

BTI 2012 | Argentina Country Report

Status Index	1-10	6.95	# 33 of 128	
Political Transformation	1-10	7.55	# 31 of 128	➔
Economic Transformation	1-10	6.36	# 44 of 128	➔
Management Index	1-10	5.28	# 59 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	40.4	HDI	0.797	GDP p.c.	\$	16012
Pop. growth ¹	% p.a.	0.9	HDI rank of 187	45	Gini Index		45.8
Life expectancy	years	75	UN Education Index	0.806	Poverty ³	%	2.4
Urban population	%	92.4	Gender inequality ²	0.372	Aid per capita	\$	3.2

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Near the end of President Cristina Kirchner's (first) term in office, Argentina's transformation to constitutional democracy and a sound market economy with social safeguards remains stuck, due to the ongoing zero-sum games of political elites who appear to be incapable of pursuing needed reforms. Although politicians respect the basic rules of electoral democracy, the rule of law and the institutional foundations of the economic system remain weak, and politics remain centered on persons rather than on institutions. In this context, the sudden death of ex-president Néstor Kirchner – the husband and political alter ego of incumbent President Cristina Kirchner, and a presumed candidate for the 2011 presidential elections – marked an important caesura in the political process. Néstor Kirchner was still at the center of Argentina's government circles and had maintained control over both the power-sustaining networks around the Peronist party and basic economic policies. The typical power struggles rapidly surfaced soon after his death. In sum, Argentina's political elite itself remains a persistent risk for political and economic transformation, and they do not seem to have learned much from the profound crisis of 2001–2002.

Consequently, there has been no progress, and perhaps even some regression, in the matter of political transformation. The political strategies of both the government and the opposition mainly centered on maintaining or subverting political power and to embrace other social actors and the public, leading to a climate of irreconcilable conflict. In addition, power politics favored the rise of dubious actors, such as the most important union, CGT, and its leader, Hugo Moyano, who engage in their own political and economic power strategies, sometimes with non-democratic and mafia-like measures. With regard to economic transformation, the weakness of market economy institutions stands in sharp contrast with successes in socioeconomic performance. Like most Latin American countries, Argentina was only slightly affected by the global crisis and benefited from persistent demand for its natural resources. Nonetheless, there are notable tensions stemming from the implementation of a macroeconomic model that is based

on a high exchange rate and commercial and fiscal surpluses. There is no consensus on the developmental model and on strategies for its implementation. The economic recovery has little basis in structural foundations and is still too dependent on volatile internal and external factors. The reliance on a resource-based export model runs the risk of resulting in deadlock. It therefore remains an open question as to whether Argentina's democracy and market economy are headed down the path of sustained development.

History and Characteristics of Transformation

Chronic instability has been a key feature of twentieth-century Argentine history. Frequent changes in the system of government, irregular regime changes and crises within the dominant power cartels have impeded both development and the implementation of coherent policies. This political development culminated in a fierce military dictatorship between 1976 and 1983. When President Alfonsín from the Radical Civic Union (Unión Cívica Radical, UCR) started his six-year term in 1983, Argentina finally seemed poised to enter a phase of political stability; however, turmoil soon broke out, leading to 13 general strikes and four army rebellions in just three years. After the failure of the Austral Plan in 1986 and the 1987 parliamentary election defeat, an escalating economic and political crisis evolved in the first half of 1989 that was marked by hyperinflation and political stalemate. This crisis forced Alfonsín to cede his office to his rival from the Peronists (Partido Justicialista, PJ), Carlos Menem, six months before the end of his regular term.

In the early 1990s, President Menem succeeded in restoring growth to the Argentine economy and winning the favor of the nation's bourgeoisie as well as international creditors and investors. They did so by establishing peso-dollar parity through the 1991 Convertibility Law and by steadfastly pursuing a neoliberal stabilization policy. Menem's economic policy successes secured him a majority in Congress in 1993 and – after the 1994 Constitutional Reform, which allowed for his re-election – a second term in office (1995-99). From 1990 to 1994, Argentina's overall growth rate averaged about 7.7% per year. However, financial crises in Mexico, Asia and Russia, and devaluation in Brazil, caused Argentina to slip into a recession in 1999. As a result of these developments, a Peronist government was voted out of office for the first time in Argentina's history in the presidential, congressional and gubernatorial elections of 1999.

With the election of the center-left alliance under the leadership of the Radical Party's Fernando de la Rúa, an impending crisis of representation appeared to have been at least temporarily averted. However, a Peronist majority in the Senate and among provincial governors left the coalition government prisoner to what had become the Peronist opposition. The government failed to present a clear policy agenda to put the economy back on track, to find solutions to the nation's grave social problems or to initiate a consistent anti-corruption policy. The crisis

escalated, and De la Rúa was forced to resign in the midst of a rapidly deteriorating economic, political and social situation. A wave of protests and violence brought the nation to the brink of chaos.

On 1 January 2002, Congress elected Peronist Senator Eduardo Duhalde as Argentina's third president in less than two weeks. Confronted with a massive civil rebellion, the new government's first move was to end the monetary convertibility system. Within a few weeks, the peso lost more than 70% of its value, triggering fears of hyperinflation. The economy fell into a full-scale recession, the banking system collapsed and economic activity ground to a halt. At the same time, democratic institutions were near the breaking point, and hostility toward the political elite and social protests grew to such proportions that there was talk of military intervention. After police killed two protesters in June 2002, a badly weakened Duhalde was forced to cut short his own mandate. Finally, presidential balloting was rescheduled for 27 April 2003. In the first round of elections, Menem won 24.5% and Kirchner 22.4%. The oppositional Unión Cívica Radical (UCR) suffered a devastating defeat. Menem dropped out of the second round, handing the presidency by default to Kirchner. By winning the mid-term congressional elections of 2005, Kirchner strengthened his political position and thus capitalized on several successes, including a strong economic recovery, a reform of the justice system, a successful debt arrangement with foreign investors and his efforts to address the human rights violations perpetrated under the former military dictatorship. Although Kirchner enjoyed approval rates of over 60%, he announced in July 2007 that he will not seek re-election; instead, he backed his wife, Cristina Kirchner, who won the presidential elections in October 2007, thereby becoming the first elected female president in Argentina.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force prevails throughout the country and is not seriously disputed by functional organizations. The military does not infringe upon the civilian use of force. Federalism and so-called new security challenges sometimes restrict the state's monopoly on the use of force. In the poorer provinces, shortages in funding and personnel have limited the state's ability to act effectively. Currently, increasing incidences of violent crime and the emergence of private security services threaten to erode or even overwhelm the state's monopoly on the use of force in urban centers. The deterioration of public security, mainly in the urban centers, has been one of the most disturbing phenomena since the crisis of 2001-02 and a key issue in all elections on the national level since the end of the twentieth century.

