

# Industrial Modernization in Argentina: Understanding the Economic Strategy of Martínez de Hoz, 1976-81

Daniel Franken

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Mentored by Professor Bryan McCann

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## Preface

This project has taken a very different shape from what I had originally envisioned. For clarity, a brief explanation of the evolution of my topic may be warranted here. I ultimately decided to do a project related to economic history—a topic that fits neatly with my personal interests and academic background. I wanted to engage in economic statistical research to expand my skill-set and explore diverse primary sources. I knew conducting research in an area in which I do not have a significant experience or familiarity would be difficult, but I was not aware of how daunting finding and interpreting pertinent economic data would be.

The topic I selected interested me greatly while studying at the Universidad de Buenos Aires (UBA) in Buenos Aires, Argentina. During my semester at the UBA, I had the pleasure of taking Argentine History at the Facultad de Ciencias Sociales (The Faculty of Social Sciences), a course organized and designed by the Argentine historian and economist, Mario Rapoport, whose influential book *Historia económica, política y social de la Argentina* serves both as a basis and source of contention for this study. Like many public universities in Latin America, the UBA's students and faculty tend to hold more leftist views, yielding an interpretation of Argentine national history that was refreshingly different from what I had studied before. I was fascinated by the course's segment on the economic policies during Argentina's most recent military dictatorship. Rapoport's course offered a substantially in-depth view of the neoliberal reforms implemented by the Minister of Economy during the military's time in power, José Martínez de Hoz. We were taught that Martínez de Hoz's 'deindustrialist' program aimed to reduce the national industry's participation in GDP in order to put an end to working class militancy, reversing a trend of labor mobilization set in motion by the populist

president, Juan Domingo Perón, in the 1940s and 1950s. Rapoport's work also suggests that Martínez de Hoz plotted to 'deindustrialize' and reagrarianize the economy in order to concentrate economic power in the hands of the landed elite.

The original idea for this project was to explore the mechanisms that made such a transfer of economic power possible, how Martínez de Hoz attempted to give the reins of the economy back to the landed aristocracy at the expense of the urban working class. I also hoped to engage in a more micro-level analysis of the policies in order to see their effects on individual firms, but lack of sufficient data precluded such an approach. In the initial stages of my research, I became puzzled with the statistical data that I was able to find. None of the figures seemed to sustain Rapoport's sweeping allegations, and moreover, many statistics suggested that the Argentine industry was not as adversely affected by the 'deindustrialization' campaign as reported. I went back to the drawing board to revise my research objective.

The speeches, articles, newspaper and radio interviews with Martínez de Hoz during his time as Minister of Economy claim that the neoliberal reforms constituted a program of 'industrial modernization' aimed at correcting the deficiencies of industrial complex resulting from heavy state-led expansion. Though considered a failure for leaving the economy in shambles in the early 1980s, this study seeks to understand the reasoning behind Martínez de Hoz's attempts to modernize the industrial apparatus, how they enjoyed some success in the initial years, but ultimately met their demise due to unintended consequences. It relies on simple economic statistical analysis to examine the state of Argentine industry before, during, and shortly after the implementation of the 'modernization' program.

### A note on sources

Much of the research for this study was conducted in Spanish. In instances in which primary or secondary sources are quoted directly, all translations are my own, and the original Spanish quotations can be found in the corresponding footnote.

Some of the primary sources used do not include the appropriate bibliographical information that would otherwise be cited. This includes two books found at the Columbus Memorial Library of the Organization of American States. One publication entitled *Un lustro de historia, 1976-1981*, a series of newspaper articles from the Argentine newspaper *La Razón*, illustrates the success of economic decentralization and some of the gains of modernization. None of the newspaper articles included in the book provide the date of publication, and the book itself lacks the name of the chief editor of the compilation as well as the date and location of publication.

Another such book, a collection of the transcriptions of interviews and of speeches given by Martínez de Hoz on the radio and at various conferences and meetings, has no title. All of the transcriptions include the date on which the interviews or speeches took place, but the book itself does not include the date or location of publication or the chief editor.

As to be expected, much of the analysis of the success or failures of Martínez de Hoz's policies is dependent of raw economic data. Where appropriate, this data is represented graphically. Many online databases of organizations like the ECLAC (The Economic Commission for Latin America and the Caribbean), the World Bank and the International Monetary Fund, contain data in the specific areas pertinent to this study, (i.e. output and the number of bankruptcies of industrial sectors, data on inflation rates,

income distribution, and unemployment); however, these databases do not include statistical data for the years in question.

Fundación Norte y Sur, a think-tank established in 1994 to analyze different aspects of the Argentine economic and social situation, provides a considerable source of raw economic data. The foundation released a statistical publication in 2005 entitled *Dos siglos de economía argentina: historia argentina en cifras* (Two Centuries of Argentine Economics: Argentine History in Numbers), which contains a vast amount of economic statistics related to this thesis. The data represented in *Dos siglos* was collected from a wide range of statistical yearbooks and official accounting records. Some examples are: *The Statistical Yearbook of the Argentine Plastic Industry* by the Argentine Plastic Industry Chamber (Anuario estadístico de la industria plástica argentina, Cámara argentina de la industria plástica); *The Argentine Geographic Yearbook* by the Argentine Chamber of Cotton Producers (Anuario geográfico argentino, Cámara algodonera argentina); *The Statistical Bulletin by the National Institute of Statistics and Census* (Boletín de Estadística, Instituto Nacional de Estadística e Censos); *Automotive Production Yearbooks* (Anuario 1973-83, Asociación de Fábricas de Automotores). These economic statistics are used to analyze industrial production and productivity, and to draw conclusions on the varying effects of Martínez de Hoz's economic policies across different industrial sectors, as well as secondary effects such as unemployment.

An economic study published by the World Bank in 1983 used as a primary source for the economic data it contains. *Argentina: Economic Memorandum*, analyzes the state of the Argentine economy in 1983, but it also contains a substantial amount of data pertinent to the period in question.

## I. Introduction

Between the military coup of March 26<sup>th</sup>, 1976 and until 1983, when civilians reasserted control, Argentina was governed by a military junta. General Jorge Rafael Videla served as president through 1981, when a change in leadership took place and he was succeeded by Roberto Viola. The junta's main goal in ousting the civilian government was to stamp out all of the remnants of the 'socialist plague' that it saw as afflicting the country since the populist president Juan Perón took office in 1946. The military dictatorship, the self-proclaimed *Proceso de Reorganización Nacional* (Process of National Reorganization) is considered a crucial transition period in Argentine history, both politically and economically.

Politically, the Proceso ushered in a model of political and social ordering that diverged profoundly from that of the previous, post-WWII decades, outlawing all workers' unions. By that time in Argentina, the workers' unions had made substantial gains in raising salaries and improving working conditions since the Peronist government came to power. The censorship of unions not only dismantled the working-class's political platform, it attempted to erase the political legacy of Perón, a class-consciousness that had grown increasingly radical and severely militant by the mid-1970s, as seen in the terrorist activities of the left-wing Peronist guerrilla group, the *montoneros* (short for *El Movimiento Peronista Montonero*). The wide-reaching policies of state terror executed by the junta in response to such guerrilla groups, commonly referred to as 'the dirty war,' had a profound and devastating impact on Argentine

society, causing the ‘disappearance’ of 15,000 to 25,000 persons, according to estimates of some human rights groups.<sup>1</sup>

Economically, the Proceso also represented a radical departure from the past, as the neoliberal reforms intended to open up a previously closed and protected Argentine economy. This study will focus on the economic aspects of and justifications for that change, calling into question how it has been viewed by some scholars. Many historians have termed the new economic policies a process of ‘deindustrialization,’ yet there is a significant gap between this deindustrialist paradigm and the official pronouncements of ‘industrial modernization.’<sup>2</sup> Combining an analysis of the goals of and justifications for the economic reforms, the objective of this research paper is to yield a more balanced understanding of the economic implications of the Proceso.

#### i. Argentina in the Mid-1970s

The military saw the need to intervene after the economic mismanagement of the second term of Perón left the economy in disarray. Extrapolating the consumer price index data from the first quarter of 1976, the annual inflation rate can be estimated at 3,000 percent. Using the data from March alone would yield an annual rate of 17,000 percent. Moreover, 1976 began with a current account balance of payments deficit of \$1.3 billion US dollars, with foreign reserves sufficient to cover only two months of imports. Between 1975 and March 1976, the hyperinflation that saddled the Argentine economy caused the rapid deterioration of real wages, provoking militant destabilization efforts from organized labor (including strikes, protests, sabotage and terrorist activities)

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<sup>1</sup> Smith, William C. (1991) *Authoritarianism and the Crisis of the Argentine Political Economy*; Stanford University Press; Stanford, California; p. 231 (Hereinafter referred to as *Smith*)

<sup>2</sup> Martínez de Hoz, *Mensaje a los empresarios industriales con motivo del “Dia de la industria”* – 2 de septiembre de 1976

and sending the economy into a recessionary spiral.<sup>3</sup> Considering the chaotic economic situation, it comes as little surprise that the military's deposition of the Peronist government was met with no resistance.

## ii. El Plan Martínez de Hoz

President Videla quickly appointed the conservative, Cambridge-educated José Alfredo Martínez de Hoz, the former Minister of Economy of the province of Salta, as the Minister of Economy. Only ten days after the coup, Martínez de Hoz launched his economic plan that would have long-lasting effects on the Argentine economy. The finer details of the plan and its modifications over time shall be discussed at greater length later, but a brief overview of the plan's goals and the mechanisms used to attain them is warranted here. The most significant aspects of the Plan included: 1) The liberalization of price caps; 2) The liberalization of foreign commerce, abolishing the state monopoly on important agricultural products; 3) The abolition of export restraints; 4) The gradual reduction of trade barriers such as import tariffs, quotas, and licenses; 5) Financial system reform; 6) The elimination of urban rent caps, so as to promote the private construction sector; 7) The elimination of subsidies and overprotection assigned to certain economic sectors, which cause their distortion; 8) The establishing of a new minimum wage by the state; 9) The invitation of foreign investment under rules fair both to the investor and national interests; and 10) Liberalization of technology transfer, establishing laws to promote foreign technology adoption.<sup>4</sup>

In order to increase productive efficiency, the plan sought to fortify the production of the products of highest demand in the external market. To that end, internal

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<sup>3</sup> Smith, p. 230

<sup>4</sup> Martínez de Hoz, *Doce puntos salientes del programa económico* (Speech and interview compilation)

prices were equated to external prices so as to root out all local inefficient economic sectors, making it more lucrative to import products produced more efficiently (and at lower prices) outside Argentina. Economic liberalization was a central pillar of the Plan, since it was believed that gradually reducing tariff rates would expose supposedly inefficient and immature industries to foreign competition, prompting them to increase efficiency. Additionally, the elimination of importation restraints was intended to help efficient Argentine sectors prosper, forcing them to be more competitive in the world market. Towards the end of 1976, the exchange rate was fixed, export restraints and regulations were eliminated, and import tariffs and quotas were reduced.<sup>5</sup>

The new economic policies intended to put an end to rampant inflation, increase productive efficiency, reestablish market hegemony in resource allocation, reduce state participation in the economy, and balance the foreign accounts. The Plan addressed the problem of inflation by freezing wages, eliminating price controls, and a devaluation of the exchange rate was also executed. The Plan sought to increase the role of the private financial sector so as to reduce state involvement. The private sector became the largest generator of short-term investment, while the state still played a leading role in long-term investment. Many judge this as an attempt at ‘deindustrializing’ the Argentine economy,<sup>6</sup> yet official rhetoric proclaimed the policies as a process of ‘industrial modernization.’

### iii. Theoretical Overview

The economic policies of the military dictatorship, and their impact on Argentine industry, cannot be fully understood if viewed in isolation from their predecessors. During the period extending from the Great Depression until 1983, Argentina had

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<sup>5</sup> Rapoport, Mario (2005) *Historia económica, política y social de la Argentina, 1a edición*, Emecé Editores, Buenos Aires; pp. 646-648 (Hereinafter, *Rapoport*)

<sup>6</sup> See Rapoport, 2005; Peralta Ramos, 2007, Cortés Conde, 2005

twenty-four presidents (sixteen of whom were military generals), and only two of which completed the constitutionally mandated terms in office. During this same period, there were twenty-six military coups, and numerous other attempted coups. Some continuity existed within the policies implemented during the period spanning the first (1946-55) and second (1973-76) Perón administrations, as seen with the pervasiveness of import-substitution industrialization economic strategies, alongside a populist, corporatist political structure, a model James P. Brennan terms the ‘national-capitalist model.’<sup>7</sup> Despite this overarching continuity, the mechanisms used to execute economic policy varied from administration to administration, often leaving intact the remnants of previous policies. One Argentine sociologist has written: “Argentina has been built like a palimpsest of half-concluded projects.”<sup>8</sup> This partially explains why the study of Argentine economic history is such a complex one, subject to diverging interpretations.

