 only 93 were still operating, employing 10,000 workers. After 1973, as promotional programmes were extended to neighbouring provinces, Operation

[19] Sawers, *The Other Argentina*, p. 207.
[20] Schvarzer, *Promoción industrial en Argentina*, pp. 67–9, 73.
[21] Schvarzer, *Promoción industrial en Argentina*, pp. 76–9; Boneo, *Desarrollo regional*, pp. 26ff.

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Table 2. *Major Regional Industrial Promotion Programmes in Argentina*

Province(s) where applicable Date enacted	Type*	Enabling legislation	Comments
Patagonia 1956	M	Ley 10.991	Extended by various decrees between 1961–67 to much of the interior
Tucumán 1966	M	Ley 17.010	Operación Tucumán
San Juan 1971	M	Ley 19.375	
Tierra del Fuego 1972	M	Ley 19.640	Provincial authorities had the ability to approve exemptions from federal taxes
City of Buenos Aires 1972	M	Ley 19.904	*Dis*promotion of industrial location in the Federal Capital
Patagonia, the Northwest, Corrientes, Misiones 1973	C	Ley 20.560	By 1974, benefits were extended by decree to all of the interior except for Mendoza and provinces with their own special programmes
Catamarca, San Luis, La Rioja 1974	C	Decreto 893	'Acta de Reparación Histórica' (Historical Reparations Act)
Interior provinces other than those with their own special programme 1977	M	Ley 21.608	Gave same benefits to foreign and national capital; required at least some investment by benefited firm; established quotas for promotional subsidies and included them in fiscal budget.
San Juan 1979	M	Decreto 1.879	Gave same benefits enjoyed by Catamarca, San Luis, La Rioja
La Rioja 1979	M	Ley 22.021	Gave the provincial government the authority to approve projects granting federal tax subsidies
Patagonia 1981	M	Ley 22.456	Automatic tax subsidies for any business located in Patagonia
Catamarca, San Luis 1982	M	Ley 22.702	Gave benefits essentially the same as those given La Rioja
San Juan 1983	M	Ley 22.973	Gave benefits similar to those enjoyed by La Rioja, Catamarca, and San Luis
Formosa 1984	C	Decreto 2.486	Expanded benefits to Formosa

* Type of government when first enacted. M, military; C, civilian.

Sources: Schvarzer, *Promoción industrial en Argentina*, pp. 68–71; Mario Salinardi, 'Desgravación para la Patagonia', in Porto, et al., *Regulación de actividades económicas y financieras*, pp. 141–2.

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Tucumán lost steam, despite changes in the programme to provide increased benefits.[22] By 1981, only 77 promoted factories remained in the province.

In 1971 the military government established a programme to promote industry in San Juan. There were several neighbouring provinces that were less developed and had higher levels of poverty. It appears that the military government only chose San Juan for special treatment to keep local politicians happy.[23]

In 1972, the military government established a new promotional programme in Tierra del Fuego.[24] At the time, the population was only 16,000, and the island's wool and forestry activities were in serious trouble. A year later, the military handed over power to a civilian government that had no interest in the programme and did not approve any projects. When the military returned to power in 1976 it aggressively pushed industrial subsidies in Tierra del Fuego. The military government's interest in the island province is not surprising; Argentina and Chile were on the brink of war in the late 1970s and early 1980s in a territorial dispute over two tiny islands off the coast of Tierra del Fuego.

The dynamic growth of industry in Tierra del Fuego centred on the assembly of electronic appliances, especially colour television sets. The industry was subsidised via exemption from the value-added tax, the income tax, and social security contributions. A high tariff protected the nascent industry. Televisions and stereos were imported in 'kits' and assembled in Argentina for the domestic market. Nearly two-thirds of the country's televisions and radios in the 1980s were assembled in Tierra del Fuego. The provincial government had the authority to approve projects that were then exempt from federal taxes, though after 1983, the federal Ministry of the Economy had to be consulted before final approval was granted.

Between 1976 and 1984 factory employment grew to six thousand – a tenfold increase. By 1986, Tierra del Fuego accounted for 8 percent of Argentina's imports. The extremely high import content of the goods manufactured in Tierra del Fuego produced a negative value-added in the majority of factories.[25] Since virtually all of the inputs except for labour were imported, there was little stimulus to activities outside the promoted industry. The exemption from the value-added tax (most of the subsidy)

[22] Boneo, *Desarrollo regional*, p. 30.
[23] Schvarzer, *Promoción industrial en Argentina*, p. 70.
[24] Schvarzer, *Promoción industrial en Argentina*, pp. 79–82; Kosacoff and Azpiazu, *La industria argentina*, pp. 50–60.
[25] Salinardi, 'Régimen de promoción de Tierra del Fuego', p. 83; World Bank, *Argentina: Política tributaria para la estabilización y la recuperación económica*, Washington, 1990, p. 30.

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applied only to goods sold in the domestic market. Thus, the programme provided no incentive to export.[26] Most of the factories built with the subsidies were subsidiaries of major corporations. In sum, none of the three official goals of the programme – the promotion of domestic production, the expansion of exports, and the stimulation of small and medium enterprise – were achieved.

A programme to discourage industry from locating in Buenos Aires was enacted in the same year that the programme in Tierra del Fuego was established.[27] New factories were prohibited in the city of Buenos Aires. In the suburbs of Buenos Aires, the government imposed a tax on new factories that was inversely proportional to their distance from the city centre. After 1977, any factory inside the sixty-kilometre limit could not receive benefits from any promotional subsidy. New factories were also prohibited in Córdoba and Rosario, the second and third largest cities in Argentina. Between 1979 and 1984, the number of workers employed in different kinds of factories in the suburbs of Buenos Aires was restricted by law.