Relevant groups in society do not challenge the definition of citizenship, the legitimacy of the nation-state or the validity of the state's constitution. There are some exceptions, such as the alarming growth of anti-Semitic incidents and the dissemination of racist literature. Argentina's Jewish community, the largest in Latin America, is a frequent target of anti-Semitic discrimination and vandalism. The civil rights of indigenous people, including the Mapuche in the south and the Tobas and Kolas in the north, are also an issue. Seventy percent of the country's rural indigenous communities lack a title to their lands. However, Kirchner has returned land to several communities. Indigenous communities have been prevented from exercising their right to free, prior and informed consent in projects involving the exploitation of national resources on indigenous land. On the other hand, public awareness of this problem is very limited. Only 3% of citizens are convinced that the indigenous suffer the most from discrimination.

Question

Score

Monopoly on the use of force

8

State identity

10

The constitution guarantees freedom of religion. Church and state are separated, and the political process is secularized. However, the Catholic Church is subsidized by the state and has authority in important issues. But the political influence of the Church has diminished under the Kirchner governments. Néstor Kirchner and the Catholic Church clashed on the issues of abortion, sexual education, human rights violations and poverty. Cristina Kirchner banished a British Catholic bishop from the country because he denied the existence of the Holocaust and engaged in anti-Semitic discourse.

No interference of religious dogmas
10

The state's fundamental infrastructure extends to the entire territory of the country, but it operates somewhat deficiently. The political administrative network and political parties administer public funds, but the distribution follows particularistic, clientelistic and non-transparent criteria. The weakness of the state and its institutions is especially apparent in its inability to prevent rampant tax evasion, which is one of the population's responses to the corralito (freezing of bank accounts in 2001). The northern provinces are still burdened with longstanding difficulties. These nine provinces house 20.8% of the population. In 2004, more than 60% of the population in these provinces were living below the poverty line, compared with 44% in the country as a whole. There are no federal policies to promote development in depressed regions, and there are very few employment opportunities outside of the public sector.

Basic administration
8

2 | Political Participation

General elections are mostly free and fair, and they are accepted in principle as the means of filling leadership positions. Universal suffrage and the right to campaign for office exist. Elections are administered correctly. However, an independent jurisdiction of elections has not existed until recently, and the distribution of public funds is asymmetric in favor of the ruling party coalition. The government also uses the media for short-term electoral interests. With a few exceptions, especially at the provincial level, governments respect the rules that govern open and competitive elections. Some isolated attempts to manipulate elections were cleared up and/or at least morally sanctioned. According to Latinobarómetro 2008, 63% of Argentines interviewed were convinced that their votes have a genuine impact, whereas this was true for an average of only 59% Latin Americans as a whole. In 2010, this figure dropped to only 49%, four points under the average for the region, which is a clear sign of a crisis of representation.

Free and fair elections
9

During Cristina Kirchner's presidency, representatives had sufficient authority to govern, but the influence of actors with veto power increased. The power of the Confederación General del Trabajo (CGT), traditionally the strongest labor organization, increased considerably during the last years. Its political weight under the leadership of its Secretary General, Hugo Moyano, president of the powerful

Effective power to govern
8

syndicate for transportation, is reflected in Moyano's defiant political declarations and in his rise to the presidency of the Peronist Party in the province of Buenos Aires. Relations between the government and Argentina's entrepreneurs have improved with the recovery of the economy, but remain laden with conflict. Moreover, Néstor and Cristina Kirchner's strategy of growth through domestic industry has changed the relationship between state and business and made the government vulnerable to pressures from domestic business. The conflict with the agrarian sector in recent years is a very good example for the growing veto power of a well-organized social actor.

The military is no longer a veto power in political affairs; their role has been reduced substantially since the first years of the Kirchner government. In August 2008, the Senate voted unanimously to scrap the military justice system, meaning that military personnel and civilians will now be equal before the law. Military criminals have been subsumed into the standard criminal code, and a military criminal procedure for times of war was created. Cristina Kirchner, following the human rights policy of her predecessor, Néstor Kirchner, made significant progress in prosecuting military personnel and police who were responsible for "disappearances," killings and torture during the country's "dirty war."

Citizens are free to establish political and civic organizations. These rights are generally respected. Civic organizations are robust and play a significant role in society, although some fall victim to Argentina's endemic corruption. Labor organizations are dominated by Peronist unions. Union influence, strongly debilitated during the neoliberal Menem era by corruption scandals and internal divisions, gained negotiating power with the economic recovery and the more flexible government style of Cristina Kirchner. Beyond the established forms of interest group articulation, there was an emergence of basic organizations, self-help groups and other forms of self-articulation and protest. In a variety of issues, NGOs play an important role in monitoring and influencing government policy. They are generally free from legal restrictions and political pressure from the state. Their influence on the legislative process is, however, modest because of the absence of a legislative agenda and information regarding committee meetings.

Freedom of information and freedom of speech are generally safeguarded. However, effective access and monopoly controls are absent, particularly in television, which is dominated by a few companies. Argentina is one of South America's leading media markets. The country has well over 150 newspapers, hundreds of commercial radio stations, dozens of TV stations and one of the world's highest penetration rates for cable TV. Over time, the industry has consolidated and large conglomerates have emerged. Public broadcasting has not played a major role in the development of radio and TV.