From a theoretical standpoint, scholarship on Argentine industrial history can be broadly categorized into two analytical camps: structuralist and neoclassical. The principle architect of structuralist economics was the Argentine Raúl Prebisch, the director of the Economic Commission for Latin America and the Caribbean (ECLAC) in the late-1940s. Prebisch analyzed the notion of comparative advantage taking into account the structural differences between developed, industrial nations (which he labeled the ‘core’), and underdeveloped, non-industrial nations (the ‘periphery’). Structuralists view industrialization as the only way to economic development, and emphasize improvements in efficiency as well as output as the means to attain it. Heavy

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<sup>7</sup> Brennan, James P. (2007) *Prolegomenon to Neoliberalism: The Political Economy of Populist Argentina, 1943-1976*; Latin American Perspectives 2007; 34; 49:

lap.sagepub.com/cgi/content/abstract/34/3/49; p. 64 (Hereinafter referred to as *Brennan*)

<sup>8</sup> Corradi, *The Fitful Republic: Economy, Society, and Politics in Argentina*, p. 111; cited by Smith, p. 221

state involvement is necessary to foster industrial growth, as structuralists argue that markets unaltered by governmental intervention are inefficient and hostile to industrial growth (especially in developing nations).

For the structuralist camp, the year of 1880 marks an inflexion point in Argentine history, denoting the beginning of a phase of rapid economic growth based on the export of agricultural products (termed by many scholars ‘the export-led growth phase’<sup>9</sup>) which lasted until the onset of the Great Depression. Until 1880, Argentina was engulfed by a fifty-year struggle characterized by sporadic outbreaks of violence between the Unitarians, the more conservative party which sought a centralized state so as to maintain the wealth generated from the bustling port of Buenos Aires, and the Federalists, which battled against the economic preponderance of the province of Buenos Aires and advocated a liberalized economy. Structuralists view the export-led growth phase period as the product of a state “captive to land-owning elites and operating as impediments to industrial development.” Only a crisis of the magnitude of the Great Depression could force elites to emphasize industrial growth.<sup>10</sup>

Neoclassicists, on the other hand, criticize heavy state involvement in the economy and defend the market’s allocation of resources. Heavy-handed, state-led industrial development, they argue, “resulted mainly in the distortion of relative prices and the diversion of resources from more competitive sectors to manufacturing.” Revising the structuralist interpretation of the export-led growth phase, neoclassicists

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<sup>9</sup> See Rocchi, Fernando (2006) *Chimneys in the Desert: Industrialization in Argentina During the Export Boom Years, 1870-1930*; Sanford University Press, Stanford, CA (Hereinafter referred to as *Rocchi*)

<sup>10</sup> Barbero, María Inés and Rocchi, Fernando; *Industry* in Della Paolera, Gerardo; Taylor, Alan M. (2003) *A New Economic History of Argentina*; Cambridge University Press; New York, New York; p. 262 (Hereinafter, *Barbero and Rocchi*)

argue that, not only did industrial expansion take place during this period, the open-economy and non-interventionist state corresponding to the period allowed for more efficient industrial growth than occurred thereafter.<sup>11</sup> Carlos Díaz Alejandro, for example, posited that the manufacturing development that did occur during the agro-export boom era was the product of free-trade policies, since they promoted an optimal allocation of resources.

Fernando Rocchi's research on the agro-export boom phase contends the structuralist interpretation of the birth of industry in Argentina. By drawing on this data that previous analyses neglected, Rocchi posits that the export boom years saw the flourishing of industry, as international market depressions prompted factory openings as part of forced import-substitution process. However, during the export-boom phase, import-substitution was executed in response to shortages or surpluses in the world market, and did not constitute as indiscriminant, state-led process as seen in the post-Great Depression era. Central to his argument is his examination of the middle class; in Rocchi's view, as the domestic market flourished, the drive to open more factories was enhanced.<sup>12</sup>

Understanding the debate between these two theoretical camps is important, since they more broadly reflect the central debate of political economy. The more 'orthodox' or 'liberal' side of the politico-economic spectrum advocates for market hegemony in allocating resources with little state involvement, while 'heterodox' or 'conservative' economists emphasize the shortcomings of the market and call for heavy state involvement. The detractors of the Martínez de Hoz scheme tend to subscribe to the

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<sup>11</sup> Barbero and Rocchi, pp. 262-263

<sup>12</sup> Rocchi, p. 14

tenets of structuralism and economic heterodoxy, viewing the Peronist and ISI-style economic programs with some sort of nostalgia. Martínez de Hoz, on the other hand, proposed a radical departure from policies of heavy state involvement; broadly, this study seeks to understand *why*.

#### iv. Overview of Scholarship

While examining the economic program, this thesis shall keep in mind a broader question of Argentine political and economic history—the way in which differing Argentine social and political groups interpret the ‘the Argentine puzzle.’ In the early twentieth century, Argentina was among the world’s ten largest economies, and since the Great Depression, the country has witnessed extreme turbulence, with periods of success and economic prosperity, as well as periods of decline and economic devastation. The 2001 financial crisis further radicalized the economic debate: many leftwing Argentines find an easy scapegoat in the economic strategy of the Proceso. On the other hand, many rightwing Argentines place blame on Perón, both his economic mismanagement and his enduring political legacy. Neither of these positions adequately explains what has happened politically, and much less, economically, in relatively recent Argentine history.

Many historians (and indeed the broader public) tend to view the economic policies of the military dictatorship in the same light as the heinous political crimes and human rights violations. Scholars often base their denunciation of Martínez de Hoz’s economic strategy on their repudiation for President Videla’s political tactics. This study does not intend to discuss the military junta’s reprehensible political strategies, but rather it argues that it is possible and indeed important to disaggregate the economic policies from the other aspects of the Proceso.

The interpretations of two Argentine historians, Mario Rapoport and Mónica Peralta Ramos, fit neatly into the structuralist paradigm: both of these scholars criticize the neo-classical, market-led economic strategy, seeing heavy state involvement as the only way to overcome market failures and attain sustained economic growth. However, their critiques of Martínez de Hoz go beyond rudimentary structuralist theory. Rapoport suggests that the military government used economic policy as an instrument to censure workers' movements. The cradle of the Peronist movement was urban industry, and Rapoport posits that the military junta implemented a campaign for 'deindustrialization,' tearing down protective barriers to expose the national industry to competition from abroad, in order to dismantle the working class's platform of political resistance. While it is true that the junta outlawed unions and political agitation, such a view of using wage freezes to 'discipline' the working class does not take into account the gap between industrial wages and industrial productivity.

Conceptualizing the policies as 'deindustrialist' suggests they were oriented to purposely and explicitly attack the industrial sector and generate unemployment within the urban working class, corroding the bedrock of the Peronist labor movement, a view that departs from official proclamations of 'industrial modernization.' Rapoport seems to miss the long-term goals of the Martínez de Hoz economic strategy, which proposed "to finance national industry and stimulate its growth, in terms of quality, quantity, efficiency and profitability."<sup>13</sup> Martínez de Hoz did not envision an economy with no urban industrial sector, but rather one with a more efficient industrial complex. Perhaps short-

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<sup>13</sup> Martínez de Hoz, *Discurso pronunciado en la primera conferencia sobre modernización industrial – 17 de noviembre de 1980*. Translated from the Spanish: "afianzar la industria nacional y estimular su crecimiento, tanto en terminos de calidad, de cantidad, de eficiencia y de rentabilidad." (Hereinafter referred to as *Speech: Nov. 17, 1980*)

term unemployment arising from the depletion of inefficient industry was seen as acceptable until, in the long-term, other more efficient industrial branches or economic sectors (i.e., agriculture) could absorb excess labor supply.

Rapoport attacks the Martínez de Hoz plans for lacking transparency. This author considers that the attempts to redirect production to agriculture, the area in which Argentina was thought to have a competitive advantage, stemmed from an alliance between the landholding elite and the military rulers. Rapoport assumes that the Minister of Economy intended to reconstruct the agro-export model. While the structuralist understanding of the agro-export phase holds that no industrial expansion could take place because the state was captive to the landed elite, recent research by Fernando Rocchi indicates that a considerable level of industrial development did in fact take place, fostering the development of more efficient industrial branches.<sup>14</sup> Later we shall examine why Martínez de Hoz advocated a ‘mixed’ economy: one with both efficient industrial and agricultural sectors capable of exporting their products. Returning to an emphasis on agricultural exports and economic liberalization may not have been economically prejudicial, keeping in mind the actual level of industrialization that occurred during the agro-export phase and the fact that overall economic growth was substantially higher in Argentina when liberalization was at its highest, when the country was most ‘open.’<sup>15</sup>

Much of Peralta Ramos’ interpretation coincides with that of Rapoport, yet her sectoral analysis, her gauging of the ‘winners’ and ‘losers’ of economic policies, puts more emphasis on the alleged transfer of national income from industry to agriculture. Additionally, Peralta Ramos suggests that the financial reforms implemented by Martínez

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<sup>14</sup> See Rocchi, 2006

<sup>15</sup> Fundación Norte y Sur (2005) *Dos siglos de economía argentina: Historia argentina en cifras*, Editorial El Ateneo, Buenos Aires; p. 18 (Hereinafter abbreviated as *Dos Siglos*)

de Hoz intentionally directed a great portion of the national income to the financial sector, as financial speculation became a leading economic activity, greatly increasing its share of national income.<sup>16</sup> Peralta Ramos argues that industrial firms maintained high prices on the black market and began buying stocks in spite of reductions in the wages paid to workers; however, these activities may have been the reaction to increased foreign competition. Many economic historians hold that the emergence of financial speculation was responsible for the ultimate failure of the economic reforms<sup>17</sup>, but as seen in many of his speeches and interviews, Martínez de Hoz discouraged the practice and even took measures to eliminate it.

These structuralist scholars adopt an apocalyptic view of the ‘deindustrialization’ process, and exhibit a Marxian understanding of economic policy as being forged within the ranks of elite in order to maintain power at the expense of the working classes. Not all scholars consider the Martínez de Hoz economic strategy to be an elitist, anti-worker plot. Indeed, some scholars view the Proceso as “a bourgeois revolution against the proletariat...and the bourgeoisie.”<sup>18</sup>As we shall see, the detractors of Martínez de Hoz’s economic reforms base their claims that the minister’s policies were undemocratic on widely unsubstantiated assumptions. This study seeks to construct a more balanced and objective view of the policies.

#### v. Martínez de Hoz and *Modernización Industrial*

The objectives supposed by this leftist, structuralist camp depart greatly from those espoused by Martínez de Hoz himself. In 1981, the Minister of Economy published

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<sup>16</sup> Peralta Ramos, pp. 170-71

<sup>17</sup> See Rapoport, 2005; Peralta Ramos, 2007; Basualdo, 2006

<sup>18</sup> Cavarozzi, Marcelo (1997) *Autoritarismo y democracia (1955-1996): La transición del estado al mercado en la Argentina*; Ariel, Buenos Aires; p. 75

a book entitled *Bases para una Argentina moderna* (Basis for a Modern Argentina) to explain the basic tenets, ideas and principles behind his economic policy decisions and objectives, along with the instruments used to meet those goals. A compilation of speeches and newspaper interviews of Martínez de Hoz during his time in office provides similar insight. In Martínez de Hoz's view, traditional Argentine industrial policy centered around measures adopted in favor of bettering industry's profitability, by merely implementing protectionist policies and state promotion mechanisms without regard to imperatives such as productivity and efficiency.<sup>19</sup> For that reason, Martínez de Hoz orchestrated an economic plan oriented towards 'industrial modernization,' not a 'deindustrialization campaign.' Since many of the industrial branches had developed under the heavy hand of the state and with the aid of high protective barriers from foreign competition, Martínez de Hoz believed that industrial diversification had reached an unhealthy level, generating a sub-optimal level allocation of resources. The Minister of Economy believed that "you cannot produce everything and anything in one country."<sup>20</sup> The logic underpinning his assumption is that the dimensions of Argentina's industry had surpassed the country's industrial capacity.

In crafting his economic strategy, Martínez de Hoz clearly subscribed to a new understanding of the international division of labor. Economists and policymakers that supported import-substitution economic policies tended to subscribe to the tenets of dependency theory, the Presbischian notion that resources in the world market flow from poor and underdeveloped countries in the 'periphery' to the rich, developed and industrial nations of the 'core,' enriching the core at the expense of those peripheral nations.

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<sup>19</sup> Martínez de Hoz, José Alfredo (1981) *Bases para una Argentina moderna*; Compañía Impresora Argentina, Buenos Aires, p. 150

<sup>20</sup> Martínez de Hoz: Speech, Nov. 17, 1980

Martínez de Hoz considered outdated “the simplistic concepts that assume that speaking of the ‘international division of labor’ means that certain countries will be the providers of raw materials, and others, in turn, will provide them with industrial products.”<sup>21</sup> In his speeches and interviews, the forward-looking Minister of Economy insisted on the word “modern.” The modern concept of the international division of labor “allows for the exchange of parts, of components of products, thanks precisely to the exportation and reciprocal importation that economic liberalization makes possible, with which final industrial products can be produced, partly by local production, partly by foreign.”<sup>22</sup>

In order to solve the inflationary problems that had afflicted the economy in 1975, Martínez de Hoz saw only two solutions: either to slightly lower real wages, putting them in line with national productivity, or maintain high real wages and cause massive unemployment.<sup>23</sup> Martínez de Hoz subscribed to a structural interpretation regarding the causes of inflation in Argentina. It had long been supposed that increases in prices were caused by the *puja distributiva* (the struggle over wealth distribution, also known as ‘the price/wage spiral’), as different sides of the wage bargain clamored to protect their real incomes in the face of present inflation. In this view, reducing real wages may have been a necessary evil to stop the rampant inflation that paralyzed the Argentine economy prior to the 1976 coup d’état. Empirical evidence demonstrates that inflation had been

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<sup>21</sup> Speech: Nov. 17, 1980. Translated from the Spanish: “todavía oímos repetir por algunos los conceptos simplistas que afirman que hablar de división internacional del trabajo significa decir que unos países serán proveedores de materias primas y otros a su vez les proveerán de los productos industriales.”