The civilian government that came to power in 1973 quickly expanded the scope of industrial promotion in the Argentine interior. It extended the benefits of industrial promotion to the provinces in the Northwest of Argentina and to Corrientes and Misiones. The following year these benefits were granted to all of the interior except for Mendoza (which already had a fair amount of manufacturing) and San Juan, Tucumán, and Tierra del Fuego (which already had their own programmes). In 1973 the civilian government passed the Acta de Reparación Histórica (Historical Reparations Act) that provided special regimes of industrial promotion for Catamarca, San Luis, and La Rioja.[28]

In 1977 the new military government decreed that foreign and national firms would be treated equally under the industrial promotion laws. Two years later, the military government gave essentially the same benefits received by the three favoured provinces (Catamarca, San Luis, and La Rioja.) to San Juan. Later that year, the government, while in the midst of a campaign to restrain subsidies to industrial promotion in the interior, restructured the promotional regime in La Rioja. There were several ways in which that province received more benefits, but the most important was that – following the pattern established in Tierra del Fuego – the *provincial* government gained the authority to approve exemption from *federal* taxes for projects less than $1 million. Not surprisingly, the number of approved projects began to grow exponentially, and almost all of them

[26] Kosacoff and Azpiazu, *La industria argentina*, pp. 53ff.
[27] Schvarzer, *Promoción industrial en Argentina*, pp. 82ff.
[28] Schvarzer, *Promoción industrial en Argentina*, pp. 70–1.

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were just under $1 million. The new programme offered benefits to industrial plants as well as agricultural investment and tourism. Finally, in 1982, the special benefits enjoyed by La Rioja were extended to Catamarca and San Luis and in 1983, to San Juan.[29] No public explanation has been offered for lavishing special benefits on these four favoured provinces rather than neighbouring and equally underdeveloped provinces. By 1984 tax subsidies to these provinces were a large multiple of the amounts authorised by the enabling legislation. Subsidies for projects in the four provinces were as much as seventeen times the amount of the capital invested in the project.[30] Corruption and mismanagement in the administration of the programme were rampant. Neither the Dirección General de Impositivos nor any other federal body had sufficient information to monitor the programme or the power to impose penalties when the subsidised firm failed to meet employment, production, or investment targets. Provincial authorities easily overturned federal government decisions.

By the time that Carlos Menem assumed the presidency in 1989, there were dozens of industrial promotion schemes in Argentina. In addition to the programmes already mentioned, the benefits enjoyed by the four special provinces (San Luis, San Juan, La Rioja, and Catamarca) had been generalised in 1985 to all provinces (though under federal rather than provincial control). There were also industrial promotion programmes aimed at specific industries, most of which were located in the interior. The most important of these were subsidies to the iron and steel industry, petrochemical plants, reforestation, aluminum smelting, ethanol distilling, fisheries, yerba maté processing, cement, and paper and pulp mills. In addition, certain industries in the interior received substantial subsidies in programmes that were not labelled as industrial promotion. For example, in several provinces of the interior, gasoline had to be mixed with alcohol – an implicit subsidy of the sugar industry.

Problems with industrial promotion

Since all of Argentina's industrial promotion programmes were built on the same model, it is not surprising that they all suffered similar problems.[31] Ostensibly, industrial promotion was supposed to simulate widespread industrial development that was sustainable without continuing subsidy, but nowhere, with the possible exception of San Luis, did

[29] Schvarzer, *Promoción industrial en Argentina*, pp. 86–90, 109.
[30] Schvarzer, *Promoción industrial en Argentina*, p. 100.
[31] Schvarzer, *Promoción industrial en Argentina*, pp. 72ff; Sawers, *The Other Argentina*, pp. 231–7.

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this happen. In Patagonia, for example, almost all of the factories that received subsidies were located in one city. Most promoted projects involved only a single stage in the production process of an enterprise whose other activities were in Buenos Aires. Investors or parent corporations from outside the province (mostly Buenos Aires) owned almost all of the promoted factories.[32] This meant that backward and forward linkages in the environs of the promoted factory were minimal, and multiplier effects were minuscule.[33] Since most plants located in the promoted region were part of preexisting operations elsewhere, regional promotion merely moved a plant from one place to another without any net increase in industrial activity.

Many of the new operations were set up apparently for the sole purpose of collecting the subsidy rather than with any serious intent to produce something. 'Factories with wheels', as they were called, relocated to find more generous subsidies offered by later programmes in other provinces. An important tax subsidy in most promotional programmes – and the most important subsidy in recent years – was the exemption from the value-added tax. As long as any stage in the production process of a firm took place in the promoted region, the final good was exempt from this tax.[34] Consequently, many factories taking advantage of industrial promotion schemes undertook only token activities in the promoted area. In San Luis, for example, a textile firm built a warehouse in which cloth was inspected.[35] The cloth was woven 800 kilometres away in Buenos Aires and the inspected cloth was sent back to Buenos Aires to be marketed to the garment industry.

Industrial promotion led to an inefficient pattern of industrial location since factories were sited, not for economic reasons, but merely in order to take advantage of the subsidies or to avoid tax penalties. For example, the programme that dispromoted industrial location in Buenos Aires imposed a tax on firms located within 60 kilometres of the city centre. Consequently, a new industrial belt blossomed in the suburbs of Buenos Aires at exactly the sixty-kilometre marker. Almost all of the promoted factories in Patagonia were located in Trelew, not because the city provided an efficient location, but because it was as close as one could get to Buenos Aires and still be in the promoted zone. Many of the promoted facilities in Trelew were wool spinning factories. Patagonia is a centre of wool production, but the raw wool was first trucked to Buenos Aires to

[32] Schvarzer, *Promoción industrial en Argentina*, pp. 88–90; Yoguel et al., *El impacto de la promoción industrial*, pp. 62–3.
[33] Schvarzer, *Promoción industrial en Argentina*, p. 75; Kosacoff and Azpiazu, *La industria argentina*, pp. 69–70.
[34] Cavallo and Zapata, *El desafío federal*, p. 136.
[35] FIEL, *Regulaciones y estancamiento*, p. 171.

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be cleaned and carded, trucked back to Patagonia a thousand kilometres to the south to be spun, and then trucked back to Buenos Aires to be woven into cloth. In La Rioja, a subsidised tannery operating at capacity could tan the hide of every cow in the province in 75 days.[36] Argentina has more than 50 million cattle, but building a giant tannery in a desert (it takes a great deal of water to tan leather) hundreds of kilometres from where most of the country's cattle are slaughtered made no economic sense. By the end of the 1980s the four special provinces had enough installed capacity in promoted factories to provide all of Argentina's steel production, leaving nothing for steel fabrication plants in other parts of the country. Excess capacity was thus guaranteed. Markets for raw materials and finished goods for these factories were 800–1000 kilometres distant.[37] Thus, not only did industrial promotion in the interior not promote industrialisation, it did promote an inefficient fragmentation of production processes and excessive transportation costs.