Association /
assembly rights
10

Freedom of
expression
8

Since the return to democracy in 1983, the media has established itself as both a stage for and a principal actor in politics. Journalists have generally been able to carry out their work freely. But since the Menem presidency, government influence over the media has grown. The relationship between Néstor Kirchner and the conservative sector of the press, including the newspaper “La Nación,” deteriorated. During Cristina Kirchner’s presidency, this hostility turned also to El Clarín, which in previous years had been considered a near-official organ of the government. Some journalists working for the independent media have received threats. Néstor and Cristina Kirchner have characterized critical media and journalists as political opponents. Executive officials call journalists to complain about critical coverage, and they block access to official sources and events as punishment. Defamation of public officials remains a criminal offense. Although the Inter-American Court of Human Rights ordered the government in May 2008 to modify its defamation laws, none of the various bills meant to decriminalize defamation passed the Congress.

In September 2010, the government filed a criminal complaint charging the owner and president of the newspaper Clarín, the director of La Nación, and the former owners of La Razón with crimes against humanity. The complaint alleged that the three newspapers illegally appropriated the newsprint company Papel Prensa in 1976, during the military dictatorship. Clarín and La Nación insisted that the acquisition of the shares was legal and accused the government of attacking the papers because of their criticism of President Cristina Kirchner. Businessmen who consider contributing funds to opponents find that their taxes are suddenly subject to an audit. Government officials are still accused of verbally mistreating independent journalists, and provincial governments continue to manipulate official advertising to favor media outlets they consider friendly. Media rights watchdog Reporters Without Borders says journalists in the provinces risk being “hounded” by the police and courts.

A bill to regulate the broadcast media, approved by Congress in October 2009, aims to promote diversity by limiting the ability of corporations to own large portions of the radio frequency spectrum. In October 2010, commissions in the Chamber of Deputies approved draft legislation presented by President Kirchner to regulate the company that produces and distributes paper for newsprint in Argentina. In the same year, both chambers of Congress debated bills to ensure public access to information held by state bodies. The absence of transparent criteria for allocating government advertising contracts, both at the federal level and in some provinces, creates a risk of political discrimination against media outlets that criticize government officials. Freedom of cultural expression and academic freedom are generally unrestricted, and the state does not hinder free access to the Internet.

3 | Rule of Law

During the 1990s, the balance of power between the three branches of government clearly shifted in favor of the executive, resulting in “presidential hegemony.” Presidential unilateralism and discretion have increased substantially. The judiciary has become increasingly politicized and governance by decree has become a common practice. Néstor Kirchner’s autocratic style of government has not changed under Cristina Kirchner’s presidency. The structural problems of divided government are exacerbated by a winner-take-all political culture among the parties and the fact that political obstructionism rather than cooperation pays dividends. The use of executive decree powers has marginalized the role of the Congress in formulating, scrutinizing and passing legislation, and it undermines trust between the executive and the legislature. After the government lost its majority in the 2009 mid-term elections, the ruling coalition could not pass its budget for the fiscal year 2011 in 2010. However, the president has access to huge amounts of off-budget money that is used to build the president’s own political machine. This is more disturbing in a country where democratic institutions are fragile and where corruption, cronyism and patronage have been the principal tools of government. Finally, the tendency toward hyper-presidentialism was reinforced by a governance style that has eschewed dialogue and consensus in favor of confrontation and diktat.

Despite the concentration of power in the executive branch, the president is constrained by province governors, the real power nodes of the Argentine political system, civic organizations and the media as agents of “societal accountability,” and, last but not least, by a growing opposition inside and outside the Peronist party. However, some patterns of institutional manipulation continued under the Kirchners’ presidencies. Examples include the reform of the Magistrates Council, the 2006 “superpowers” law that granted the president vast discretionary authority over the budget, the elimination of open primaries to nominate presidential candidates (a law established in 2002) and the government’s assault on the once-independent statistical agency INDEC. In some areas, the Kirchners respected the letter of the law while violating its spirit. Thus, although Congress’ impeachment or threatened impeachment of six out of nine Supreme Court justices was legal, it reinforced the pattern of executive encroachment that has existed since the 1940s. More problematic was the Kirchner team’s intentions to extend its stay in the presidency beyond two terms, modifying the constitution to permit Néstor a third term, a strategy that met widespread societal opposition and failed in the end. The legislative and judicial branches’ key weakness is their consent to the strength of the executive branch. The Argentine Congress has few experienced leaders,

Separation of
powers
5

virtually no professional staff and little technical expertise, and its committee system and oversight bodies are poorly developed. Few politicians have invested seriously in legislative careers.

Argentina's judiciary is generally independent, but remains subject to strong influence from political authorities and plagued by corruption. It is institutionally differentiated, but partially restricted by insufficient functional operability. These problems are still more severe at the provincial level. One of the main issues in Cristina Kirchner's inaugural address was sweeping judicial reforms, including the popular gesture of making judges pay taxes, to restore the public's faith in the judiciary and to "reconstruct the value of security in the face of some incomprehensible judicial rulings." However, the gap remains wide between expectations and real rule of law.

Independent
judiciary
6

The weakness of the rule of law is combined with a system of privileges that violate the principle of equality. The judicial system also lacks transparency, efficiency and neutrality. Aside from changes in the Supreme Court and the Consejo de la Magistratura, which is responsible for the appointment and removal of judges, few of the promised reform projects have been realized. The growing differences between executive and judicial power with regard to budget autonomy, judicial independence, and the controversial and slow appointment of judges are all clear signs of Cristina Kirchner's resistance to establishing institutional checks and balances. The reform of the justice system as a whole will require long-term commitment and sustained effort. Public confidence in Argentine jurisprudence remains low; 54% of Argentines are convinced that it is possible to bribe a judge, and only 18% think that equality before the law is guaranteed.

Corruption continues to pervade public institutions. The country has strong anti-corruption regulation and two administrative organizations that work outside the auspices of the Justice Ministry, but all of this is offset by uneven enforcement and a weak judiciary. Statistics from the Center for the Investigation and Prevention of Economic Crime have shown that, in the last 25 years, the average length of processing required in prosecuting corruption cases stands at 14 years. Leading anti-corruption activists have accused the administration of stalling on its good governance agenda, particularly by failing to ensure effective functioning of administrative controls. The government's concentration of power encourages corruption as it obstructs administrative control and demands a steady distribution of benefits to the political class, in order to mollify those who would otherwise protest that concentration. This damages Argentina's federal regime through patronage via distribution of the national budget to governors and mayors so that they line up behind the Kirchner government.