<sup>22</sup> Ibid; “Y ello permite el intercambio de partes, de componentes de productos, gracias precisamente a las exportaciones y a las importaciones recíprocas que la apertura de la economía hace posible, con lo cual se podrán lograr productos industriales finales que podrán ser debidos en parte a la producción local y en parte a la extranjera.”

<sup>23</sup> Martínez de Hoz, *Mensaje a todo el país por radiotelefonía y televisión, sobre el tema “Precios y salarios” — 22 de septiembre de 1976* (Hereinafter, *Speech: Sept. 22, 1976*)

contained during the first stages of the Martínez de Hoz economic plan, but this initial success was derailed with the onset heavy financial speculation.

#### vi. Towards a More Balanced Understanding

Combining an examination of their goals, justifications, and outcomes, this study proposes a more objective understanding of the economic policies implemented by Martínez de Hoz. The structuralist perspective of the Martínez de Hoz program has significant shortcomings. Conceptualizing the policies as ‘deindustrialist’ discourages any examination of the economic unsustainability of industrialization by import-substitution, and invites viewing the industrial sector as a monolith. The new Plan intended to solve the immediate crises that saddled the economy in 1975—hyperinflation and deep recession—while laying the foundations for more efficient economic system. Though a policy of its time with considerable flaws, the new economic policy proposed a radical departure from the marked failure of the past. The good progress in the initial years, most critics agree, came to an end when short-term financial speculation spun out of control, extending indebtedness, causing another inflationary outbreak and leading to the destabilization of the Proceso.

The development of such activity can appropriately be understood as the unintended consequences of the modernization program based solely on neoliberal economic theory. Economic orthodoxy prescribes financial reform as a means of enhancing the allocation of funds within an economy. The Martínez de Hoz Plan intended to replace state-subsidized credit with a strong financial sector to direct to growth of the industrial sector. While highlighting the limitations of structuralist theory, this study will also consider the shortcomings of neoliberal policies. The concrete steps of the Martinez de Hoz strategy had clear and rational justifications when viewed in light of the failures

of the previous economic system; however, one could argue that its flaws arose primarily because it did not put emphasis on the need for strong institutions.

The deindustrializationist view also fails to consider that world-wide increases in industrial efficiency, as seen in the examples of the *Asian tigers* in the early 1970s, had made the Argentine industrial apparatus obsolete. Indeed, the economic ‘opening’ executed by Martínez de Hoz responded to international currents of liberalization in the wake of the oil crisis of 1973. In contrast to import-substitution policies that severed the Argentine economy from international technology flows, economic liberalization was meant to facilitate technology transfers, as well as force firms to increase efficiency. After years of heavy state-led industrial development, such policies may have been justifiable in order to achieve optimal resource allocation. Rather than an elitist scheme to redistribute the national income at the expense of the working class, wage caps were implemented in order to retard the inflationary spiral. The economic policies of Martínez de Hoz were not oriented at purposely benefiting the agrarian or financial capital elite at the expense of the working class, but were rather oriented at modernizing the Argentine industrial apparatus, and experienced some success in the initial years.

#### vii. Plan for this study

The Martínez de Hoz economic program constituted a significant rupture with previous economic policies in Argentina. The policies ranging from 1930 to the beginning of the Proceso in 1976 encompassed a process of import-substitution industrialization (ISI), an economic model that became widely used throughout Latin America after the structuralist notion of dependency theory swept the region. Martínez de Hoz strongly criticized the ISI models, holding that heavy state involvement in industrial development merely “distorted” the economy and skewed the allocation of resources in a

sub-optimal direction. Chapter II of this study will examine the inefficiencies inherent in the Argentine ISI model. Considering the failure of the ISI model, due to its frequent balance of payments problems, high fiscal deficits, and rampant inflation, the implementation of the Martínez de Hoz reforms seems entirely rational.

We shall then move on to outline the reforms implemented by Martínez de Hoz, review how their implementation and effects have been viewed by some scholars, and finally challenge that interpretation. The official pronouncements of the economic policies will be examined alongside aggregate data and other empirical evidence, in order to gauge the extent to which the claimed goals were met. This analysis will be carried out systematically in respect to three main topics: wages, prices, inflation control, and financial reform; agrarian policy; and economic liberalization and industrial modernization.

Chapter III will discuss the inflation control measures and financial reform implemented by Martínez de Hoz. Certain scholars suggest that by freezing wages Martínez de Hoz intended to discipline the working class and redistribute national income in favor of the elite, but we shall see how the wage freeze was intended to stop inflation. Additionally, after wage control appeared to be ineffective as a means for controlling inflation, prices were frozen, indicating that no such objective of distributing income in favor of the elites existed. The 1977 financial reform was one of the most controversial aspects of the economic package. It provoked the onset of short-term financial speculation, ultimately creating the conditions that led to the destabilization of the Proceso. Both Rapoport and Peralta Ramos consider that Martínez de Hoz had the intent of creating a new political and economic actor: financial speculators.

Chapter IV will discuss the agricultural sector. While Rapoport and Ramos envision a pact between the landed elite and the military leaders, Martínez de Hoz spoke of “harmonizing” relations the two sectors in order to prevent inflation. Agricultural exports were crucial to obtain foreign currency for imports, and we shall see how the Minister of Economy intended to increase exports from the agricultural sector, the area in which Argentina was thought to have a comparative advantage, in order to ease the balance of payments constraints discussed in Chapter II. The Minister of Economy also elaborated on the tremendous productive potential of the agricultural sector; studies from the World Bank illustrate the underdevelopment of agricultural potential during the ISI period, while other data indicate that the transfer of income from the industrial to the agricultural sectors may not have been as great as some authors have assumed.

Chapter V entertains a fundamental question: deindustrialization or industrial modernization? This chapter illustrates some of the gains that the Martínez de Hoz Plan yielded in industrial production and productivity.

## II. Argentine Industrial Expansion Under the Import-Substitution Model

### i. Introduction

Recent research has revealed that industrial growth had taken place in Argentina during the export-boom years (ranging from 1880 until the Great Depression), resulting from increases in aggregate demand, new tariffs, and a favorable exchange rate and financial atmosphere.<sup>24</sup> However, scholars of the structuralist school agree that the brunt of industrial expansion occurred during and after the 1930s with the inception of import-substitution policies. Since Martínez de Hoz's diagnosis of the problems within the Argentine industrial structure is critical of the state-led development during the import-substitution phase, this chapter intends to outline the contours of the economic policies during the ISI period, examining how they fostered unsustainable industrial (and total economic) growth. Rapoport observes that "until the mid-1970s, Argentina had an industrial apparatus with deficiencies and problems but of respectable dimensions, and, even in spite of the various balance of payments crises and inflationary cycles, sustained and relatively acceptable growth rates."<sup>25</sup> It is true, from 1950 to 1974, the average growth rates in industrial output were "sustained and relatively acceptable," averaging 5.2 percent.<sup>26</sup> However, sustained growth rates do not indicate that the industrial expansion during that period was sustainable.

Highlighting the inefficiencies inherent in ISI model is important to reveal the logic underpinning the reforms instituted by Martínez de Hoz. Brennan notes that the

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<sup>24</sup> See Rocchi, 2006

<sup>25</sup> Rapoport, p. 646. Translated from the Spanish: "la Argentina tenía hasta mediados de los 70 un aparato industrial con deficiencias y problemas pero de dimensiones respetables, y a pesar de diversas crisis en la balanza de pagos y procesos inflacionarios, tasas de crecimiento sostenidas y relativamente aceptables."

<sup>26</sup> Dos Siglos, 189; Table 3.2.1 *GDP by Sectors—Constant Prices*

neoliberal reforms characteristic of the Proceso “based their claims to legitimacy on history, promoting a highly tendentious interpretation of the causes of Argentina’s economic troubles as the justification for radical solutions.”<sup>27</sup> Within the Argentine ISI model, economic policy varied significantly regarding its approach to industrial development. Some economic reforms attempted to deepen the substitution model: the Peronist administration’s ISI model (1946-55) emphasized substitution in light industries oriented towards the domestic market, placing constraints on foreign investment. On the other hand, the Frondizi administration’s *desarrollismo* (developmentalism, 1958-62) sought to deepen substitution and attain the highest level of autarky, while explicitly inviting foreign investment. Meanwhile, other strategies emphasized the promotion of industrial exports so as to balance the foreign accounts, in an attempt to avoid foreign currency bottlenecks that limited the importation of intermediate and capital goods.<sup>28</sup>

Argentina’s first experiment at economic modernization under an authoritarian military regime—the Onganía administration’s economic reforms, championed by the Minister of Economy Krieger Vasena, 1966-70—attempted to elevate efficiency by reducing tariff protection, but left the structure of the industrial complex erected by previous ISI policies unaltered. The Krieger Vasena reforms retained heavy state subsidies as well as the orientation towards the internal market. The varying ISI policies embodied three common denominators: heavy state involvement, the dependence on the domestic economy as a market for industrial products, and the sustained importation of capital and intermediate goods.

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<sup>27</sup> Brennan, p. 49

<sup>28</sup> Barbero and Rocchi, pp. 267-69

ISI-style industrial expansion will be examined in three main time-frames: 1930-1948 when substitution greatly accelerated the rate of expansion, making manufacturing the most dynamic sector of the economy; 1946-1955, when Peronist administration oriented industrial production to the domestic market; and 1954-1974, a period that saw, initially, the deepening of substitution, and later, the promotion of industrial exports.<sup>29</sup> The main objective of this chapter is to illustrate that ISI-oriented policies fostered sub-optimal industrial development.

#### ii. The Great Depression, and the Initial Turn Inward, 1930-1948

Though recent scholarship has revealed that there was significant industrial development in Argentina during the late nineteenth and the early twentieth centuries, the period of most significant industrial expansion began during the 1930s, when the onset of the Great Depression prompted more state intervention in the economy. Embodying the structuralist understanding of Argentine industrialization, Peralta Ramos indicates that industry merely accompanied economic growth during the first three decades of the twentieth century. Though the period saw considerable expansion, structuralists believe that industry did not play a dynamic role in overall economic growth. Additionally, industrial growth yielded a more basic industrial structure: the dominant industrial branches were foodstuffs, textiles, wood and leather works.<sup>30</sup> The economic crisis caused by the Great Depression during the 1930s changed this pattern of development, leading industrial development to play a dynamic role in overall economic growth. The abrupt drop in agricultural prices adversely affected the agricultural sector, diminishing its participation in the national income.

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<sup>29</sup> Periodization found in Barbero and Rocchi, pp. 263-285

<sup>30</sup> Peralta Ramos, p. 71

Brennan indicates that many states in Latin America witnessed greater state involvement in the economy throughout the 1930s, but what was unique to Argentina was

the resilience of its export sector and the ability of the state to allocate resources in what was a prosperous economy with high rates of capital accumulation, savings, and investment. The precocious development of industry in Argentina was only one of many indicators of the country's privileged position in the region.<sup>31</sup>

Exchange controls, tariff hikes and the depreciation of the Argentine peso allowed industry to flourish.<sup>32</sup> Over the course of the 1930s, the rate of substitution (the fraction of consumption goods produced domestically) increased to 63 percent. Additionally, stability in real wages and the excess availability of labor resulting from rural-urban migration allow for the relative price of industrial goods to fall.<sup>33</sup>

Peralta Ramos estimates that, from 1930 to 1960, over 90 percent of industrial growth resulted from reducing imports of manufactured products. Two stages denoting changes in the industrial structure during the ISI period can be observed: 1929-1948, which saw the proliferation of light industry (textiles and foodstuffs), accounting for 45 percent of total industrial growth, while heavy industry (mainly metallurgy) represented only 22 percent.<sup>34</sup> The second stage (1948-61) saw the proliferation of heavy industry, with steel and metal works representing 57 percent of industrial growth and textiles and foodstuffs accounting for only 9 percent. Foreign investment played a major role in financing the capital accumulation necessary to develop Argentine industry. Peralta Ramos characterizes the ISI-style industrial development (especially until the onset of the

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<sup>31</sup> Brennan, p. 50

<sup>32</sup> Peralta Ramos, p. 71; Barbero and Rocchi, p. 275

<sup>33</sup> Barbero and Rocchi, p. 275

<sup>34</sup> Peralta Ramos, p. 72

Peronist government in 1946) as “industrialization without industrial revolution,” which she defines as industrial expansion dependent on heavy foreign investment.<sup>35</sup>

During the 1930s, more than 50 percent of industry belonged to foreign investors.<sup>36</sup> These large firms were closely tied to foreign capital and oriented to the production of non-durable consumer goods (such as foodstuffs and fuels). Specializing in non-durable consumer goods lessened the risk of losing foreign markets in industrialized nations’ economies, which specialized more and more in the production of capital goods, intermediate goods, and durable consumer goods (automobiles, appliances, etc.).<sup>37</sup> While foreign direct investment executed by multinational firms aided in providing capital for industrial expansion, it caused significant problems in the future, since many companies repatriated funds, thereby exacerbating balance of payments problems. These large industrial firms wielded great influence over the formulation of economic policy, and their goals coincided with those of the most powerful agricultural factions, both of which supported a model of industrialization limited to light industries.<sup>38</sup> The 1930s ushered in a form of political clientelism that pervaded through the ISI period, under which economic policy catered largely to sectoral interests and not the interests of the economy as a whole.