There were many other inefficiencies built into the programmes. For example, other than the exemption from the value-added tax, the tax and credit subsidies were subsidies of investment in fixed capital, thus encouraging an artificially high and inefficient level of capital intensity. Moreover, repeated modification of industrial promotion programmes by law and by decree discouraged careful long-run planning by the companies investing in the promoted region and encouraged a short-run, rent-seeking attitude. Lastly, industrial promotion reinforced oligopolistic market structures.[38] The application process to receive industrial promotion subsidies was complex and expensive, making it difficult for small businesses to participate. Any bribes necessary to obtain approval would also have added to the expense. Family connections of the well-to-do favoured the larger enterprises.

Industrial promotion was a heterogenous, disarticulated, and complex group of programmes administered by many separate authorities at the federal and provincial level. There was a broad array of different kinds of subsidies offered to promoted industries, including exemptions from the profits and capital tax, exemption from the value-added tax for the promoted industries (and in some cases their suppliers), benefits of deferring tax payments, credit subsidies, and waivers of tariffs. Given this complexity and the lack of transparency, no one inside or outside the federal government could specify who was benefiting from the different

[36] FIEL, *Regulaciones y estancamiento*, p. 171.
[37] Kosacoff and Azpiazu, *La industria argentina*, p. 78.
[38] Kosacoff and Azpiazu, *La industria argentina*, p. 68; Azpiazu, 'Fue un sistema perverso', p. 18; Azpiazu, et al., *El nuevo poder económico*, Chapt. 4; Basualdo and Azpiazu, *Cara y contracara de los grupos económicos*.

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programmes, or by how much, or even give a complete listing of all the approximately thirty different promotional regimes. The government never studied the programmes to see whether they were successes or failures.[39] Inflation, economic crisis, military mutinies, political disorder, and consequent institutional paralysis meant that there was little discussion within the government or among the public over the merits or demerits of industrial promotion in general or the specific schemes then in place.

In sum, industrial promotion as practised in Argentina failed to stimulate authentic and sustainable industrialisation in the interior, but instead stuffed money in the pockets of wealthy and politically connected investors in Buenos Aires. It encouraged rent-seeking, corruption, and tax evasion, lowered the efficiency of the economy by favouring inefficient locational patterns, and, of course, exacerbated the budget deficit and with a consequent boost to inflation.

There is a voluminous literature on the use of tax subsidies to stimulate investment in underdeveloped regions. Researchers divide between those who believe that fiscal incentives play no role in the locational decisions of industry and those who believe that they play a minor role.[40] If two locations are otherwise equal, tax subsidies can of course influence the siting decision, but otherwise fiscal incentives seem to be far less important than other factors. If Buenos Aires or other pampean industrial centres have important locational advantages, then the literature suggests that industrial promotion as practised in Argentina should have little effect on changing the geographic distribution of industry in the country.

One can make a strong argument that Buenos Aires, and to a lesser extent Córdoba and Rosario, have overwhelming locational advantages

[39] Azpiazu, 'Fue un sistema perverso', p. 18.

[40] Some classic works in this literature are John F. Due, 'Studies of State-Local Tax Influences on Location of Industry', *National Tax Journal*, vol. 14 (1961), pp. 163–73; Benjamin Bridges, Jr., 'State and Local Inducements for Industry', *National Tax Journal*, vol. 18 (1965), pp. 175–92; William E. Morgan, *Taxes and the Location of Industry*, Boulder, 1967, pp. 29–30; W. H. Oakland, 'Local Taxes and Intraurban Industrial Location: A Survey', in G. G. Break, ed., *Metropolitan Financing and Growth Management Policies*, Madison, 1978; and G. Reuber, H. Crookell, M. Emerson, and G. Gallais-Hamonno, *Private Foreign Investment in Development*, Oxford, 1973. Recent works in this genre are George P. Artikis, Andreas Merikas, and George S. Vozkis, 'Revisiting the Use of Financial Incentives as an Instrument of Regional Economic Development Policy: The Case of Greece', *Journal of Applied Business Research*, vol. 12 (1996), pp. 89–99; H. D. Watts, *Industrial Geography* (New York, 1987, pp. 131–2; Robert J. Newman, and Dennis H. Sullivan, 'Econometric Analysis of Business Tax Impacts on Industrial Location: What Do We Know, and How Do We Know It? *Journal of Urban Economics* vol. 23 (1988), pp. 215–34; Larry Sawers, 'Urban Primacy in Tanzania', *Economic Development and Cultural Change*, July 1989; and Joel Bergsman, 'Is There Competition for Foreign Direct Investment Among Countries?', in Larry Sawers, David Nickerson, and Daniel Schydlowsky, eds., *Emerging Financial Markets in the Global Economy* (Singapore, 2000).

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for industry. Empirical evidence for this is the inability of substantial subsidies over several decades to attract a significant number of viable industrial concerns away from these cities.[41] The explanation for this is rooted in the notion of the external economies of scale (agglomeration economies) that the established industrial cities of the pampa provide. The interior (with the exception of the city of Mendoza and its environs) lacks a trained, disciplined work force accustomed to the rhythm of factory work. Suppliers of raw materials and parts for machines, skilled technicians who can maintain and repair machinery, and other specialised business services are absent or inadequate. Managers in the interior find it difficult to stay in touch with the latest trends in technology and marketing.