Prosecution of
office abuse
5

Political parties, legislators, the police and the judicial system are perceived as the most corrupt institutions; 40% of Argentines are convinced that corruption is the

most important problem preventing the police from successfully fighting crime (Latinobarómetro 2010). Abuse of office by elected officials usually goes unpunished. Nepotism in the provinces, the eternal temptation of the governors, is still endemic. The obstacles that prevent the efficient prosecution of corruption are not moral or legal, but are rather a set of informal practices that discourage, preclude or frustrate an effective investigation. Illegal campaign financing and money laundering are crimes that go unpunished in Argentina. The Unit of Financial Information (UIF – Unidad de Información Financiera), created at the beginning of 2006, hasn't managed a single conviction of money laundering in the four years since its foundation, despite 64 accusations presented to the Ministry of Justice.

Civil rights and liberties exist and are guaranteed, but since both the police and the judiciary are politicized, corrupt, poorly paid and inefficient, legal action against violations is usually inadequate. The excessive use of force by police and other security forces has been reported as a recurring problem. The situation in jails is also problematic due to severe overcrowding and the poor quality of basic services. In addition, torture continues to be a serious issue in prison and detention centers. Excessive use of police force against public demonstrators and the arbitrary arrest of citizens have also been common in the recent past, reaching a peak in the turmoil of December 2001. The Argentine military and police are resistant to government enforcement of human rights. The national and provincial governments have failed to change the prevalent culture in the security forces.

Another issue of primary concern for Argentines is public security, especially in Buenos Aires. In the aftermath of the 2001-2002 crisis, the level of violent crime, as well as the public perception that crime was a problem, increased markedly. Much of the increase has been fuelled by a growth in illegal drug use and by the complicity of high-ranking judicial and law enforcement authorities in the drug trade. Moreover, governments repeatedly failed to reform police forces that were known to be corrupt and complicit in criminal activity. According to Latinobarómetro 2010, worsening public safety and crime rates are problems of the first rank in Argentine perception (37%, compared to economic problems: 35%; average in Latin America: 27%). Only 10% state that the country is secure. Balancing public demands for security with the commitment to civil and human rights is also a challenge for Cristina Kirchner. Failure on the public security front could fuel the rise of law-and-order populism, which could place many hard-won civil liberties at risk.

Citizens whose rights are violated by the state can contact their national or local ombudsman, or take their cases to court with a public or private lawyer. In practice, however, access to these options is limited, especially for low-income and other socially marginalized people. The government has no clear policy for addressing this problem, leaving the task mainly to NGOs. The role of the ombudsman in

Civil rights

7

assuring citizens' right is very limited. Although the police are not effective and are highly corrupt, 55% of Argentine citizens are convinced that increasing the number of policemen is the best way to increase safety and reduce violence (Latinobarómetro 2010).

4 | Stability of Democratic Institutions

Democratic institutions, including the administrative system and the judiciary, have recovered step by step from the 2001-02 crisis. However, their effective functioning is not sufficiently guaranteed and their interrelationships are not entirely smooth. Both Néstor and Cristina Kirchner's presidencies are characterized by a significant concentration of executive power. Since the government lost its majority in Congress after the mid-term elections in June 2009, the political landscape has become more diffuse. The highly fragmented opposition, lacking both negative and positive agenda controls, is left in a very reactive position. The system of formal and informal incentives ensures that obstruction of the government is more profitable for the opposition than cooperation. The electoral system has the same effect. The rebirth of provincial power, linked with the weakening of the party system, has produced a redistribution of political power, with considerable consequences for governance. The "localization" and decentralization of politics has emerged without the parallel development of a solid party system on the national level and institutional mechanisms that typically constitute a countervailing power to these centrifugal tendencies.

The relevant actors accept democratic institutions as legitimate, but do not always actively support them. Notwithstanding the concentration of power and the PJ's electoral dominance, the core institutions of Argentine democracy remain strong. Elections are clean, with some exceptions, civil liberties are broadly protected and possible veto powers are weakened. The military, responsible for six coups between 1930 and 1976, has withdrawn from politics. The constitutional order has not been interrupted since Argentina's return to democracy. The repeated FPV victories in the general (2003 and 2007) and mid-term elections (2005) were the product of opposition weakness, not of incumbent abuses. The ruling coalition's loss of its majority in the 2009 mid-term elections is an alarm for the government, but it is not a sign of a reinforced and more cohesive opposition. The government process in view of the presidential election in 2011 is more complicated and demands a flexible leadership and concessions to possible veto players inside the Peronist movement and beyond.

Performance of
democratic
institutions

6

Commitment to
democratic
institutions

8

5 | Political and Social Integration

The systemic crisis of 2001-2002 had a profound effect on the party system. Even though the Peronist voter base is relatively stable, the system as a whole suffered a partial collapse. The degree of fragmentation is high, the weight of the different players is very unbalanced and volatile, and the degree of polarization has grown. Some Peronists operate in the opposition, while some non-Peronists have allied themselves with the government. The UCR is still fighting for survival and is in disarray, with the majority of the UCR governors and the most important UCR mayors in alliance with the Kirchners – thus earning them the label “K-Radicals” – while the national leadership of the UCR has maintained its opposition strategy.

Opposition forces on both the left and the right remain divided. None of the opposition parties that emerged in the wake of the UCR’s collapse possessed a national organization or a significant activist base. Smaller parties, such as the center-right Propuesta Republicana (PRO) and the more left-leaning *Afirmación para una República Igualitaria* (ARI), occupy different positions on the political spectrum, and are active only in certain provinces. Since the general elections in 2007, only ARI has been a viable political force in competition with the PJ and the UCR. In contrast to these two parties, the national third parties have never established an effective party organization and are overly dependent on the popularity of a single leader (or small coterie of leaders).

Kirchner’s overwhelming victory in 2007 was a product of this opposition weakness. She came to power with ample control over the Congress, but growing fragmentation among the Peronists has made it more difficult for her to exercise partisan control. In 2008, Néstor Kirchner conquered the PJ presidency, resulting in a de facto single-party government (“Kirchnerismo”). This Peronist dominance may be the biggest threat to good governance in the country. Néstor Kirchner was the last Peronist able to unite the subdivisions of the party, and his loss leaves behind a fragmented Peronist movement.