Rather than sparking conflict between the agricultural and industrial sectors, industrialization in Argentina generated rigid divisions within the industrial bourgeoisie itself. In the initial years of the ISI period, 57.6 percent of the total industrial output was

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<sup>35</sup> Peralta Ramos, p. 101. Direct citation translated from the Spanish: “industrialización sin revolución industrial”

<sup>36</sup> *Ibid.*, p. 86

<sup>37</sup> *Ibid.*, p. 88

<sup>38</sup> *Ibid.*

produced by 1.4 percent of the industrial firms.<sup>39</sup> The medium and small industrial firms were incapable of opposing the hegemonic industrial development, and because of their smaller size, their existence was threatened by the large firms tied to foreign capital.<sup>40</sup> Instead of a rupture between the agricultural and industrial sectors (characteristic of industrializing economies), the ISI development in Argentina fractionalized the industrial bourgeoisie, “creating the structural conditions for the formation of an alliance between classes and factions within classes that had the objective of transforming the productive structure of the country.”<sup>41</sup>

Sustained industrial expansion, however, did not mean sustainable expansion. Along with the proliferation of new plants came inefficiencies within the context of a more closed economy: “[t]echnological designs were antiquated, equipment consisted of used or obsolete machinery, and subcontractors and suppliers of inputs and spare parts were lacking.”<sup>42</sup> The Second World War made the limitations of this model evident. The decline in imports of intermediate and capital goods from belligerent countries made it clear that “there was not only a potential problem for the current account but also a potential crisis in supply.”<sup>43</sup> The Second World War exposed this problem, but increased industrial exports to countries formerly served by the belligerent nations initially allowed for continued growth. After the war, debates emerged over whether exports or the

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<sup>39</sup> Peralta Ramos, p. 87

<sup>40</sup> Ibid., p. 89

<sup>41</sup> Ibid., p. 89. Translated from the Spanish: “Ello creó las condiciones estructurales para la constitución de una alianza entre clases y fracciones de clase que tuvo por objetivo una transformación de la estructura productiva del país.”

<sup>42</sup> Barbero and Rocchi, p. 277

<sup>43</sup> Ibid., p. 277

domestic market should be privileged. Large companies favored the export strategy, as it did not entail the corollary of increased wage costs of the domestic market approach.<sup>44</sup>

### iii. The Peronist Domestic Market Orientation, 1946-54

In the end, the Peronist administration put an end to the debate, implementing an industrial growth model based on the domestic market. Though during the first two years of the Peronist administration, this model appeared to be successful, sustaining industrial growth rates of 6.3 percent between 1946 and 1948, Barbero and Rocchi argue:

The market's dimensions limited industrial expansion, rapidly making apparent the shortcomings of closed economic policies in a small country. Those dimensions revolved around the size and distribution of income, which were crucial since they affected—via the composition of demand—the profile of industry and the development of technology.<sup>45</sup>

The domestic market orientation chosen by the Peronist administration was unsuitable for sustainable industrial growth. From 1946 to 1955, the manufacturing industry grew at an annual rate of just 3.0 percent, a disappointing figure when population growth is taken into account.<sup>46</sup> The high rates seen in the initial years were only sustainable as long as there was enough foreign currency to support the purchase of the required capital goods, and the fall in primary exports and depletion of reserves after 1948 precluded industrial growth by the same model.<sup>47</sup>

The Peronist industrial growth model was inherently unsustainable, inasmuch as the domestic market orientation did not generate the foreign currency needed to compensate for the import requirements of intermediate and capital goods.<sup>48</sup> The state extended subsidies to industry to import inputs by overvaluing the exchange rate (making

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<sup>44</sup> Barbero and Rocchi, pp. 277-78

<sup>45</sup> *Ibid.*, p. 278

<sup>46</sup> *Ibid.*, p. 279

<sup>47</sup> *Ibid.*, p. 280

<sup>48</sup> *Ibid.*, p. 280

imports in general cheaper for Argentines, yet making Argentine exports more expensive for foreigners). Despite the increased protectionism prevalent during the Peron administration, the high demand for industrial intermediate and capital goods coupled with the currency overvaluation meant that Argentine imports inevitably outstripped exports, yielding a chronic foreign currency shortage. The foreign currency bottleneck could have been overcome by promoting the export of industrial goods; yet such an effort was incongruent with Peronist social policy, as it required a reduction in wage costs and domestic consumption. The failure to increase the rate of substitution also resulted from the indiscriminate protection for existing industry, based on the objective of maintaining high employment levels a stable supply of consumer goods.<sup>49</sup>

#### iv. The Climax Before the Fall: Substitution and Export Promotion, 1955-75

The fall of the Peronist administration ushered in a change in the ISI model through two avenues: a greater deal of import substitution, both in intermediate and capital goods, and the promotion of industrial exports.<sup>50</sup> The reforms implemented by the Frondizi administration (1958-62), termed *desarrollismo* (developmentalism), proposed deepening substitution to the fullest extent possible, while boosting investment in basic goods and natural resources, prioritizing oil, gas, steel, electricity, cement, paper, equipment, and machinery. Contrary to the Peronist model, which limited foreign investment, this approach entailed the explicit invitation of foreign capital, and it contemplated increases in productivity through the incorporation of the latest technological advances.<sup>51</sup> *Desarrollismo* did not yield the expected results in the balance of payments; the mix of industrial production favored by the policy was geared towards

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<sup>49</sup> Barbero and Rocchi, p. 280

<sup>50</sup> Ibid, p. 282

<sup>51</sup> Ibid., p. 283

heavy, capital-intensive industries, and the unblocked importation of intermediate and capital goods caused total imports to increase. The incapacity of *desarrollismo* to foster sustainable industrial growth lay within the external sector, as deficits in the current account persisted throughout the 1960s.<sup>52</sup>

Between 1964 and 1974, industrial growth reached its lowest in 1966; however, shortly thereafter the economic program piloted by the Minister of Economy Kreiger Vasena restored the previous growth pattern, and industry grew at rates around 6 percent for the next 7 years. The program included a devaluation of the currency, making foreign imports more expensive to Argentine buyers, which meant an elevated level of protection from external competition.<sup>53</sup> Despite attempts to increase industrial exports throughout the 1960s and early 1970s, industrial production remained oriented to the domestic market, except for the processed food sector. Barbero and Rocchi highlight the domestic market orientation as ISI-style policies' greatest weakness: "Production for the highly protected domestic market generated a distorted structure of costs and relative prices, with low productivity and oligopolistic tendencies."<sup>54</sup>

Attempts to overcome the domestic market focus, such as export promotion, markedly failed because they did not alter the fundamentals of the ISI economic system.

Research by the World Bank sustains:

The deterioration of overall economic policy, exacerbated by the increasing fiscal burden of subsidies, and rising wage costs (in foreign-currency terms), soon halted the expansion of industrial exports. Since export promotion had been conceived principally as a remedy to a short-term balance of payments problem, and not as a comprehensive effort to

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<sup>52</sup> Barbero and Rocchi, p. 284

<sup>53</sup> Rapoport, pp. 582-83

<sup>54</sup> Barbero and Rocchi, p. 285

move away from the inward-oriented industrialization strategy, it failed to spark a major export drive.<sup>55</sup>

Martínez de Hoz proposed a revolutionarily different economic system, one not confined by fiscal burdens, with their corollary of high inflation, and one free of foreign currency bottlenecks, increasing exports by the industrial sector as well as by the sector in which Argentina had tremendous yet underdeveloped potential: agriculture.

#### v. ISI in Crisis

Research conducted by the World Bank gives greater detail to what Barbero and Rocchi term the “distorted structure of costs and relative prices” that prevailed during the ISI period. The 1983 *Economic Memorandum* sustains that ISI policies led to wasteful use of capital, since industrial profitability was assured by high foreign trade barriers as well as subsidized credit, and industrial firms were spared concern for cost consciousness or efficient scale of production. According to the study, industrial firms were able to ignore intangible production factors such as quality control, market research and rationalization, so long as they remained shielded from international competition. Additionally, industrial firms faced little competition “from each other in the concentrated domestic market; profits depended importantly on a firm’s access to subsidized credit, public sector contracts, and protective trade barriers against imports.”<sup>56</sup>

The most outstanding inefficiency of the ISI model in Argentina was the frequent balance of payments crises that it generated. Balance of payments is a measurement defined by a country’s exports minus its imports of goods, services, and financial capital (generally represented by the equation X-M). Reflecting a country’s payments and

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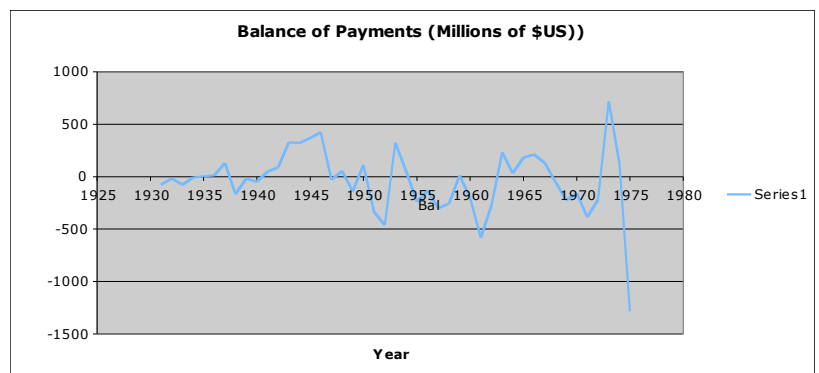
<sup>55</sup> World Bank (1985) *Argentina: Economic Memorandum: A World Bank Country Study Volume 7*; Washington, DC; p. 160 (Hereinafter abbreviated as *W.B.*)

<sup>56</sup> *Ibid.*, p. 159

liabilities to foreigners, as well as its receipts and obligations from foreigners, this measure is typically used to indicate a country's status in international trade. Some economists argue that a current account deficit is not always a bad thing, as long as it is driven by the private sector (commonly referred to as the Pitchford Thesis). In the case of Argentina, the ISI-period saw heavy government spending. During the ISI period, the annual industrial growth rate fluctuated between 14 percent and -10 percent, as a result of periodic balance of payments crises and major policy shifts.<sup>57</sup>

The graph below demonstrates the recurrence of significant balance of payments deficits characteristic of the ISI model in Argentina.<sup>58</sup> This figure clearly illustrates the

pattern of current account vacillations that emerged after the 1930s. Excluding the wartime period, five periods of significant current account deficits can be identified, the worst of which



ensued in the mid-1970s during the second Perón administration, when inconsistent exchange rate policies and rising labor costs paralyzed the industrial sector. In 1975, the real exchange rate dropped 11 percent below its 1970 level, industrial production fell 2.5 percent, and manufacturing exports, and manufacturing exports plummeted 40 percent.<sup>59</sup>

The pattern of cyclical balance of payments crises came to its zenith in March of 1976,

<sup>57</sup> W.B., 159

<sup>58</sup> Data found in *Dos Siglos*, pp. 640-41: Table *Balanza de pagos*

<sup>59</sup> W.B., p. 160

according to Martínez de Hoz, when Argentina virtually stopped all international payments.<sup>60</sup>

The *Economic Memorandum* indicates numerous shortcomings of economic policy during the ISI period aside from current account bottlenecks. It has already been noted that constituency interests, which did not coincide with the needs of the economy as a whole, played a significant role in shaping economic policy. The focus on production for the domestic market largely favored capital-intensive industries, curtailing the ability of industrial growth to be a dynamic job-provider. Additionally, radical industrial unionization “aimed at maximizing the benefits of those already employed, an objective which often conflicted with that of extending industrial employment.” Data on urban population and employment growth highlights the sub-par performance of industrial labor-absorption: during the 1950s and 1960s, the urban population was growing at an annual average rate of 2.2 percent, and total employment in Argentina at a rate of 0.9 percent, while industry industrial employment increased only 0.6 percent.<sup>61</sup> While workers’ unions played a key role in bettering working conditions and salaries, a more communitarian approach to economic policy could have further extended job opportunities to a broader cross-section of the population.