Managers and other well-paid professionals are accustomed to the amenities that the major cities afford, and are reluctant to relocate to the interior provinces.[42] Buenos Aires – a metropolitan area of more than eleven million inhabitants – is the most sophisticated and urbane city in South America, but in some provincial capitals in the interior, most houses do not even have sewer connections. With some important exceptions (Mendoza, for example), the interior has few medical specialists, poorly equipped hospitals, insufficient good schools and universities, and narrowly restricted retail commerce. The population of most of the interior's provincial capitals is less than three hundred thousand; small towns outside of the provincial capital have still fewer amenities. Furthermore, most Argentine manufacturing firms are family-owned and -managed enterprises. Building a new plant in Jujuy or Posadas means splitting up the family, an important disamenity in a

[41] In addition to the generous federal tax subsidies to industry locating in the interior, all of the provinces also offered substantial tax subsidies (Schvarzer, *Promotión industrial en Argentina*, p. 104). Pampean industries were also subsidised. Before the current wave of privatisation, Argentina had roughly 2,000 state-owned enterprises that included the national airline, the state petroleum monopoly, the telephone and electrical power utilities, coal mines, iron and aluminum smelters, steel fabricators, air frame manufacturers, casinos, hotels, and so on. The majority were in the pampean cities. Most of these enterprises ran loses that were covered by the Central Bank. These loses averaged 3 percent of GDP from 1985 to 1989 [World Bank, *Argentina: From Insolvency to Growth* (Washington 1993), p. 180]. These subsidies to state-owned enterprises, the majority of which were in the pampean cities, were smaller (and much smaller on a per capita basis) than the subsidies to industrial and other sectors in the interior. The issue here is not, however, whether the interior was getting its 'fair' share of the government budget, but whether the policy of bribing companies to build facilities in the interior could be expected to succeed. The government could site or relocate the enterprises it owned to the interior and continue to pay them the same subsidies wherever they were located. Presumably the government felt the same pressures as private industry to locate industrial facilities in the pampean cities.

[42] Boneo, *Desarrollo regional*, pp. 131–2.

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society where families are very closely knit. The costs of labour and land are lower in the interior, but the attractions of the pampean industrial centres apparently outweigh those advantages.

The geography of Argentina also generates transportation costs that discourage location away from the main industrial cities. A third of the country's population lives in Buenos Aires and its environs. The interior has less than a third of the population, but 70 percent of the territory. Not only is the population of the interior spread thinly, but *per capita* incomes in the interior are lower than in the pampean provinces. This means that markets for finished goods are largely in the pampas. Locating a plant in the interior, then, often means high transport costs for outputs as well as inputs. Selling goods to Argentina's neighbours also imposes substantial transport costs. Buenos Aires and Rosario are the largest ports; thus, exports from the interior must largely funnel through pampean outlets. The western border of Argentina is bounded by steep mountains making commerce with Chile difficult. Across Argentina's other borders are regions with very little population (Bolivia and western Paraguay) or economies with little growth. Trying to build an export-oriented economy in the interior is thus an uphill struggle – often literally so.

Since most of the interior's provinces offer roughly similar advantages and disadvantages to industry, substantial variation in size and permissiveness of the promotional regime among the provinces could be expected to have an important impact on the distribution of factories within the interior, and apparently this has happened. San Luis and Tierra del Fuego, with subsidies many times larger than those of their neighbours, and with very permissive programmes, have had the greatest success in attracting new plants; Formosa with few subsidies to offer has attracted few businesses. As can be seen in Table 2 in the Appendix, Tierra del Fuego has an industrial output per capita that is more than six times the national average, and San Luis has almost four times the national average. Nevertheless, given the substantial advantages of a location in one of the established manufacturing centres, industrial promotion has had little success in changing the distribution of industry between the pampa and the interior.[43]

The costs of industrial promotion

According to the best available estimates, tax subsidies designed to promote industry in the interior reached a peak of just over 3 percent of

[43] According to Schvarzer, *Promoción industrial en Argentina*, p. 67, in 1963, 85.8 percent of industrial activity was located in the pampean provinces; by 1984, the proportion has fallen to only 81.4 percent. Much of the industry that had located in the interior could not survive without continuing subsidy.

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GDP in 1987 and 1988.[44] Five provinces (La Rioja, Catamarca, San Juan, San Luis, and Tierra del Fuego) with their own promotional programmes received the preponderant share of these benefits, about 2.3 percent of GDP in 1987 and 2.95 percent in 1988. Tierra del Fuego received $4,968 *per capita* in 1987, San Luis received $4,824, and La Rioja received $919.[45] San Juan and Catamarca got $413 and $513 *per capita*, respectively. Between 1987 and 1990, these five provinces averaged almost $2,600 million annually from industrial promotion, more than double the figure for 1987. Misiones was another province especially favoured.[46] Between 1973 and 1987, 40 percent of net investment in Argentina received benefits from industrial promotion schemes. By the mid 1980s, unsubsidised investment collapsed and 90 percent of net investment in the country benefited from industrial promotion. Since the interior received the bulk of these tax subsidies, the majority of private net investment was in the interior by the 1980s.

These estimates of the tax subsidies to industrial promotion are the best available, but they understate the true costs.[47] Each time a project was approved, a projected tax subsidy (*costo fiscal teórico*) was calculated, but the actual subsidy was typically far more than the projected subsidy.

[44] World Bank, *Argentina*: *Política tributaria*, p. 28, supplemented with data on Tierra del Fuego from Artana, 'Efectos económicos de las desgravaciones fiscales', p. 21. See also Schvarzer, *Promoción industrial en Argentina*, p. 99 who gives a comparable figure for 1986. The government spent about $1,000 or 1.3 percent of GDP million promoting other activities including ethanol, sugar, tobacco, Patagonian ports, cotton, and yerba maté milling, fishing, reforestation, mining, and export promotion; most of these subsidies went to the interior. Moreover, subsidies to nontraditional exports and exemptions from tariffs amounted to an additional 1.7 percent of GDP in 1988; much of these subsidies went to industries in the interior (World Bank, *Argentina: Política Tributaria*, p. 28). In addition to these tax subsidies, there were also credit subsidies given to industry to promote development. In 1987, this credit subsidy amounted to $1,000 million, about 1.3 percent of GDP (Artana, 'Efectos económicos de las desgravaciones fiscales', p. 22). The share of this subsidy that went to the interior cannot be learned from available data, but it was surely substantial.

[45] Derived from Artana, 'Efectos económicos de las desgravaciones fiscales', p. 21; Artana and Salinardi, 'Régimen de promoción industrial', p. 62; FIEL, *Hacia una nueva organización*, p. 91; and World Bank, *Argentina*: *Política Tributaria*, p. 28.