The existing network of associations reflects most social interests and is to some extent capable of mediating between society and the political system. However, it is relatively fragmented and dominated by a few strong interest groups, above all business organizations and unions, producing a latent risk of mutually reinforcing conflicts. The established channels between organized interest groups and the executive were interrupted during the crisis of 2001-2002. Néstor Kirchner only partially restored these relationships. Systematic negotiation and agreements with both organized labor and domestic businesses have been part of Kirchner’s greater goal of economic development, due to the need to contain inflation, or more specifically one of the main traditional drivers of Argentine inflation: excessive wage increases. Wage agreements have been paralleled by bilateral government

Party system

6

Interest groups

7

business pacts on maximum prices in each sector. However, Kirchner's strategy of growth through domestic industry has changed the relationship between state and business and has made the government vulnerable to pressure from domestic business.

Organized labor continues to play a strong role in Argentina. While market reforms and deindustrialization had weakened the organized labor movement since the 1980s, Argentina has witnessed post-reform resurgence in terms of the mobilization power of a relatively diminished union sector. This resurgence of trade unionism is related to the advent of a pro-union government and the strength of the labor market in recent years. However, the rise of new social movements during the crisis, and of alternative trade unions, increasingly threatens the hegemony of the established trade unions. Additionally, the image of the trade unions as corrupt organizations has by no means disappeared. For many people, the trade union bosses are part of the political establishment and were included in the slogan, "throw everyone out." Today, the unions no longer play a quasi-universalistic role as agents of the working class; instead, they play a new role in the neo-corporatist model, acting as a moderating force in the economy. Argentine trade unionism now represents around half of the working class; indeed, some union demands may contradict the needs of the weakest and poorest sectors of the lower class. For example, relatively high-income workers successfully fought against paying higher payroll taxes, and as a result, there may be fewer resources for social policy targeted at the extreme poor or the informal sector. In sum, the Argentine mainstream unions today are agencies that simultaneously foster social equity (by fighting for higher wages) and inequality.

In its relationships with businesses, the government seeks to secure a more cooperative relationship in order to persuade companies to direct some profits towards their workers through schemes of corporate responsibility; in exchange, the government clearly rejects the introduction of a comprehensive program of taxation on income, fixed assets and profits. Employers have become more cooperative in collective negotiations. Argentine law provides unions with the right to negotiate collective bargaining agreements and with recourse to conciliation and arbitration. The Ministry of Labor, Employment, and Social Security ratified collective bargaining agreements that cover roughly 75% of the formally employed work force.

According to Latinobarómetro 2010, support for democracy is high (2010: 66%; 2008: 60%), but has decreased since 2006, when support stood at 81%. Eighty-three percent are convinced that democracy is the best governing system and 73% that democracy without a Congress cannot exist (Latin America: 59%). Sixty-three percent believe that the most effective way to change things is to vote; only 14% are convinced that participation in protests is more effective. Political protests target the political class as a whole, but do not tend to call into question the constitutional

framework. Mistrust towards democratic institutions, their ability to be representative and their performance has not disappeared. In general, there is a wide gap between acceptance of democratic institutions and judgments about their functioning. One exception from the generalized mistrust of democratic institutions and representatives has been President Kirchner, whose popular support oscillated between 60% and 70% until the end of his term. The popular acceptance of his wife and successor was also high at the beginning, but has diminished dramatically during her first year, to only 23% at the end of 2008. After the loss of her husband Néstor, her popularity rose again to about 50%. Citizens also expressed highly skeptical opinions about the representativeness of the government: 87% of the population (2008: 75%) is convinced that the government favors the interests of a minority over those of the majority (the second highest percentage in Latin America).

Since the 1980s, civil society has been broadly organized and highly differentiated. Self-organization and the construction of social capital advanced. But, while new social actors cooperate on the local level, where more than one-third benefited from horizontal social networks, their relationships with parties, parliament and the government was marked by distance and confrontation until the general elections of 2003. The renewed dynamism of civil society as a provider of services due to the retreat of the state helps to explain why Argentine society has been able to resist the recent social and economic collapse without a more violent social outburst. The impact of civil society organizations was remarkable in terms of human resources mobilization on a voluntary basis during the crisis years, but this effect decreased in the following years of economic recovery and with the spread of social programs targeting those most affected. In terms of social capital, mutual confidence is still underdeveloped. Fundamental social norms are poorly developed; some authors even regard Argentina as “an anomic society.” Rule-flouting individualism and interest groups determine behavior.

Social capital

7

II. Economic Transformation

6 | Level of Socioeconomic Development

Key social indicators, which had dramatically worsened since the second half of the 1990s until 2003, improved in the following years. However, after five years of high GDP growth rates (8-9% annually), the economy was afflicted by a four-month farm conflict and the global economic crisis of 2008-2009. Nevertheless, the country weathered the crisis relatively well and the economy continued to function effectively. In the HDI 2010 update, Argentina ranks 46th out of 169 countries with

Question

Score

Socioeconomic
barriers

7

a score of 0.75, being surpassed by only one Latin American country, Chile. In the HDI of Latin American and Caribbean as a region, the score increased from 0.578 in 1980 to 0.706 today, placing Argentina above the regional average. Exclusion based on gender, religion and ethnicity play a minor role, at least compared to most other Latin American countries.