Also important was the way in which ISI policies severed Argentina from international flows of technology. During the majority of the ISI period, severe limitations were placed on the entrance of multinational firms in Argentina. Additionally, the inward-orientation of industrial production prevented international firms from serving as “carriers of up-to-date technology, efficient organization and as crucial links to export

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<sup>60</sup> Martínez de Hoz, *Discurso pronunciado en el acto celebratorio “Día de la exportación”, sobre el comercio internacional – 14 de noviembre de 1978*

<sup>61</sup> W.B., p. 159

markets,” significantly attenuating the maturation of Argentine industry. The foreign firms that did enter responded to the signals generated by inward-looking policies, and thereby “brought the minimum technologies required by the laws regulating foreign investments, largely assimilated local organizational patterns and concentrated their efforts on domestic scales.”<sup>62</sup>

#### vi. Conclusion: The Failure of the ISI Model

This chapter has illustrated the numerous inefficiencies within the ISI model in Argentina, a model that Martínez de Hoz sought to radically change. Our discussion began with an overview of ISI industrial development that started shortly after the Great Depression, when policymakers manipulated the exchange rates (seeking a competitive peso via exchange-rate depreciation) and erected trade barriers in order to transform industry into the most dynamic sector. Initially, foreign direct investment played a pivotal role in fostering industrial growth, first in light industries (mainly textiles and foodstuffs), then in heavy industries (principally metallurgy). The 1930s saw the emergence of a tradition of political clientelism under which large firms tied with multinational corporations wielded great influence over the formation of economic policy. Brennan observes that this pattern of opportunism continued throughout the ISI period:

The failures of this model seem to have had more to do with the ineffectiveness of state intervention and political manipulation of public agencies such as the banking system than with intervention per se. Economic planning did not fail in Argentina; genuine economic planning was never attempted. Rather, successive governments devised policies in accordance with the sectoral interests they represented, expressed as broad ideological precepts that served in reality to justify rather than to determine the behavior of interest groups and corporative organizations.<sup>63</sup>

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<sup>62</sup> W.B., p. 160

<sup>63</sup> Brennan, p. 64

Peronism marked a shift in industrial expansion with its domestic market orientation. Despite the initial success in the immediate post-war era, the Peronist economic model failed because industrial growth did not generate the foreign currency needed to purchase intermediate goods from abroad. Frondizi's *desarrollismo* attempted to change this by completely unblocking the importation of capital goods. This strategy, too, failed, because the high costs of intermediate and capital goods caused imports to outstrip exports, provoking another balance of payments crisis.

Overall, as Barbero and Rocchi observe, ISI yielded a distorted structure of relative prices and costs. While labor unions pushed for higher wages, state subsidies allowed industrialists to cover the higher wage costs without any concern for productivity or efficiency, erecting the dilapidated industrial apparatus that Martínez de Hoz sought to modernize. We shall now turn to our discussion of Martínez de Hoz's reform program.

### **III. From “Putting Out the Flames” to Establishing a New Economic System: Martínez de Hoz’s Wage and Price Policies and the 1977 Financial Reform**

#### **i. Introduction**

During what scholars have termed the phase of ‘Traditional Orthodox Stabilization’ (April 1976—May 1977), the Martínez de Hoz economic plan embodied two overarching objectives: on the one hand, the Minister of Economy set out to solve the immediate crisis of the Argentine economy caused by the economic mismanagement of the second Perón administration. In the initial stage of the economic plan, wages were frozen while prices were liberated. Initially, the anti-inflationary wage-freeze slowed inflation, but by early 1977 inflation accelerated again, making apparent the ineffectiveness of the initial stabilization measures. Controlling wages was not enough; prices had to be capped as well.<sup>64</sup> The Martínez de Hoz economic team retained the initial diagnosis of excess-demand inflation, obliging nearly 800 of the largest companies to accept a six-month ‘price truce.’<sup>65</sup> On the other hand, Martínez de Hoz proposed to change the fundamental problems created by previous economic policies. To accomplish this, it was necessary to change “the rules of the game” of the economic system.<sup>66</sup>

In his public addresses, Martínez de Hoz emphasized the three principle aspects of the economic crisis at hand upon taking office: hyperinflation, deep recession, and a balance of payments crisis that put Argentina on the brink of ceasing all international payments. In response to the crisis, the Minister of Economy saw the stabilization task as

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<sup>64</sup> Smith, p. 237

<sup>65</sup> Peralta Ramos, p. 169

<sup>66</sup> Martínez de Hoz, Speech: Sept. 22, 1976. Translated from the Spanish: “Para ello, era imprescindible cambiar las reglas de juego del sistema económico.”

“putting out the flames” that were devouring the Argentine economy.<sup>67</sup> Excess demand was assumed to be the motor behind the soaring inflation rates, and the prescribed remedy followed IMF-style stabilization formulas. Along with a free-market approach and reduced state-intervention, a foreign investment law was enacted to attract foreign capital. Most price controls were eliminated, but control over wages was enforced. Government spending was curtailed and taxes were raised to ease the rampant fiscal crisis.<sup>68</sup>

The second phase of the Martínez de Hoz strategy has been termed ‘Orthodox Monetarist Stabilization’ (June 1977—April 1978). The centerpiece was perhaps the most controversial aspect of the new economic strategy: the financial reform of June 1977. The reform entailed the freeing of interest rates, in order to attract financial capital from foreigners, and the decentralization of bank deposits, thereby linking the banking sector to short-term capital markets. Though the mechanisms implemented to attract foreign capital were successful in building up foreign-exchange reserves, they had an inflationary impact on the domestic money supply. In September of 1977, Martínez de Hoz announced additional controls over the expansion of the money supply. Smith highlights that the desired goals of attracting foreign capital and adhering to domestic monetarist orthodoxy were incompatible.<sup>69</sup>

The detractors of the Martínez de Hoz wage and price policies and the financial reform may embody a biased perspective in forming their critiques. Peralta Ramos sustains that the restructuration of the economy had ulterior motives. She implicitly

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<sup>67</sup> Martínez de Hoz, Speech: Sept. 22, 1976. Translated from: “una acción que he comparado gráficamente como la de <<apagar incendios>>.”

<sup>68</sup> Smith, pp. 235-37

<sup>69</sup> Ibid., p. 237

assumes that Martínez de Hoz had sought to increase the profitability of big business by drastically decreasing wages and increasing labor productivity.<sup>70</sup> Rapoport embodies a similar view of the wage and price policies, assuming that Martínez de Hoz set out to discipline wage earners and provoke a regressive wealth distribution.<sup>71</sup> The critiques of these scholars fail to grasp the complex justifications underpinning Martínez de Hoz's wage and price policies. Rapoport and Peralta Ramos seem to view the policies as an unraveling of the Peronist social fabric that had greatly benefited the working class. Contrastingly, Martínez de Hoz implemented the wage and price policies in response to a multidimensional crisis: on the conjunctural level, hyperinflation and deep recession, and on the structural level, an economy with numerous inefficiencies, performing below its potential.

The process of 'deindustrialization', as understood by Rapoport, entailed a decisive transformation of the Argentine economic system, shifting the motor of economic growth from the industrial to the financial sector. Similarly, Peralta Ramos assumes that Martínez de Hoz intended to increase the political and economic power of the new social actor: financial capital. She describes this as an explicit strategic objective of the military government.<sup>72</sup> Martínez de Hoz himself had the conviction that high state involvement in the allocation of resources was less efficient than the private sector, aside from the inflationary causes of chronic fiscal deficits arising from high public spending.<sup>73</sup>

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<sup>70</sup> Peralta Ramos, p. 165

<sup>71</sup> Rapoport, pp. 644-45

<sup>72</sup> Peralta Ramos, p. 165

<sup>73</sup> Martínez de Hoz, *Discurso en la Coordinadora de las Industrias de Productos Alimenticios – 9 de octubre de 1978*

## ii. Putting Out the Flames: Conjunctural Objectives

Wage and price policies provoked great debate in the initial stages of the Proceso, both within the economic cabinet as well as the broader public. In his speeches and interviews, Martínez de Hoz emphasized the precarious conditions that his economic team inherited: in 1975 and early 1976, the Argentine economy faced hyperinflation, a drastic recession, and a paralyzing balance of payments crisis.

Smith notes that the first wave of instability during the second Perón administration came in 1974, when “the social pact among organized labor, the national bourgeoisie, and the state fell victim to the coup de grâce delivered by the Arab-Israeli war of the previous year.” Argentina’s favorable terms-of-trade were suddenly reversed as the oil prices sharply outdistanced the price of primary exports in international markets. In the face of the world crisis, industrialists abandoned price freezes, and the CGT (General Confederation of Labor) and unions demanded wage increases—structural inflation which had been in decline, rebounded abruptly in 1974. Just when the situation’s intensity reached a pivotal moment, Perón’s health failed in July 1974, delivering a deadly blow to the regime’s already frail stability.<sup>74</sup>

Perón’s successor was his second wife and vice president, Isabel Perón, whose political and economic mismanagement forced the regime to reach the end of its rope. Isabel Perón exhibited a passive attitude towards the economy that had severe inflationary effects. The government alternated in first responding to union demands for higher wages, and then ratifying entrepreneurs’ and rural producers’ requests for price-hikes. The exorbitant inflation rates, compounded with an inefficient tax structure and high government spending, caused the fiscal deficit to grow geometrically during the first

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<sup>74</sup> Smith, p. 229

few months of 1975. Additionally, the high inflation rates effectively caused an appreciation of the Argentine peso in world markets, further exacerbating the balance of payments difficulties.<sup>75</sup>

The grave economic situation heightened political tensions throughout 1975, and in June of that year, the Minister of Economy, Celestino Rodrigo, announced an IMF-style shock-treatment plan. The stabilization efforts included 100 percent devaluation of the peso, as well as a price increase of 90 percent while wages were only increased 20 percent. It is interesting that Rapoport and Peralta Ramos do not accuse Rodrigo (among others whom implemented similar stabilization plans) of attempting to redistribute income in favor of the elite. The tide of popular opposition and demonstrations provoked the government's capitulation, which executed a 140 percent adjustment in nominal wages.<sup>76</sup>

By March of 1976, Argentina faced one of the most profound economic crises of its history. In just that month alone, consumer prices rose 38 percent, while wholesale prices increased 58 percent. The price level had increased 738 percent in the previous 12 months. Argentina held foreign currency reserves of only 10 million USD, only enough for a few weeks of imports. The additional fiscal deficit of 1.3 billion USD put Argentina on brink of ceasing its payments on its foreign obligations. Most industrial firms held high stocks due to the expectations such high inflation provoked, but only enough stocks to last for two to three months of importing the raw materials and intermediate goods they required. The entire industrial apparatus was on the verge of the total paralysis of

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<sup>75</sup> Smith, p. 230

<sup>76</sup> Ibid.

production. Martínez de Hoz assumed that such a situation would cause “massive unemployment...along with a socio-economic crack and politico-institutional chaos.”<sup>77</sup>

Martínez de Hoz’s understanding of the problems posed by skyrocketing inflation is much more nuanced than Rapoport and Peralta Ramos assume. The Minister of Economy saw inflation as being most harmful to the working and middle classes in the distribution of wealth, in addition to putting a damper on savings and investment, financial resources vital to production enhancements and economic growth. Hyperinflation was intimately related with the deep economic recession, which had severely reduced the nation’s total production, as well as the shortages of commercial goods and creation of the black market.<sup>78</sup> Computing nominal wages from March 1975 to March 1976, nominal wages increased 370 percent. On the other hand, the price index increased 566 percent, meaning that nominal wages lost nearly one-third of their purchasing power. Before, wage increases were immediately transferred to price increases, denoting a significant decrease in purchasing power. Martínez de Hoz understood that high inflation affected consumers the most, especially salaried workers, since it rapidly reduced the amount they could buy with their salaries. Therefore, he held that “[t]he best wage increase is the one that is produced in a context of increasing production and productivity, because in this way wages maintain higher purchasing power.”<sup>79</sup>

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<sup>77</sup> Martínez de Hoz, Speech: Sept. 22, 1976. Translated from: “desocupación masiva, realmente masiva, y junto con ello el crack económico-social y el caos político-institucional.”

<sup>78</sup> Ibid.

<sup>79</sup> Martínez de Hoz, Speech: July 10, 1980 “El mejor aumento de salarios es aquel que se produce en un contexto de producción y productividad creciente, porque así los salarios mantienen un mayor poder adquisitivo.”

The situation was such that the Martínez de Hoz team “had no time to worry about untying the knot, and therefore, had to cut it drastically.”<sup>80</sup> With regards to real wages, the Minister of Economy saw two options:

to reduce the relative level of real wages so that it was in line with national production, and so that it could be sustained by national production, or for relatively few to maintain high wages, while many were left with nothing, on the streets, unemployed. This means that the option was: everyone with a little less, or many with nothing and some with a lot.<sup>81</sup>

In implementing the first option, the Martínez de Hoz team “had the general consensus of the salaried sector, including that of the working population, which accepted this situation and the sacrifice that we asked, facing it as a means to come out of the inflationary spiral that had been devouring it.”<sup>82</sup>

Martínez de Hoz had a clear justification as to why real wages were frozen and not prices. Under the ISI model, price controls had attained their highest levels in Argentine history and had failed unquestionably. The new economic policies rested on the firm conviction that ‘the market’ would more efficiently allocate national resources than heavy state involvement: “We did not intend to manage the economy by decree. Instead, we used the tools at our disposal, freeing the market forces so that they had

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<sup>80</sup> Martínez de Hoz, Speech: Sept. 22, 1976. Translated from the Spanish: “No teníamos tiempo de preocuparnos en deshacer este nudo y, por lo tanto, había que cortarlo drásticamente.”

<sup>81</sup> Ibid. Translated from the Spanish: “o disminuir el nivel relativo del salario real para que estuviera de acuerdo con la producción del país, para que pudiera ser soportado por ésta, o que algunos pocos siquieran con muy alto nivel de salario, mientras muchos quedaban sin nada, en la calle, desocupados. Quiere decir que la opción era: todos un poco menos o muchos nada y pocos mucho.”