[46] Cavallo and Zapata argue that Misiones has been the only province to experience rapid industrial growth without any industrial promotion (*El desafío federal*, pp. 149–50). They argue that the pioneering spirit of this frontier province explains its industrial progress. Their assertion is demonstrably false. Of all of the industrial promotion projects approved by the Ministry of Industry between 1973 and 1985, Misiones (with 2 percent of the country's population) received 22 percent (FIEL, *Regulaciones y estancamiento*, p. 161). In addition, it has received tariff protection and substantial funds from other promotional programmes, including yerba maté, tea, tobacco and forestry. Indeed, without enormous subsidies and tariff protection, the yerba maté industry – the province's largest – would never have been able to develop in the face of competition from much cheaper Brazilian yerba.

[47] World Bank, *Argentina: Política Tributaria*, p. 27.

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Economists estimated the cost of industrial promotion using an official sample of benefited projects – a complete accounting was not made until years later. They tried to correct the systematic understatement of the projected tax subsidies, but were not able to make all of the necessary corrections because of lack of data. The most important reason why actual costs exceeded projected costs was that the *costo teórico* was calculated under the assumption that the promoted factory would operate well below capacity. After approval, the factory would often run at capacity, substantially increasing the tax subsidies based on the value-added tax, which was most of the tax subsidy. A second reason was that investors in promoted firms would fail to pay their taxes when due. The interest rate charged by the government on overdue taxes was less than the market rate, so the promoted firms would pocket the difference at the government's expense. Thus, the actual tax subsidies promoting industry in the interior were probably in excess of 4 percent of GDP in 1987. Subsidies to specific industries in the interior (such as pulp mills and ethanol distilleries) would bring this figure to at least 5 percent of GDP, close to half of the total public sector deficit in that year.[48] (And this figure does not include subsidies to credit, nontraditional exports, and tariff exemptions for the interior's industries.) It is not surprising that by 1990, the World Bank called industrial promotion in the interior 'the most persistent threat to the stability of the fiscal system'.[49]

Argentina discovers a programme out of control

The costs of industrial promotion grew exponentially in the mid 1980s, generating alarm in the government of Raúl Alfonsín. The costs more than doubled between 1985 and 1987, and more than tripled for the special four provinces that accounted for most of the cost.[50] The IMF was first to become aware of the problem, and pushed the Alfonsín government to do something about it as early as 1985.[51] The first step was to increase the transparency of industrial promotion so that it would become clear who was benefiting and by how much. Next, the government wanted to reduce the costs of industrial promotion, and, in particular, end fraudulent abuse of the programmes. The most urgent task was simply to find out how much the government was spending on subsidies to promoted industries. Once the government could discover how much the programmes cost, it

[48] World Bank, *Argentina*: *Política Tributaria*, p. vii.
[49] World Bank, *Argentina: Política Tributaria*, p. 29.
[50] Artana and Salinardi, 'Régimen de promoción industrial', p. 62.
[51] Sánchez and Zabala, 'Argentina: Incentivos fiscales para el fomento del desarrollo'. See also Schvarzer, *Promoción industrial in Argentina*, p. 99.

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could quantify and prioritise the necessary cuts. Knowing to whom the subsidies were given would also facilitate the detection and punishment of corrupt manipulation of the programmes. Neither the Alfonsín administration nor the Menem government that followed was able to definitively establish the true costs of industrial promotion in the 1980s. From the beginning, however, it was believed that increasing the transparency of the programmes was an essential first step.

As the economy deteriorated over the decade and the fiscal crisis of the federal government grew ever more alarming, the quest for control over the cost of industrial promotion became increasingly urgent. During the mid 1980s, it gradually became apparent that this cost was far greater than had been believed. At the same time, a gradual ideological shift took place. As neo-liberal ideas gained currency, the notion that the government had a right or duty to promote particular industries or particular locations lost authority. At the same time, there was a growing intolerance of corruption and an increasing unwillingness to stomach the flagrant fraud associated with industrial promotion schemes, especially those in the four special provinces. Moreover, the effectiveness of industrial promotion schemes in encouraging private investment was increasingly called into question. Despite extraordinarily generous subsidies that imposed a severe drain on federal finances, private investment continued to diminish over the decade of the 1980s.[52] Lastly, the government wanted to restructure its external debt by entering the Brady Plan, but creditor organisations insisted that Argentina fix the fiscal haemorrhage produced by industrial promotion programmes before any debt refinancing could be arranged. Something had to be done.

Reforming industrial promotion

The effort to reign in industrial promotion in the interior began in 1985. In September of that year, the Congress passed a law authorising a new promotional regime for the province of La Pampa.[53] Two months earlier, the government had launched the Austral Plan, an attempt to moderate the country's astonishing rate of inflation. To be consistent with the fiscal austerity required by the plan, the Alfonsín government never promulgated the decrees that would have put the law into effect, so no subsidies were ever granted to La Pampa under this legislation. A year later, the government tried to enforce more effectively the ceilings that the law had imposed on each province's total subsidies.[54] This provoked an uproar on

[52] Sánchez and Zabala, 'Argentina: incentivos fiscales para el fomento del desarrollo'.
[53] Schvarzer, *Promoción industrial en Argentina*, p. 72.
[54] Schvarzer, *Promoción industrial en Argentina*, p. 102.