Some unofficial estimates suggest that unemployment and poverty levels may be considerably higher than official data suggest. Based on INDEC data, experts calculate that poverty was reduced considerably from 49.9% in 2003 to 26.5% in 2007, but has stagnated since then, reaching a rate of 23.3% in 2010. Poverty, income inequality and the scope of the subsistence economy remain challenging. Due to their dependence on subsistence production, a considerable share of the population tends to be excluded from market-based socioeconomic development. According to CEPAL, the Gini index increased sharply in the 1990s until 2003 to about 0.58, but this trend was then reversed by 2008 to about 0.51, and has remained somewhat stable since then. The income gap between the richest 10% and the poorest 10% is today the same as in the last trimester of 1998, the year of the beginning recession, and is 12 times higher than in the last trimester of 1988. Argentina continues to be a country just as much or more unequal as one generation before.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	260768.7	326676.7	307081.8	368736.1
GDP growth	%	8.7	6.8	0.9	9.2
Inflation (CPI)	%	8.8	8.6	6.3	10.8
Unemployment	%	8.5	7.8	8.6	-
Foreign direct investment	% of GDP	2.5	3.0	1.3	1.7
Export growth	%	9.1	1.2	-6.4	14.6
Import growth	%	20.5	14.1	-19.0	34.0
Current account balance	\$ mn.	7354.5	6754.9	8404.6	3081.5
Public debt	% of GDP	67.7	58.1	57.6	47.8
External debt	\$ mn.	117317.2	118901.9	120282.7	127849.5
Total debt service	\$ mn.	8970.1	7724.1	12126.9	14039.8

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.9	13.4	15.2	14.9
Public expnd. on edu.	% of GDP	4.9	-	-	-
Public expnd. on health	% of GDP	8.4	8.4	9.5	-
R&D expenditure	% of GDP	0.51	-	-	-
Military expenditure	% of GDP	0.9	0.8	1.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The foundations of a competitive market economy are by and large assured, but the rules for market competition are not consistent or uniform for all market participants. The informal sector diminished since 2003 but is still significant; estimates vary between 30% and 45% of the economy. The importance of administered pricing has grown during the 2000s as the government introduced price controls for basic goods and services and periodic controls on exports in its effort to fight inflation. According to the Global Competitive Survey 2010-2011, Argentina ranked 87th out of 139 nations. The five most restrictive factors to doing business are political instability, inflation, access to financing, corruption and inefficient government bureaucracy.

Regarding the control of capital flows, the Global Competitive Survey 2010-2011 ranks Argentina 132nd out of 139 countries. The central bank has established registration requirements for capital flows and has restricted the participation of foreign entities in certain initial public offerings. Despite a number of protections for free capital and currency transfer, the flow of capital is restricted, and repatriation is subject to some control. No performance requirements are aimed specifically at foreign investors. Special regimes apply to mining, oil and gas, and other natural resource sectors. Foreign companies may invest without prior government approval, and on the same terms as investors residing in Argentina. Investors are free to enter Argentina through merger, acquisition, Greenfield investment or joint venture. Although registering a foreign business is fairly simple, and most local companies may be wholly owned by foreign investors, foreign investment is prohibited in various sectors. The most significant deterrent to investors is the legal uncertainty surrounding creditor, contract and property rights.

Market-based
competition
6

Investments can be expropriated or nationalized only for public purposes upon prompt payment of compensation at fair market value. Foreign and Argentine firms face the same tax liabilities.

Anti-monopoly policies exist but are executed within a weak institutional framework. They are very inconsistently enforced or even politically instrumentalized. Néstor Kirchner in particular tried to utilize laws on competition to benefit Argentine firms. The formation of monopolies and oligopolies and increasing market concentration during the 1990s led to the passage of a new Antitrust Law in 1999. However, the implementation of effective antitrust policies encountered severe barriers. The law provided for the creation of an independent Antitrust Tribunal, which has not been put in place. Thus the agency created by the former Antitrust Law, the National Commission for the Defense of Competition, is still responsible for recommendations in all mergers and antitrust issues, while the government issues the final decision on such matters. The government has justified its refusal to create the Tribunal for the Defense of Competition with the argument that such an organization would be incompatible with the creation of large firms that can compete at the regional level. The government claims the power to decide on sensitive competition issues, especially in strategic areas such as energy or media.

Anti-monopoly
policy
5

Foreign trade is liberalized in principle, but several exceptions remain, including differentiated tariffs and privileges for some domestic sectors and industries. According to the 2010 Index of Economic Freedom, Argentina's weighted average tariff rate was 5.3 in 2008, which point to somewhat distorting tariffs. In the Mercosur, approximately 99% of traded goods have no tariff restrictions. Nonetheless, there are multiple protectionist measures and trade disputes, particularly with Brazil, Argentina's most important trade partner. For some products, such as beef, there are export restrictions. Permission for Mercosur countries to make exceptions to the common external tariff expired at the end of 2010.

Liberalization of
foreign trade
6

Foreign sales of manufactured goods are promoted by means of a number of incentives, including tax refunds, and by maintaining free trade zones and a special customs area in Tierra del Fuego. Although there are no preliminary requirements for imports, permits are required for certain goods. According to the U.S. Department of Commerce's 2010 Country Commercial Guide, the Argentine government also imposes phytosanitary rules, specific duties, anti-dumping investigations and quotas to protect domestic products from competition from imported goods.

The move from convertibility to a managed float exchange rate regime, along with high commodity prices, has lifted the value of exports to record levels. National and foreign investment grew sharply. The trade surplus is one of the pillars of the

current government's economic model. Imports were pushed up by fuel and capital goods. Exports were driven by the agribusiness sector. The national service for food and agriculture (Senasa) reported that grains and oilseed crops accounted for 80% of export revenues. The current comparative advantage resulting from the favorable exchange rate is also fuelling re-industrialization. Argentina is therefore trying to improve its international market access.

The banking system and capital markets are relatively well differentiated, but only foreign banks are internationally competitive and meet international standards. The banks remain susceptible to broad fluctuations because of their substantial dependence on external capital. Privatization and liberalization during the 1990s brought mergers and oligopolistic formations, as well as company and bank collapses. The economic breakdown in 2001-2002 produced a banking system collapse. Meanwhile, the banking system is more solid and banks have returned to profitability. The central bank has doubled its reserve funds. Private sector bank balance sheets, which deteriorated significantly during the economic crisis, recovered. Credit – primarily to the private sector – increased at a faster pace than nominal GDP growth, exhibiting improved levels of liquidity and a significant reduction in net exposure to the public sector. According to the private rating agencies, most private banks (which hold approximately 55% of total financial system deposits and 67% of loans) have returned to solvency. Public banks are also solvent and liquid. However, across the system, new lending is mostly short-term, as access to long-term financing is limited and borrowers are reluctant to borrow long-term at variable rates. This can complicate government and private sector efforts to develop a long-term fixed interest rate market, without which it will be difficult to deepen Argentine's financial markets or support large-scale project financing.