<sup>82</sup> Martínez de Hoz, *Política de precios – 12 de abril de 1976* (Hereinafter: *Speech: April 12, 1976*). Translated from: “[t]uvimos el consenso general del sector de ingresos fijos, incluyendo el de los trabajadores, que aceptó esta situación y el sacrificio que le pedimos, afrontándolo como un medio de salir del proceso inflacionario que lo estaba devorando.”

positive direction.”<sup>83</sup> The Minister of Economy argued that a price-control regime that entailed high levels of indiscriminant state-subsidization put severe constraints on entrepreneurial investment and production improvements: “we had to nip that system in the bud, in order to bring about the conditions that would stimulate production, for which profitability had to take a social function. Not profitability in the previous sense, a gift to the businessman, but rather the type that is reinvested in the productive process...”<sup>84</sup>

Martínez de Hoz also noted that liberating prices was a very problematic decision within the economic cabinet. Many officials doubted whether the elimination of the price control regime would successfully reduce inflation, while others saw the risk of provoking social unrest: “there were many that did not give us more than thirty days of life as an economic cabinet if the liberalization of prices was carried out.”<sup>85</sup> The presence of such dissention regarding price liberalization suggests that no elite-military conspiracy took place. Freeing prices and freezing wages responded to the conjunctural and structural goals that Martínez de Hoz pursued with his reforms—to control inflation and stimulate production—not to an explicit desire to concentrate wealth in the hands of the elite, as Rapoport and Peralta Ramos have suggested.

In many of his speeches, Martínez de Hoz’s spoke of the sacrifices that each segment of the economy would have to make in the new economic system. Just as workers consented to a lower real wage, businessmen were forced to pay higher taxes and

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<sup>83</sup> Martínez de Hoz, Speech: Sept. 22, 1976. Translated from: “No habíamos pretendido manejar la economía por decreto. En cambio utilizamos los grandes instrumentos a nuestra disposición, liberando las fuerzas del Mercado para que tuvieran acción positiva.”

<sup>84</sup> Ibid. Translated from: “había que eliminarlo de raíz para producir condiciones que volvieran a estimular la producción, para lo cual había que contar con una rentabilidad en función social. No una rentabilidad como regalo al empresario, sino la que se utiliza para invertir en el proceso productivo [...]”

<sup>85</sup> Ibid. Translated from: “Habían [sic] muchos que no nos daban más de treinta días de vida como gabinete económico si tal liberación se cumplía.”

not carry out large-scale layoffs. The Minister of Economy noted that most economists believe an economy must pass through a phase of high unemployment in order to overcome a recession, but in implementing the new plan he begged businessmen not to resort to layoff many workers: “We asked businessmen for their collaboration...so as to avoid the bitter trance of high unemployment, in spite of the lower levels of production in their factories.”<sup>86</sup>

While the Martínez de Hoz highlighted the success the policies had in accomplishing two difficult tasks (recovering from a recession and avoiding high unemployment), Rapoport and Peralta Ramos emphasize the high social cost of Martínez de Hoz’s economic policies. When examined on a broader timeline, data representing social indicators such as unemployment do not converge with such allegations. In comparison with the period of highest unemployment, the end of the 1980s during which the Alfossín administration presided over the highest inflation rates in Argentina’s history, unemployment during the Proceso remained relatively low. The graph below illustrates unemployment rates in Argentina from 1970 through 1990.<sup>87</sup> Interestingly, during the

initial years of the Proceso, a downward trend can be observed in unemployment, falling from 4.8 percent in 1976 to only 2.5 percent in 1980.



<sup>86</sup> Martínez de Hoz, Speech: Sept. 22, 1976. Translated from the Spanish: “Solicitamos a los empresarios su colaboración para que no se produjeran despidos masivos, para que no hubiera desocupación a pesar del menor nivel de producción de sus fábricas.”

<sup>87</sup> Data found in Dos Siglos, p. 217

### iii. Changing the Rules of the Game: Structural Adjustments

The wage and price policies also had an underlying logic that responded to more long-term, structural goals. The Minister of Economy strove to attain a gradual reactivation of the Argentine economy, rejuvenating the industrial sector on a solid and healthy base. Only a process of gradual economic growth could have low inflationary implications. Gradual economic restoration was to be carried out from the top down. First, prices liberalization would allow for industrial and agricultural entrepreneurs to implement modern, rationalized systems of production via greater investment. Second, once investment had increased aggregate supply, consumption would be fortified by increasing wages. The Minister of Economy was reluctant to “reactivate demand without having greater supply with which to meet it. Demand without sufficient supply, clearly, would produce a new inflationary process, this time unavoidable.”<sup>88</sup> Rapoport and Peralta Ramos overlook the anti-inflationary justification for the chronology of the price and wage strategy, assuming that the liberalization of prices and the freezing of wages was geared to concentrate the national wealth in the hands of the elite.

The Minister of Economy faced harsh criticism for his wage and price policies, which inevitably increased the cost of living. In response to public dissent, Martínez de Hoz reminded Argentines to:

Consider the composition of that higher cost of living. Think of the costs of public services, fuel, rent, and also of beef. All of these do not mean that there has been a new outbreak of inflation. It is simply a readjustment, a new convergence of relative prices. Why? Because the prices during the last three or four years have been maintained artificially low in order to disguise inflation, to fool the people into thinking that prices had not actually risen, that your electricity or gas bills were low because

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<sup>88</sup> Martínez de Hoz, Speech: Sept. 22, 1976. Translated from the Spanish: “reactivar la demanda sin tener una mayor producción para hacer frente a la misma. Mayor demanda sin producción suficiente, evidentemente, producirá un nuevo brote inflacionario, esta vez ineludible.”

everything was fine. But the costs of public services had indeed risen, and someone had to pay for it. Those higher costs were paid for by means of emitting pesos, which caused an inflationary spiral.<sup>89</sup>

The privatization of state enterprises was a central aspect to the Martínez de Hoz plan, and a recurrent theme in IMF-style stabilization packages throughout Latin America.

Chronic fiscal deficits constituted another structural deficiency that the new economic policy sought to redress. Martínez de Hoz sustained that the high public expenditures, both on indiscriminant subsidized credit and on social programs, sustained by previous administrations under the ISI model perpetuated frequent fiscal deficits. With an inadequate tax base, fiscal deficits were most often financed by emissions of money, which exacerbated the inflationary spiral already set in place by excess demand and the race between hikes in prices and wages. Reducing the fiscal deficit by decreasing public expenditures as well as rationalizing the tax system saw success in the initial years of the Proceso. In March of 1976, the fiscal deficit represented 13.5 percent of GDP, but by the end of 1978, the deficit had been reduced to only 2 percent. Additionally, 1978 marked the first time in over 20 years that the fiscal deficit was not financed by emissions from the Central Bank of Argentina.<sup>90</sup>

Though not a direct blueprint of IMF-style stabilization packages, Martínez de Hoz borrowed significantly from orthodox theory on inflation control in designing his wage and price policies. There is also the indication that Martínez de Hoz's neoliberal

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<sup>89</sup> Ibid. "Consideren la composición de este mayor costo de vida. Consideren los costos de los servicios públicos, los combustibles, los alquileres, y también la carne. Todos estos no implican que la inflación haya estallado de Nuevo. Son simplemente un reajuste, una nueva convergencia de precios relativos. ¿Por qué? Porque los precios durante los últimos tres o cuatro años han estado mantenidos artificialmente bajos, para disfrazar a la inflación, para engañar al pueblo para que piense que los precios no habían subido, que sus facturas de electricidad o de gas estaban bajos porque todo andaba bien. Pero los costos de los servicios públicos, sí, habían subido, y alguien tenía que pagarlo. Los alzos de costos fueron pagados por emitir dinero, lo cual causaba una espiral inflacionaria."

<sup>90</sup> Martínez de Hoz, Speech: Oct. 9, 1978

approach did not fully take into account the complex *mélange* of social actors in the Argentine economy. The assumed cause of the inflationary *puja distributiva* was the leapfrogging of prices and wages—the clamoring between workers and the elite to appropriate a larger portion of the national income. Despite wage controls and union censorship over the course of the Proceso, Peralta Ramos indicates that inflation continued at a “considerable rate,” caused mainly by the confrontation between business factions attempting to increase their income. The Martínez de Hoz Plan may not have paid close enough attention to the Argentine economy’s complex social and economic antagonisms, since “the confrontation between the sectors of the bourgeoisie became the greatest element of disruption, not only to economic growth, but also to the political stability of the regime.”<sup>91</sup> Broadly, Peralta Ramos is referring to the panic borrowing and stock accumulation carried out in the financial sector, beginning roughly in 1978.

#### iv. The Financial Reform of 1977

From the outset, Martínez de Hoz was convinced that banking credit could be used more efficiently than indiscriminant state subsidies to promote large, private industrial projects.<sup>92</sup> Peralta Ramos speculates that the government intended to control inflation by doing away with subsidized credit, thus precluding the ability of industrial firms to accumulate stocks and sell their products on the black market.<sup>93</sup> The financial reform had several unintended consequences: interest rates boomed, further fueling inflation while simultaneously discouraging investment in productive activities, stimulating instead short-term financial speculation. Additionally, “the official backing of

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<sup>91</sup> Peralta Ramos, 167. Translated from the Spanish: “Paradójicamente, el enfrentamiento entre sectores de la burguesía se transformó en el principal elemento disruptivo no solo del crecimiento económico, sino también de la estabilidad política del regimen.”

<sup>92</sup> Martínez de Hoz, Speech: Sept. 22, 1976

<sup>93</sup> Peralta Ramos, p. 171

bank deposits, the lack of oversight of the Central Bank of Argentina, and the enormous earnings of the financial sector explain its overexpansion.”<sup>94</sup>

Peralta Ramos claims that the 1977 financial reform provoked “a violent shift of income from the rest of society to the financial sector.”<sup>95</sup> The ‘deindustrialist’ paradigm itself posits that Martínez de Hoz sought to change the motor of economic growth, replacing industrial dynamism with a predominant financial sector.<sup>96</sup> However, available macroeconomic data indicates that there was no such “violent shift.” Though the financial sector increased its share in the national income, increasing from roughly 7.9 percent to 15.1 percent of GDP between 1976 and 1981, it never outstripped industrial GDP composition. Industry’s share in national income only slightly declined over the course of the Proceso, dipping from 33.2 percent in 1976 to 28.3 percent in 1978, but recovering to 31.4 percent by 1982.<sup>97</sup>

Peralta Ramos observes a segmentation that developed within the financial sector, as the difference between local and foreign interest rates allowed larger financial entities with access to foreign funds, while smaller financial firms depended solely on local financial resources. In order to compete with the larger firms that had access to cheaper foreign credit, the smaller firms offered loans at higher interest rates to high-risk clientele. This constituted one of the most vulnerable elements of Martínez de Hoz’s economic scheme, playing an essential role in the downfall of the Proceso.<sup>98</sup> Peralta

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<sup>94</sup> Peralta Ramos, p. 174. Translation: “La garantía oficial sobre el total de los depósitos bancarios, la falta de supervisión del Banco Central de la República Argentina (BCRA) y las enormes ganancias en el sector financiero explican la sobreexpansión del mismo.”

<sup>95</sup> *Ibid.*, p. 173. Translated from the Spanish: “una violenta traslación de ingresos del resto de la sociedad hacia el sector financiero”).

<sup>96</sup> Rapoport, Universidad de Buenos Aires, November 13, 2007

<sup>97</sup> *Dos Siglos*, pp. 198-201

<sup>98</sup> Peralta Ramos, pp. 174-75

Ramos suggests that certain industrial segments continued buying stocks in spite of the lower wages achieved by the decrease in real wages.<sup>99</sup> Contrastingly, financial speculation and stock accumulation can be viewed as a survival method for industrialists, struggling to stay afloat amid the tide of imports brought on by economic liberalization.

#### v. Conclusion

The Martínez de Hoz wage and price policies aimed to meet two main objectives, conjunctural and structural. On the one hand, Martínez de Hoz implemented wage and price freezes in order to halt the inflationary spiral that was crippling the Argentine economy in 1975 and early 1976. Rapoport and Peralta Ramos assume that Martínez de Hoz had an ulterior motive in mind: to distribute income away from the working class and in favor of the elite. The extent to which the wage and price policies affected national income distribution is unclear: the online databases of both the World Bank and the International Monetary Fund lack data on income distribution from the early 1970s through the 1990s. What is clear, however, is that Martínez de Hoz intended to use his reforms in wage and price policies in order to stabilize the economy, as well as change its structural bases. The financial reform of 1977 also had long-term objectives. Rather than intentionally enhancing the political power of the new economic actor, financial speculators and entrepreneurs, was intended to put an end to a system of high state subsidization, making the banking sector the primary mobilizer of financial resources.