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the part of political leaders, businesses, and labour leaders from the four special provinces. Provincial authorities were able to subvert the decree, but their ability to undermine federal attempts to bring the system under control stimulated a debate over the necessity of a complete overhaul. Allegations of corruption had begun swirling around the programme as early as 1985 and became more insistent as time passed. Complaints about the benefits lavished on the four favoured provinces were most vociferously voiced by the political leadership of Mendoza, a province with a substantial amount of manufacturing activity that was likely to be adversely affected by the favouritism toward the special four. Objections were also voiced by business leaders (and their supporters in provincial governments) whose companies were prejudiced by promotional subsidies. For example, some biscuit manufacturers were located in provinces where there were subsides and others were not; those without access to the subsidies complained bitterly about this 'grave discrimination'.[55]

In 1988, the Congress legislated a major redirection of industrial promotion. In September, a new law (Ley 23.614) mandated that all industrial promotion programmes be united into a single programme. Four months later, a second law (Ley 23.658) aimed to make explicit the size of promotional subsidies and the identity of firms receiving the benefits of the subsidies by requiring that the subsidies be paid in the form of *bonos de crédito fiscal* (fiscal credit bonds).[56] These bonds, which were of fixed denomination and not transferrable, could be used to pay the benefited company's tax liability and thereby receive the exemption from taxes that the industrial promotion programme authorised. Another provision of the law required that the tax subsidy that each project was to receive could be no more than the *costo fiscal teórico* established when the project was initially approved. Furthermore, the Ministry of the Economy was established as the ultimate authority over industrial promotion; the four favoured provinces could no longer approve projects on their own. The 1988 law also authorised a census of the industrial promotion projects that had been approved. The enumeration began in early 1989. It would ultimately produce information about the identity of promoted enterprises and their owners (although not other important details), but this was not available until after the Alfonsín administration had left office.

As the economy disintegrated into hyperinflation, the Alfonsín government announced emergency measures (Ley 23.669) in July 1989 that temporarily suspended (that is, postponed rather than eliminated) between one quarter (for projects in the four special provinces) and one

[55] Schvarzer, *Promoción industrial en Argentina*, pp. 106–7.

[56] World Bank, *Argentina: Política Tributaria*, pp. 27–9. The promotional regime for Tierra del Fuego was exempted from this requirement.

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half (for all the other projects) of the tax subsidies to which promoted projects were until then entitled.[57]

A few weeks later, Carlos Menem assumed the presidency. He had been elected in May, and was not supposed to be inaugurated until the end of the year. The economy, however, was in chaos, hyperinflation was accelerating, and the lame duck Alfonsín resigned so that economic policy formation would not have to remain on hold for five more months. Menem appointed an economy minister with strongly liberal sympathies who began immediately to stabilise and then restructure the economy by raising government-owned utility prices, freezing other prices, and announcing a privatisation plan. In September, the Congress approved the Economic Emergency Law (Ley 23.697) that permitted expenditure cuts, layoffs of public service employees, decreases in tariffs, and other administrative changes without further Congressional approval. With this authority, the Menem government immediately extended for a year the previous temporary suspension of industrial promotion subsidies. Moreover, all provinces, including the favoured four, lost half of the authorised tax subsidies. At the same time, the government limited the ability of approved firms to postpone the beginning of subsidised operations. Between the time that a project was approved and the time that production in the new facility was begun, the enterprise that owned a promoted subsidiary was allowed to postpone payment of a significant share of its taxes. Given the rapid inflation, tax postponement was essentially tantamount to tax forgiveness. Firms had been permitted to arbitrarily put off the initiation of production, imposing a considerable drain on the federal treasury, generating administrative chaos, and adding to the lack of transparency. But now, if a firm did not commence operations on the agreed upon date, it would lose its approval and give up its rights to the subsidy.

By the end of 1989 the reform process stumbled. Inflation revved up, resistance to cuts in subsidies to the private sector aroused opposition on the part of the business community, and the economy minister was forced to resign. His replacement, Erman González, immediately floated the currency and froze bank accounts in excess of about U$S 500. The Tax Reform Act (La Ley Penal Tributaria), passed by Congress in February 1990, restructured and sharply raised taxes. Even more important in producing a small federal budget surplus was aggressive spending cuts that began in March (Decreto 435). As part of the fiscal austerity, the government changed the face of industrial promotion in Argentina. In order to obtain promotional benefits, each enterprise had to submit a proposal in which it agreed to meet certain targets with regard to

[57] World Bank, *Argentina: Política tributaria*, p. 29.

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employment, investment, and production, in return for the tax subsidies from the government. This agreement was a binding contract on the firm, not just a target that could be ignored with impunity. Failure to meet the goals stipulated in the contract would lead to loss of subsidies, but more importantly this failure was now a criminal offense for which the ultimate penalty was incarceration. Secondly, the federal government asserted control (or *re*asserted control – the 1988 law had attempted to do the same thing) over the approval, administration, and supervision of industrial promotion. The four special provinces were no longer able to raid the federal treasury by approving industrial promotion projects. The federal government now had the authority closely to monitor how enterprises fulfilled their contracts. Thirdly, the government suspended the approval of all new industrial promotion projects. And lastly, the government abrogated the subsidy that derived from forgiving the value-added tax, which was most of the subsidy to industrial promotion. The courts, however, ruled that the tax subsidies that had been legally mandated were an 'acquired right' that the government could not revoke. Consequently, in early 1991, the value-added tax subsidy was reinstated.

The government's basic objective was to cut the tax subsidy to private industry by reducing the number of promoted enterprises and reducing the benefits to firms that had not completely met the targets established when the project was approved. It was expected that the criminal penalties mandated by the new law would allow the cessation of benefits to – and the punishment of – those who had cheated the government. Those who had failed to live up to their promises to the government would be purged from the list of promoted companies. It was also expected that many enterprises would voluntarily withdraw from the programme in order to avoid these penalties.

In mid 1990, the reforms continued with a strengthened effort to collect taxes, liberalise trade, deregulate the domestic market, and accelerate privatisation. The government also mandated a new census of promoted projects (Decreto 1355). The new listing would include information about promised levels of investment, employment, and production, the *costo fiscal teórico*, and the actual level of tax subsidies received.

The implementation of these new policies of Erman González was delayed because of administrative problems, political pressure from those who had benefited under the former system (provincial legislators, business- men and -women, and representatives of chambers of commerce or industry), and the lack of clarity in the new relations between the federal and provincial governments.[58] But these delays merely stimulated renewed efforts on the part of the government to reform industrial

[58] World Bank, *Argentina: From Insolvency to Growth*, p. 58.

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promotion. By March 1992, data gathered by the government showed that the reforms would save the government more than $600 million that year.[59] By 1993 several hundred firms had been removed or removed themselves from eligibility for promotional benefits.