Banking system

7

8 | Currency and Price Stability

Argentina's economic policy goals include controlling inflation and implementing an appropriate foreign exchange policy, but to some degree they are institutionally and politically subordinated to other goals. The Kirchners' approach to control inflation has been to put out fires as they come up with the introduction of ad-hoc policies such as price controls for basic goods and services, or periodic controls on exports in an effort to stabilize prices for goods in the domestic market. These instruments include making agreements with producers and intermediaries, or limiting beef exports to maintain supply levels for the domestic market. Official statistics put the country's inflation rate below 10%, but independent economists emphasize that these figures grossly understate consumer price increases and that the real figures in 2010 are 25-30%. The manipulation of the inflation rates by the INDEC is widely discussed and criticized. The underestimation of inflation

Anti-inflation /
forex policy

5

demonstrates an unwillingness of the government to pay its debts, since some 41% of public debt has interest payments indexed to the official consumer price index (CPI).

Argentina's central bank has been largely independent and has managed monetary and currency policy in support of the economic expansion, maintaining an under-devaluated or "competitive" exchange rate and negative real interest rates. In 2010, the government provoked a conflict with the central bank by using one part of their reserves for the debt service over the objections of the bank's president, Martín Redrado. This was prohibited by law, but Cristina Kirchner issued a decree to remove Redrado and designate Mercedes Marcó del Pont as his successor. This act was strongly criticized as a clear violation of the independence of the central bank, which is ostensibly guaranteed by law.

The government's fiscal and debt policies seek to maintain macroeconomic stability but lack institutional safeguards. There are no political or institutional bulwarks against risky policy changes motivated by populism. Both presidents have exercised a great deal of discretionary power in budget issues that is not audited by parliament or other agencies. Huge amounts of off-budget money have been used to build political machines. Another point of worry is the problematic reform of the financial adjustment mechanisms between the central government and the provinces, a move that the IMF has emphatically demanded.

The Kirchners' debt policies have served to reduce external vulnerability through the stabilization and rationalization of Argentina's debt burden. This has reduced the country's external vulnerability by reducing the potential pressure of a traditional currency/balance of payments crisis. The accumulation of large reserves has also served to give Argentina a cushion against falling export prices or volumes.

From May to June 2010, the government offered a debt restructuring for private holders of defaulted bonds. Two thirds of the private bondholders participated, leaving approximately \$6 billion in private default claims still outstanding. At the end of 2010, the government claimed that, after the 2005 restructuring and the debt swap in 2010, Argentina had settled 93% of the \$102 billion it defaulted on during the 2001-2002 economic crisis. At the beginning of 2011, an arrangement with the Club of Paris seems near. The only open question is the amount of penalty interests that Argentina will have to pay as a consequence of nine years in default.

9 | Private Property

Property rights and the regulation of property acquisition are defined in principle, but practical enforcement in accordance with the rule of law is problematic because of deficiencies in the judicial and administrative system. The executive branch

Macrostability

6

Property rights

7

influences Argentina's judiciary; the courts are notoriously slow, inefficient, secretive and often corrupt, and many foreign investors resort to international arbitration. Property rights are not adequately safeguarded against political intervention. The government of Argentina adheres to most treaties and international agreements on intellectual property and belongs to the World Intellectual Property Organization and the World Trade Organization (WTO). Patent protection is an ongoing problem in Argentina's intellectual property rights regime and extension of adequate patent protection to pharmaceuticals is a contentious bilateral issue. Software piracy is increasing. Government manipulation of inflation statistics has caused domestic bondholders to lose billions in interest payments.

Private companies represent the backbone of the economy. The State Reform Law of 1991 privatized large portions of basic industry, infrastructure and other public services. At the same time, significant segments of local industry were bought up by foreign firms. Privatization was accompanied by a series of corruption scandals and several undesirable side effects including monopoly formation. The crisis of 2001-2002 motivated the government to freeze the tariffs of privatized public enterprises. This provoked conflict between the government and the firms. While the government complained about the lack of investment, the companies demanded compensation for the revenues they lost as a result of the end of the dollar-peso parity. As a reaction to the lack of investment by foreign companies, the two Kirchner governments declared that all contracts would be subject to revision, reversed the privatization trend of the former years, revoked some concessions and nationalized some public services. Néstor Kirchner re-nationalized the Correo Argentino postal service, the airports, and Aguas Argentinas, the water company. Under Cristina Kirchner, the most spectacular cases of re-nationalization were those of the Aerolíneas Argentinas airline in September 2008 and of the ten private pension funds two months later. With respect to the latter case, the law exhibits ambiguities and juridical gaps, giving the government a wide range for discretionary decisions.

Private enterprise
7

10 | Welfare Regime

Social safety nets are developed to some degree, but do not cover all risks for all strata of the population. During the twentieth century, Argentina developed a welfare regime that was universal in scope but increasingly suffered from imbalances. The reforms of the 1990s induced the partial privatization of social security and the decentralization of education and health care. The pension system was reformed into a mixed system, introducing an individual capitalization regime and private pension funds that, however, were nationalized by Cristina Kirchner in 2008. Today there is a mixed and rather fragmented welfare system of public,

Social safety nets
6

private and corporate entities. Considerable portions of the population continue to live in poverty and have no access to social safety nets.

Though widely considered left of center, the Kirchner governments neglected structural social policies aimed at combating poverty, notwithstanding several particular social programs. Indeed, despite unprecedented fiscal health, the government did not invest heavily in either conditional cash transfers to the poor, or health and education programs for them, as did the left-center governments of Brazil and Chile. Social programs established to deal with the dramatic poverty emergency created by the 2001-2002 crisis, such as the Jefes y Jefas de Hogares program, were scaled back and frequently misused for political objectives. However, program targeting has improved in recent years. Some social programs have increasingly been incorporated in employment programs, indicating elements of real policies for both the labor market and the prevention of poverty. Rather than creating new social programs, both Kirchner governments invested heavily in public works. In June 2008, Cristina Kirchner announced the creation of a “social distribution program” that would assign revenues from increased taxes on grain exports to building hospitals, homes and rural roads, but at the end only a modest sum was transferred.