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<sup>99</sup> Peralta Ramos, p. 170

#### IV. *El Gigante Dormido*—Martínez de Hoz and the Agricultural Sector

##### i. Introduction

In Rapoport's view, Martínez de Hoz attempted to return to the bases, to the Argentina 'abierta al mundo' (open to the world), characteristic of the agro-export phase that the 1880-generation had erected. Rapoport posits that inflation control measures, especially the devaluation of the peso, were used to hide the goals for restructuring the economy and redistributing income in favor of the agrarian elite.<sup>100</sup> Similarly, Peralta Ramos argues that one of the main objectives of the Martínez de Hoz economic program was to "harmonize" relations between industry and *el campo* (the countryside), by taking away the privileges that industry had gained during the ISI period and reinstating the economic power that agricultural entrepreneurs had lost.<sup>101</sup> This chapter aims to illustrate that the biased perspective of these authors has little empirical validity.

Martínez de Hoz, on the other hand, spoke of "harmonizing" relations between industry and agriculture so as to prevent the recurrence of the *puja distributiva* which was thought to be the main cause behind inflation. In order to harmonize agriculture-industry relations, Martínez de Hoz eliminated the differential exchange rate that had effectively granted the industrial sector with subsidies. Tax exemptions were also eliminated, and the price caps that had been placed on agricultural products were lifted.<sup>102</sup>

The Minister of Economy referred to the agricultural sector as "el gigante dormido" (the sleeping giant). The empirical research conducted by the World Bank largely substantiates this claim, analyzing the potential productive capacity of agriculture

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<sup>100</sup> Rapoport, p. 681

<sup>101</sup> Peralta Ramos, p. 165

<sup>102</sup> Ibid. p. 169

and examining how the agricultural policies characteristic of the ISI period fostered sub-optimal use of Argentina's vast land resources.

## ii. Pampean Hegemony and the Alleged Conspiracy

Large disparities in income distribution between the landed elite and the vast majority of the populace are characteristic of most Latin American countries. These patterns of wealth distribution date back to the colonial period. During the Argentine civil wars (1830-80), the regional strongmen of the countryside (called *caudillos*) mobilized their rank-and-file against the Unitarians of Buenos Aires. The consolidation of central authority after the civil wars afforded the landed bourgeoisie a privileged position in the state apparatus upon its final consolidation in the last decades of the nineteenth century. During the agro-export phase, the Argentine economy failed to generate a principal antagonist that could question the privileged position of the Pampean bourgeoisie. Smith observes that “[t]his allowed a flexible network of oligarchical state institutions to establish their legitimacy over contending social forces, while the Pampean producers consolidated their hegemonic leadership over the various regional bourgeoisies and over society as a whole.”<sup>103</sup> Pampean hegemony remained largely unchallenged until Perón's first presidency in the 1940s, when price controls on agricultural products were strictly enforced, and a central state-run enterprise monopolized agricultural exports, the funds generated from which were used as industrial subsidies. Throughout the ISI period, similar controls were placed on agricultural prices, albeit with less ferocity.

Rapoport argues that Martínez de Hoz aimed to reverse this model, alleging that “the Minister of Economy proposed to swing the ‘political pendulum’ in favor of the agrarian elites and the large, local financial groups and intermediaries of foreign capital,

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<sup>103</sup> Smith, p. 19

censuring local industry and the internal market, the bedrock of the working class movement and the sectors linked to its development.”<sup>104</sup> Rapoport assumes that Martínez de Hoz, he himself a member of a traditional family of large, rural landholders, “sought to readapt the economy to the contours of the international division of labor, presented as a return to the bases: to the Argentina ‘open to the world’ from the agro-export period that the 1880’s generation had erected.”<sup>105</sup>

Smith proposes to clarify the common scholarly misconceptions regarding the Martínez de Hoz Plan. Smith contends that the opening of Argentina to international markets did not mean complete restoration of the agro-export economy. The priority given to agricultural production during the first stage of the reorganization process did not constitute a grand economic vision based on ‘reagrarianization’ or ‘pastoralization.’ Although “Pampean producers were allowed the more complete usufruct of their differential land rents, this was for the purpose of converting the more aggressive rural entrepreneurs into a modern and dynamic, export-oriented, agro-industrial complex.”<sup>106</sup> Additionally, one can contend the actual level of political predominance agrarian producers played in the Proceso. Martínez de Hoz’s posture towards the FAA (the Argentine Agrarian Federation) is telling of the military government’s position towards interest groups in general, but it also indicates that there was no return to such a “network of oligarchic state institutions” which previously underpinned the agrarian elite’s

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<sup>104</sup> Rapoport, p. 646; Translated from the Spanish: “Se proponía inclinar el ‘péndulo político’ a favor de las elites agrarias y de grandes grupos económicos y financieros locales e intermedios de capitales externos, cercenando la industria nacional y el Mercado interno, base de la fuerza del movimiento obrero y de los sectores empresarios vinculados a su desarrollo.”

<sup>105</sup> Ibid., p. 646

<sup>106</sup> Smith, p. 250

hegemonic position. Humberto Volando, a head official of the FAA during the Proceso recalled:

They did not even give us the chance to say hello. I was an acquaintance of Martínez de Hoz from long before, since the time of Guido, but the government maintained distance in its relations with the Agrarian Federation. There was no dialogue; it was a rocky period.<sup>107</sup>

The FAA represented a significant number of agrarian producers from diverse agricultural branches. From Rapoport's reading of agrarian policy of the time, one would not expect such a response from Volando, considering close personal ties with Martínez de Hoz and agrarian elite background.

Perhaps Peralta Ramos and Rapoport based their allegations concerning the transfer of income to the Pampean elite on evidence from the initial years of the Proceso. Smith sustains that in 1976-77 there was a boom in agricultural and livestock products which did lead to "massive income transfers in favor of the Pampean bourgeoisie." However, this process was reverted when "[a] reduction in the real exchange rate of the peso in relation to the U.S. dollar negatively affected meat and grain exports during 1978 and 1979, producing a decline of approximately 25 percent in their real prices, when compared to the average for the 1970-73 period."<sup>108</sup> Over the course of the Proceso, agriculture's share in GDP actually exhibited a downward trend. While in 1976 agriculture accounted for 11.1 percent of national income, it only accounted for 6.4 in 1980, recovering to only 8.7 percent by 1983.<sup>109</sup>

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<sup>107</sup> Interview with Humberto Volando in *Pierri*, 214; translated from the Spanish: "Ni siquiera nos dieron audiencia para saludarlos. Yo era conocido de Martínez de Hoz desde antes, desde la época de Guido, pero el gobierno mantenía distancia en su relación con la Federación Agraria. No hubo diálogo, fue un período tormentoso."

<sup>108</sup> Smith, p. 239

<sup>109</sup> Dos Siglos, p. 185

iii. *El Gigante Dormido*—Martínez de Hoz and Agricultural Policy

Martínez de Hoz rejected structural interpretations of the international division of labor that backed previous policymakers' decisions to implement the ISI model in order to overcome the victimization of developing nations in a 'dependent' world. While he argued that Argentina should take advantage of its comparative advantage in agricultural production, economic modernization meant the reorganization and rationalization of the entire productive apparatus. As Smith argues:

The unstated objective of the proposed restructuring of the economy was the establishment of conditions for sustained modernization of the entire productive system by overcoming, or at least attenuating, the contradictory, bi-polar pattern of accumulation which had emerged since the 1930s. This more 'homogeneous' productive system was to be founded upon those sectors—both agrarian and industrial—capable of producing at internationally competitive prices.<sup>110</sup>

In terms of its underdeveloped productive capacity and tremendous potential, the Argentine agricultural sector was considered a 'sleeping giant.'<sup>111</sup> While Argentina had thirty million hectares of arable land, Martínez de Hoz argued that this area could double given new practices that preserve the land from degradation, and at the same time the yields from arable land under production could be augmented with the use of organic fertilizers, which were severely underutilized in Argentina when compared world rates. This may have stemmed from the high taxes placed on fertilizer imports, which the World Bank measured at twenty-five percent in 1973.

The World Bank provides other insights of agricultural economic statistics that could explain fertilizer underutilization. Agricultural economics models stipulate that farmers will only use fertilizers if their cost does not exceed fifty percent of the value of

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<sup>110</sup> Smith, p. 250

<sup>111</sup> Speech, June 27, 1976; Translated from the Spanish: "La República Argentina ha sido bien denominado como el "gigante dormido" en cuanto a su capacidad de producción de alimentos."

the incremental production thereby generated by their use. For wheat, fertilizer use of 45 kilograms per hectare can be expected to produce between 13 and 18 kilograms of additional wheat for each kilogram of nitrogen. A wheat-fertilizer price ratio exceeding 6 would make fertilizer use non-economic. In Argentina from 1960 through 1978, the wheat-fertilizer ratio remained between 9.4 and 7.0, making widespread fertilization unfeasible, diminishing agricultural productive capacity.<sup>112</sup>

Shortly after being appointed, Martínez de Hoz gave the keynote at a meeting amongst the secretaries and ministers of agriculture and livestock in Santa Rosa, the capital of the province of La Pampa. In his speech, Martínez de Hoz candidly highlighted the need for exports in order to avoid foreign currency bottlenecks, reminding the general public that during the decades prior to the Proceso, the great tension between the need for foreign currency and its availability had characterized the process of economic growth.

The periodic balance of payments crises, with their corollary of domestic recession, place limits on our growth, with high social and economic costs. If we recall that the exports from the agricultural sector provide more than seventy percent of Argentina's foreign currency needs, it is easy to understand that behind this phenomenon exists a conflict between domestic consumption and exportation, which call for a restricted agricultural sector. The growth of Argentine agriculture at a rate in line with its potential will eliminate all current conflict between the city and the countryside.<sup>113</sup>

The "conflict" between domestic consumption and exportation that Martínez de Hoz described refers to the innate inefficiencies that characterized the ISI-growth model. With

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<sup>112</sup> W.B., p. 149

<sup>113</sup> Speech, June 27, 1976; Translated from the Spanish: "La periódicas crisis de balance de pagos con su secuela de recesión interna, plantean paréntesis en nuestro crecimiento, con alto costo económico y social. Si recordamos que el sector agropecuario provee más del 70 % de las divisas por exportación se puede comprender que detrás de fenómeno descrito existe el conflicto no resuelto entre consumo interno y exportación, que plantea una agricultura estancada. El crecimiento de la agricultura argentina a una tasa acorde con sus posibilidades eliminará todo conflicto aparente entre campo y ciudad."

such an inflated industrial sector, and all of its secondary effects (i.e., stores in which products were sold, restaurants and other establishments that serviced the industrial workforce), a great portion of the population was dedicated to economic activities that did not help meet the foreign currency needs that such vast industrial development required. This partially explains why Martínez de Hoz considered that the deepening of industrialization by import substitution had skewed the optimal allocation of resources.

Martínez de Hoz suggested that agriculture should play a leading role in Argentina's economic and social development, stimulating industrial expansion by amplifying the domestic market, providing the foreign currency necessary to purchase intermediate and capital goods, and providing foodstuffs to satisfy the country's domestic needs. The Minister of Economy also highlighted the drastic reduction in world foodstuff reserves during the early 1970s. Before 1970, the United States had provided surpluses large enough to sustain the world's needs for three months. After 1970, he argues that US surplus capacity had fallen to only 1.5 months, meaning that the world was teetering on the brink of disaster; any interruption in the production of foodstuffs could have offset the delicate equilibrium.<sup>114</sup>

The proposed focus on agricultural exports rested on two premises: "The world needs foodstuffs and raw materials at growing rates, and Argentina has an enormous potential productive capacity to produce a surplus after domestic consumption, many times greater than the current production levels."<sup>115</sup> Martínez de Hoz clearly saw potential demand in world markets for the agricultural products in which Argentina

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<sup>114</sup> Speech, June 27, 1976

<sup>115</sup> Ibid. Translated from the Spanish: "El mundo necesita alimentos y materias primas agropecuarias en cantidades crecientes, Y la Argentina tiene un potencial productivo enorme que la capacita para producir en exceso de su consumo interno, varias veces sus saldos actuales."

specialized: “every year, the world has to feed between 80 and 100 million more persons, which implies an additional demand for wheat of 30 million tons, 1.5 million tons of meat, and 8 to 10 million tons of dairy products.” These calculations are based on pure population growth, and do not account for growth in income levels, which Martínez de Hoz sustained could cause demand to increase by an additional 20 percent.<sup>116</sup>

Fundamentally, the Martínez de Hoz argued, the greater expansion of the Argentine economy constituted “the recuperation of the position to which Argentina is naturally entitled in the world market, a position lost due to internal political errors.”<sup>117</sup> Though the term globalization did not yet exist, the second half of the twentieth century witnessed a greater integration of world economies, with high growth rates based strictly on international trade in the world market. Martínez de Hoz observed that those countries that had participated less in international trade have exhibited stagnated growth rates. Argentina was a prime example of this second pattern: “in the post-war period, Argentina opted for a closed economy, in search of a utopian autarky, and it merely led to stagnation, frustration, and economic isolation. And, even more damning, it generated the mental isolation that has separated us from ever form of modern progress.”<sup>118</sup>

#### iv. Conclusion

The agricultural sector regained importance as a motor for economic growth under the long-term, structural objectives of the proposed new economic system. While structuralist scholars have assumed that stimulating agricultural productivity arose from

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<sup>116</sup> Ibid. Translated from the Spanish: “por año, hay que alimentar entre 80 y 100 millones de personas más, lo que implica una demanda adicional de cereals de 30 millones de toneladas, de 1,5 millones de toneladas de carnes, y de 8 a 10 millones de toneladas de productos lácteos.”