In early 1991, Domingo Cavallo took over at the helm of the Economy Ministry and immediately launched his Convertibility Plan, under which the currency was freely convertible and tied to the dollar, capital flows were completely liberalised, and future devaluations were foresworn. The government devoted its energies to restructuring the federal-provincial fiscal relationship, privatising the remaining public sector enterprises, eliminating subsidies and regulation of various crops in the interior (such as yerba maté, sugar, and wine), continuing tax reform, stepping up efforts to collect the taxes that had been legislated, and deregulating the economy. Preoccupied with these reforms, stymied by the obstinate resistance of provincial politicians, business leaders, and the judiciary, and frustrated by the lack of information about the nature and extent of the subsidies, the government allowed industrial promotion to get pushed onto the back burner.

In November 1992 (Decreto 2054), the government turned its attention once again to regional industrial promotion. Cavallo was finally in a position to carry through with the reforms, some of which had been first mandated five years earlier. The tax subsidy was now to be converted into fiscal credit bonds. Additionally, the benefits that had been suspended by emergency decree were also to be paid by these bonds. The bonds that any enterprise could receive depended upon the degree to which it fulfilled the objectives to which it had agreed when the project was initially approved. Failure to meet the agreed upon target levels of investment, employment, and production reduced the tax subsidy and thus the bonds paid to the firm. If the degree of failure was between 5 and 10 percent, the firm lost an equivalent percentage of its potential benefits. Beyond a 10 percent lack of fulfilment, the discount of the tax subsidy increased. For example, a 30 percent failure led to a 48 percent reduction in the subsidy, and a 40 percent failure, a 72 percent reduction. If the firm met its obligation by only half or less, it could not receive any subsidy. In short, noncompliance with the terms of the agreement establishing promotional benefits to a firm led to a fine collected by means of a reduction in the subsidy.

In order to encourage firms voluntarily to withdraw from the promotional regime, enterprises that had failed to fulfill their obligations were permitted to quit by repaying the government an amount equivalent to 40 percent of the tax subsidy that the firm had up to that time received.

[59] World Bank, *Argentina: From Insolvency to Growth*, p. 59.

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However, the amount that the firm had to pay the government was reduced by the tax subsidies that the firm was entitled to receive in the future, discounted by the degree to which the firm's obligation had not been fulfilled. In addition, the reformed system included a refusal to offer new deferments to firms that had been approved for promotional benefits, but had not yet begun to operate their promoted factory. This provision applied to projects that had been approved before September 1990. Since the government was not approving any new projects, the firms whose projects expired were permanently excluded from benefiting from industrial promotion.

In 1997, controversy over industrial promotion erupted once again as the government renewed its efforts to restrict the programme, and supporters fought back. At the end of 1996 the government had announced new rules governing industrial promotion that, according to critics, permitted the covert approval of new projects despite the 1990 decree that supposedly made the extension of benefits to new projects impossible.[60] The Economy Ministry responded to the controversy in mid 1997 with a proposal to tighten still further the screws on industrial promotion.[61] The most important provision in the decree was an annual limit of tax subsidies for industrial promotion in the four specially treated provinces of just over a quarter billion dollars or two billion dollars by 2006 when the programme would expire. Firms that employed many workers were to be given priority to retain their subsidies. The Dirección General de Impositiva was to be given authority to oversee industrial promotion to ensure the absence of fraud (such as setting up dummy workshops in which no actual production would take place), to make sure that no new projects were being approved, and to ensure that the period over which firms were entitled to tax subsidies was not surreptitiously extended.[62] Defenders of industrial promotion from the four special provinces countered with their own proposal to make the programme more flexible in ways that, according to the government, would have more than tripled the cost to the treasury.

Governors, congressional deputies, and other high officials from the four provinces organised a ferocious lobbying campaign and threatened to close highways through their provinces, disrupting traffic between Chile, Mendoza, and Buenos Aires. They also threatened an avalanche of law-suits, bills to restrict various subsidies to other provinces, and efforts to produce legislative gridlock in the Congress. Supporters of the reforms produced a videotape of two attorneys allegedly offering to obtain illegal

[60] *La Nación*, 24 July 1997.
[61] *La Nación*, 18 July 1997.
[62] *La Nación*, 1 August 1997.

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certification of new projects in return for bribes.[63] After a month of political manoeuvring, the Economy Minister made an important concession.[64] If a firm was not able to meet its obligations and withdrew from the industrial promotion programme in one of the four provinces, the subsidies that the firm would have received could be reassigned to another firm so long as it had invested a certain minimum within the previous year. At the end of 1997 Menem vetoed a bill that would have extended the promotional benefits of the four special provinces to a number of other provinces and multiplied its cost several fold. The government came out ahead on this round.

Industrial promotion in Tierra del Fuego had always had separate treatment, but the budget axe fell there too. New projects were not approved after 1989. In 1991, the tax on domestic sales of electronic appliances was eliminated. Since producers in Tierra del Fuego were exempt from this tax, the elimination of the tax erased the benefit that they had enjoyed. The tax rebates on exports from Tierra del Fuego to the mainland were virtually eliminated. Even more important was the progressive elimination between 1993 and 1996 of the exemption from paying the value-added tax. This reduced the total tax subsidies to Tierra del Fuego to 10 percent of their 1991 level.[65]

The drastic reduction in subsidies to the island's industry led to dramatic declines in output and employment. In 1987 there were 140 factories employing 7,000 workers in Tierra del Fuego; ten years later, there were only 42 companies still operating and they employed only 3,400 workers.[66] Employment in electronics factories fell from 5,100 to 2,200.[67] Despite this contraction, the unemployment rate in mid 1997 was 11.3 percent, substantially less than the national unemployment rate of 16.1 percent.[68] Political pressures, court suits, and repeated violent demonstrations encouraged the government to reverse course in mid-1997. A government decree reinstated industrial promotion tax subsidies to companies that had received them before 1989, and refunded the taxes they had paid since 1993. Firms that did not want to use their benefits could sell them to other enterprises. The programme would remain in effect until 2003. Key to the government's loss of this round in the battle over industrial promotion was the replacement in 1996 of the Economy Minister Domingo Cavallo.[69]

[63] *La Nación*, 13 August 1997.
[64] *La Nación*, 15 August 1997.
[65] World Bank, *Argentina*; *From Insolvency to Growth*, p. 61.
[66] *La Nación*, 13 June 1997.
[67] *La Nación*, 1 August 1997.
[68] *La Nación*, 2 August 1997.
[69] *La Nación*, 12 July 1997, and 1 August 1997.

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Conclusions

The Menem government, building on the first steps taken by the Alfonsín administration, pursued a thoroughgoing reform of industrial promotion in the Argentine interior. Has this reform succeeded? The government has been able to make much more explicit and transparent the extent and destination of the subsidies to promoted industries. It has also been better able to quantify these subsidies. This alone is a major achievement. The Federal government has largely wrested control over industrial promotion from provincial governments. The government has prosecuted those who engaged in outright fraud – although some corrupt practices remain[70] – and has reduced the benefits to many of those who have incompletely fulfilled their obligations to expand investment, employment, and production in return for the subsidies. An unknown number of new projects have been surreptitiously approved since 1989, when the government announced its intention to approve no new projects, but it is certain that approvals have been fewer than they would have been without the government's efforts. All of this has reduced the drain on the federal treasury by several $1,000 millions over what the programmes would have cost without these reforms. It is clear that the government would like to do more in this regard, but politicians in the provinces receiving the most benefits have exerted intense political pressure against these limitations and in favour of expanding industrial promotion. The courts have treated the benefits of approved projects as a legal right that the government cannot abrogate unilaterally. Until the benefit period for these projects expires, the government will be forced to continue the subsidies. If the ultimate goal was to eliminate industrial promotion and the interim goal was to limit the programme's expense and clean up the fraud, one must consider the reforms of industrial promotion that were initiated by Alfonsín and implemented by Menem and Cavallo a great success. The importance of this reform, given the extraordinary fiscal cost of industrial promotion, should also be apparent; the failure of the literature on structural adjustment in Argentina to treat the issue is a serious omission.

Industrial promotion promised to bring modern industry to the underdeveloped backwaters of Argentina. The government has delivered

[70] In March 1999 the Administración Federal de Ingresos Públicos (the Federal Public Income Administration) announced that it had discovered 'irregularities' in the administration of industrial promotion in the four special provinces that cost the federal treasury over $800 million (*La Nación*, 11 March 1999). In 1995, as another example, an enterprise owned by members of President's Menem's family received an export subsidy made possible by a suspicious decree granting the firm industrial promotion benefits (*La Nación*, 10 December 1997). The benefits of the export subsidy were said to be worth $500 million.

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on this promise in the sense that there are now some factories sprinkled around the interior of Argentina where none existed before. Industrial promotion schemes, however, failed to unleash an industrialisation process with any momentum of its own, independent of federal subsidies. The only possible exception is in San Luis, a province that received *per capita* industrial promotion benefits in the late 1980s were more than double the country's *per capita* GDP. San Luis's location, lying astride the major highway connecting Buenos Aires with Mendoza and Santiago, Chile, may account for its success. Even in San Luis, the ability of many of the province's industries to survive the scheduled expiration of promotional benefits in the next decade is in question.[71] In Tierra del Fuego, *per capita* industrial promotion benefits were still larger than those in San Luis, but even this massive injection of funds could not provide the critical mass to launch independent industrialisation. When the province's subsidies were cut in the 1990s, factories closed their doors and employment fell by over half. Other provinces have received far smaller subsidies and have an even smaller chance of becoming industrialised.

In some provinces (Tierra del Fuego, La Rioja, Catamarca), it is difficult to find *any* factory that is not located there because of some industrial promotion programme. In many other provinces (Chubut, San Juan, Formosa, Santiago del Estero, San Luis, Neuquén, Santa Cruz, and La Pampa), industrial promotion has created most, though not all, of the province's industry.[72] Most manufacturing in the rest of the interior still remains the processing of agricultural products that have until recently been heavily subsidised. Thus, manufacturing in the interior is almost entirely the consequence of substantial subsidies from the federal government. As these subsidies were cut back or eliminated in the early 1990s, manufacturing in the interior has faltered. At the same time, subsidies and trade protection for agriculture in the interior were slashed. Unemployment in the interior has consequently soared. Some provinces have unemployment rates that are one-quarter to one-third of the labour force. The reforms have achieved a measure of transparency, honesty, frugality in the administration of industrial promotion, but the government has abandoned any attempt to foster industrial development – or any other kind of development – in the interior. For those who believe that the government can and should endeavour to spark development in the underdeveloped parts of the country, the current reforms of industrial promotion have thus been an almost complete failure. One should note, however, that the inability of the Argentine

[71] *La Nación*, 15 August 1997.

[72] Gatto, Gutman, and Yoguel, 'Reestructuración industrial y sus impactos regionales', pp. 129–30, 139.

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government to effect a major restructuring of the country's industrial geography by means of tax subsidies mirrors similar failures in almost every country where it has been attempted.

Whether the reforms have succeeded or failed depends upon what one thinks about the possibility and desirability of stimulating development in industrial backwaters. Whatever one's position on that issue, all can agree that the preceding account of the efforts to reform industrial promotion illustrates the daunting complexity of structural reform. It took several years for the government even to catalogue what it had been doing to promote industrial development and to get even a rough idea of how much it was costing the federal government – it still does not know the exact figures. Changing the system was an elaborate process of thrust and parry and counter thrust by government reformers and entrenched supporters of the old regime. The Congress, the supreme court, provincial officials, and various international institutions were all able to exert considerable influence over the pace and nature of reform. The reform effort also illustrates the role of a free press and public opinion. A cadre of technocrats working within the government and in private research institutes carried out an effective campaign to inform the public about the programme's excesses. The end result is a precarious set of compromises that pleases no one – far from simple or transparent, though decidedly less expensive than before.

This article began by distinguishing between easy reforms and difficult reforms. It should be clear at this point that the reform of industrial promotion belongs to the difficult variety. Examples of other difficult reforms in Argentina include liberalising labour laws, restructuring the tax system, privatising several thousand state owned enterprises, restructuring the old-age pension system, reorganising the port of Buenos Aires, and reforming revenue sharing between federal and provincial governments. The reform of industrial promotion was thus only one of many difficult reforms. The total effort to undo all of the misguided policies that have accumulated over the years is a large multiple of the resources needed to fix just industrial promotion. In short, this case study shows that structural reform is neither simple, effortless, or brief.

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