<sup>117</sup> Ibid. Translated from the Spanish: “es la recuperación de la posición que naturalmente le corresponde en el mercado mundial y que la perdió por errors de su política interna.”

<sup>118</sup> Speech: Nov. 14, 1978

the traditional pattern of Pampean hegemony over the state and Argentine society, there is substantial evidence to support Martínez de Hoz's plan as a rational economic strategy. Martínez de Hoz proposed to use agricultural exports to avoid the chronic balance of payments crises characteristic of the ISI model. Largely, the case can be made for Argentina's comparative advantage in agricultural goods. Research suggests that protective trade barriers and state-led industrial development policies yielded lower total growth rates in Argentina than periods of low protection. Economists have observed that Argentina grew substantially more when tariff and quota protection levels were at their lowest.<sup>119</sup>

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<sup>119</sup> Dos Siglos, p. xxii

## V. Debating Deindustrialization

### i. Introduction

Martínez de Hoz long spoke of the opportunity cost arising from the overly diversified industrial complex constructed under the high protective barriers characteristic of the ISI period. A great “dispersion of national strength” was generated by policies that dedicated a great amount of national resources to production realms in which Argentina had “little or no” comparative advantage.<sup>120</sup> Martínez de Hoz sustains that during his time as Minister of Economy, he fought incessantly against protectionism, believing that a liberal opening of the economy was the fundamental “instrument of internal modernization.”<sup>121</sup> This chapter highlights that the Martínez de Hoz strategy did not have as severe an effect on national industry as supposed by Rapoport and Peralta Ramos.

Rapoport suggests that the military government and its supporting sectors believed that political proscriptions no longer served to eliminate the populist alliances and the dangers they proposed to the established social order. They saw the need to go further and, given that those alliances were centered on the industrial apparatus, it was imperative to radically modify the economic structure.<sup>122</sup> Rapoport employs ‘deindustrialization’ as an umbrella term to signify the state’s alleged conspiracy against the working class, but ‘deindustrialization’ also implies that the financial sector became the principal motor of economic growth, relegating industry to a less privileged position.

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<sup>120</sup> La Razón,

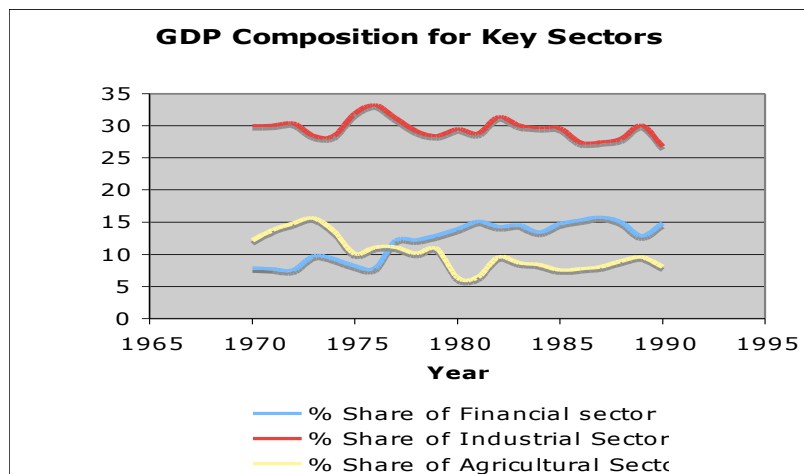
<sup>121</sup> Martínez de Hoz, p. 162

<sup>122</sup> Rapoport, p. 645

## ii. Modernización industrial

Martínez de Hoz certainly realized the need to elevate the efficiency of Argentine industrial sector to international standards. The economic program launched in 1976 affirmed the need “to achieve a harmonious and balanced economic growth so as to overcome the stagnation and frustrations of the past.”<sup>123</sup>

There is considerable evidence to demonstrate that the economic reconfiguration implemented by Martínez de Hoz did not have the effects that the structuralist critique supposes. The graph below illustrates the share of key industries in national income.<sup>124</sup> While industry’s role declined slightly, and the financial sector did increase in importance, industry remained the most dynamic economic sector:



Data presented in the *Economic Memorandum* of the World Bank illustrates an overall decline in industrial productivity in the first half of the 1970s. Of the twenty-seven manufacturing sectors represented in this study, over 18 of them exhibited negative growth in productivity (value added per worker) between 1970 and 1975. The most

<sup>123</sup> *Discurso pronunciado en la primera conferencia sobre modernización industrial; November 17, 1980.* Translated from the Spanish: “lograr un crecimiento armónico y equilibrado de nuestra economía para poder superar el estancamiento y las frustraciones del pasado.”

<sup>124</sup> Source: *Dos Siglos*, pp. 182-203

notable declines were exhibited by the manufacturing industries of petroleum refineries, plastics, leather, footwear and wood products, all of which saw total negative growth of over 30 percent between the years of 1970 and 1975. Surprisingly, nearly all of the industries that exhibited a decline in productivity during these years saw a reversal of this trend between 1976 and 1981.<sup>125</sup> Martínez de Hoz claims that Argentine economic policy had adopted restrictions on technological transfers from abroad from 1972-76, a policy that he sought to reverse, considering foreign technology as a key element in promoting industrial modernization. For that reason, Law No. 21.617 was legislated to facilitate the incorporation of foreign technology and machinery.<sup>126</sup> Peralta Ramos notes that productivity increased between 1976 and 1983 at an annual rate of 4.97 percent.<sup>127</sup>

The effects on industrial production and productivity varied greatly from sector to sector. The data tables presented in the statistical collection *Dos siglos de economía argentina* indicate that ‘deindustrialization’ may not have had the adverse effect on national industry as claimed by historians such as Rapoport, Cortés Conde, and Peralta Ramos. In fact, it appears that certain industrial sectors flourished during the reign of the military dictatorship. For instance, until 1979, the paper industry increased production of paper and related products (cartons, cardboards, etc.) from 655 thousand tons in 1976 to 791 thousand in 1979. Production dipped to 651 thousand tons in 1980, but then rose to 879 thousand tons by 1983 and continued to climb thereafter.<sup>128</sup> Similar trends are observed in the textile and cement industries.

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<sup>125</sup> Economic Memorandum, p. 168

<sup>126</sup> Martínez de Hoz, p. 162

<sup>127</sup> Peralta Ramos, p. 167

<sup>128</sup> Dos Siglos, p. 352

The most adversely affected industrial branches included the beer and automotive industries, while the iron and steel industries may have even been fortified by the economic policies. The adoption of new technology was facilitated by the new Laws of Technology Transfer and Capital Implementation, rising from 116 contracts for \$US 32 million to 500 contracts for \$US 320 million in 1979.<sup>129</sup> Labor productivity (production per employed worker) inclined substantially from 1976-79 at a rate of 18.4 percent.<sup>130</sup> By 1980, average productivity in the manufacturing sector had increased 33 percent over 1970, thereby raising the potential competitiveness of the Argentine economy.<sup>131</sup> Clearly, attempts at modernizing the industrial apparatus appeared to have been working until the late 1970s. After 1979 and throughout the early 1980s, unemployment and bankruptcies within the industrial sector climbed substantially. Many of these firms were bankrupted because of debt crises. Studies fail to show to what extent this downward trend may have been caused by exogenous factors, as the sharp increase in US interest rates in October of 1979 caused international debt to double.

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<sup>129</sup> *La Razón*

<sup>130</sup> *La Razón*

<sup>131</sup> W.B., p. 164

## VI. Conclusion

This study seeks to analyze the goals and justifications of the Martínez de Hoz economic reforms. Largely, Chapter II attempts to highlight the shortcomings of the ISI model that Martínez de Hoz attempted to supplant. The turn inward in Argentina generated a distorted distribution of relative prices: the remuneration of labor was higher than its value in productivity, yet industrial firms were able to cover the industrial wage with state subsidies, making profits yet giving little regard to productive improvements. Also, the implementation of ISI yielded chronic balance of payments crises, which severely retarded growth. In essence, state subsidies were used to artificially prop up a national industry that the economy could not sustainably support.

In Chapter III, Rapoport's and Peralta Ramos' interpretations of the Martínez de Hoz wage and price policies were discussed. These scholars view the wage-freezes as an attempt to discipline the workforce and to yield a regressive wealth distribution, but the Martínez de Hoz wage and price policies had conjunctural and structural objectives aimed at stabilizing and reconfiguring the national economy. In Chapter IV, the Martínez de Hoz agricultural policy was examined. Both Rapoport and Peralta Ramos view the attempts to increase agricultural productivity as a conspiracy with the military government aimed at distributing wealth in favor of the agricultural elite. Martínez de Hoz clearly saw the potential for Argentina to reinsert itself into the world economy, taking advantage of the nation's tremendous potential to become a significant exporter of agricultural products. Amid this stimulus to agricultural production, the Martínez de Hoz Plan envisioned a rationalized industrial development program. Chapter V. aims to illustrate that the effects of the Martínez de Hoz industrial modernization program may not have been as negative as the concept of 'deindustrialization' implies. The extent to

which the detractors of the Martínez de Hoz policies incorporate a political bias in their analyses is not the issue of this thesis. However, their critiques may illustrate the constraints in structuralist economic theory that inhibit a full understanding of the Martínez de Hoz economic strategy.

In terms of its structural objectives, the Martínez de Hoz Plan was significantly forward and outward-looking. Perhaps Martínez de Hoz's economic policies responded in some way to his interpretation of the Argentine puzzle. In some of his public addresses, he referred to the rapid economic growth and significant technological advances witnessed by the major Western powers in the post-WWII era. Additionally, he observed the success of countries like Japan and South Korea, which, after abandoning import-substitution models, implemented export-driven economic growth policies, allowing them to join the ranks of the most industrial and technologically advanced economies. Martínez de Hoz saw an economy that had once been among the world's greatest and fastest growing, until the Great Depression rocked the world economy and severely attenuated the rapid growth of semi-industrial, agro-export economies around the world, such as Argentina, forcing them to turn inward in with ISI policies. Before the Depression, many economic historians group Argentina among settlement economies like Canada and Australia, countries of tremendous agricultural potential that implemented ISI policies to a lesser degree.

The debate between structuralism and neoliberalism reflects the broader question of political economy: the extent to which the state should intervene to correct market failures. The Martínez de Hoz economic strategy rested on the firm conviction that the market would conduce the most optimal allocation of national resources. Heavy state involvement had propped up national industry in inefficient ways. A market approach

would lead to a more efficient allocation of labor, and a liberal opening of the economy would assure that growth was propelled by those efficient sectors and branches that produced goods of high demand in the international market. The new market orientation of the financial sector and banking system was intended to ameliorate the allocation of financial resources, thereby stimulating a pattern of organic, entrepreneurial investments aimed to increase productive capacity, supplanting the previous system of state investment and credit subsidies. The market, not the state, became hegemonic in both the direction and rate of economic growth. In this sense, the Martínez de Hoz policies are considered liberal or orthodox.

In some sense, however, his economic policies were not entirely based on the signals generated from the market. In many of his public addresses, Martínez de Hoz appealed to “the responsibility of each sector in the economic process.”<sup>132</sup> In other instances, he begged business owners and workers to “make the transition between these two opposing systems as smoothly as possible, without abruptness, without any large jumps. Go slowly. Help attain a gradual economic readjustment.”<sup>133</sup> Martínez de Hoz solicited the help or cooperation of the public in implementing his policies, but he did not demand it in the form of sanctioned laws or regulations. This approach could be considered the greatest weakness of his policies, for it was lack of oversight and regulations in banking and financial speculation that ended the success of his economic strategy. In late 1980, internal factions within the military made a change in leadership

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<sup>132</sup> Martínez de Hoz, *Discurso de clausura de las terceras jornadas nacionales de comercialización de granos sobre el tema “La responsabilidad de cada sector en el proceso económico” – 13 de septiembre de 1978*

<sup>133</sup> Martínez de Hoz, Speech: April 12, 1976. Translated from the Spanish: “hagan esa transición de estos dos sistemas tan opuestos el uno y el otro, de una manera lo más suave posible, sin brusquedad, sin saltos grandes. Vayan despacio. Ayuden a que se produzca un reajuste gradual de la economía.”

imminent, and the prospect of a new government and new economic policy provoked a panicked response in the Argentine public, as entrepreneurs engaged in panic-borrowing and capital flight ensued.

New Institutional Economics (NIE), a school of economic thought developed during the 1970s, focuses on economic institutions in the broadest sense: from “formal rules (laws, constitutions, rules), informal constraints (conventions, codes of conduct, norms of behavior) and the effectiveness of their enforcement.” New institutionalists share the neoclassical appreciation for price theory as a tool for predicting most, but not all, economic outcomes in the real world. Broadly, this camp focuses on the intricacies of institutional development and of market forces.<sup>134</sup> Certainly a topic for further study, NIE may be a much more appropriate lens for examining the Martínez de Hoz strategy. The shortcomings of the financial policy can largely be explained by its institutional weaknesses—the financial regulatory process; lack of oversight of the Central Bank; the segmentation of the financial bourgeoisie and its inflationary effects; panic borrowers; and financial speculators.

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<sup>134</sup> Drobak, John N. and Nye, John V. C. Nye (1997) *The Frontiers of the New Institutional Economics*; Academic Press, New York; p. xv

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