There are institutions and programs to compensate for gross social differences, but they are highly dependent on political cycles and are limited in scope and quality. Little government attention focused on the question of embedded poverty and indigence. Welfare remains stuck essentially in the safety-net model of neoliberalism, which at best can only ameliorate some of the worst manifestations of poverty. The problem for the government of course is how to raise sufficient income for social spending, especially if further tax increases are effectively vetoed.

The socially disadvantaged, poor women, indigenous peoples and immigrants do not have equal access to public services. Women have equal opportunities in education and active political participation. Argentina is one of the countries with the highest quota of representation of women, but at the same time women are the part of the population most affected by problems in the labor market and are therefore disadvantaged in the economic and social sphere. The Cristina Kirchner government began to address these problems, but clear-cut policies have not yet become visible. Finally, there is a vicious circle of a deteriorating education system and social exclusion. The distance between education and the requirements of the labor market in the twenty-first century begins to open up in secondary school. Fifty-eight percent of the labor force between 25 and 64 years of age, as well as 75% of pupils from poor families, have not finished secondary school.

Equal opportunity

7

11 | Economic Performance

Economic growth, only briefly interrupted in 2008/09, enabled the government to accumulate substantial official reserves (over \$50 billion in 2010). These reserves, combined with the absence of fresh borrowing from the international capital market, helped the economy to weather external turbulence. A higher tax burden, improved tax collection efforts, and the recovery of tax revenues has supported the government's successful efforts to maintain primary fiscal surpluses since 2003.

According to figures from CEPAL, economic growth was 8.4% (7.3% per capita) in 2010. Investment increased according to official figures by approximately 20.5% of GDP, and the foreign trade surplus grew by 26% compared to 2009. The fastest-growing sectors of the economy were construction, transport, storage and communications. In the context of this rapid growth, the unemployment rate fell from 21.5% in 2002 to 13.2% in 2009.

Notwithstanding these promising figures, some economic problems remain on the agenda: high and growing inflation; a remaining demand for state subsidies to maintain artificially low prices for public utilities, such as transportation, fuel and food; demands for salary raises for state workers and pension increases; and the unresolved farm conflict. Some independent economists estimate that poverty and unemployment rates are considerably higher than the INDEC figures show. The rates of investment and saving are still relatively weak. Susceptibility to external shocks, first of all to the volatile world market prices for commodities, remains high and the informal sector is still large. Investment in science and technology has increased under the Cristina Kirchner government but remains insufficient. The two central problems for a sustained development – the reduction of external vulnerability and the strengthening of productivity – remain unsolved.

12 | Sustainability

Argentina faces significant challenges in relation to the preservation of its natural environment. In particular, the expansion of genetically modified soy cultivation is contributing to the degradation and erosion of the soil, to the loss of biodiversity and to a high index of water contamination. Pollution is a major environmental problem in Argentina, especially water pollution in urban areas due to harmful disposal practices and in rural areas where rivers are polluted by the increasing use of pesticides and fertilizers. Additional threats to the environment are the overexploitation of vast mineral resources, erosion due to inadequate flood controls and inappropriate land use practices, the hole in the ozone layer above Patagonia and the South Pole, and the deterioration of irrigated areas and desertification.

Output strength

7

Environmental
policy

5

Though the goal of sustainable development was incorporated in Article 41 of the 1994 constitution as the “polluter pays” principle, environmentally compatible growth receives only sporadic consideration and has a weak institutional framework. During the past fifteen years, Argentina has put legislation in place to regulate most existing environmental problems, and several provinces have included environmental concerns in their constitutions. Nonetheless, existing environment laws are often not enforced because of budget constraints or a lack of adequate control mechanisms. In addition, the current allocation of environmental responsibilities to several national, provincial and municipal agencies undermines policy coherence, enhances the risk of overlapping jurisdictions, weakens controls and is conducive to low compliance levels. One positive development has been the Environment Agenda in 2006 by the National Secretariat for Environment and Sustainable Development, but its implementation has been slow to date.

Together with Uruguay and Chile, Argentina ranks at the top level of education indices in Latin America and has a well-articulated system of primary and secondary education; however, despite increased expenditures, it is still underfunded. The same holds true for the otherwise well-developed public university system, which has been complemented by a network of private universities since the 1980s. The structures that are necessary for efficient school system administration could only be developed in a few provinces, and the widening quality gap between rich and poor provinces is spawning a disturbing development. The education system suffers in part from low quality and salaries, deep inequality and large differences between the federal states. Seventy percent of scientific personnel are concentrated in only three provinces: the federal capital, Córdoba and Santa Fé. The province of Buenos Aires is particularly severely disadvantaged by the uneven distribution of financial resources.

Under the Kirchners’ governments, the public expenses for education and investigation increased substantially, reflecting the conviction of both presidents that science and research are fundamental pillars for the recovery of the national economy. The government subsequently raised expenditures up to 5.4% in 2007, with the goal of reaching 6% in 2010. R&D expenditures stood at 0.51% of GDP in 2007 and should be 1% of GDP in 2010, according to the national strategy. Argentina occupies the third position in Latin America after Brazil and Chile, but is very far from reaching the figures of OECD countries. The private sector remains underrepresented with 39%, notwithstanding reinforced efforts of the government. The majority of national enterprises focus on increasing profit rather than innovation.

Education policy /
R&D
6

As the PISA study points out, the government spends a lot of money in the education sector, but the results are modest. The wretched state of the economy at the beginning of this decade resulted in a massive “brain drain” which, in turn, has impeded the country’s development chances even further.

Transformation Management

I. Level of Difficulty

Structural constraints on governance have been moderate since the political and economic recovery that began in 2003. Several developments have improved the conditions for government performance: the majorities in the two chambers of parliament until the mid-term elections in June 2009, the good performance of the international economy, high raw material prices, a weak U.S. dollar, the recovery of the world economy and of most Latin American economies after three years of stagnation, recession and debt arrangements, and the fragmented and weakened opposition. Aside from growing inflation rates, and the high (but reduced) rate of poverty and the extent of the informal economy in urban areas, there are no major structural constraints in the socioeconomic field.

Structural
constraints
4

Argentina has a moderate tradition of civil society. Civil society organizations, particularly human rights groups such as the Madres de la Plaza de Mayo, played an important role during the transition period from authoritarian to democratic governance. However, with the strengthening of the two major political parties, the PJ and the UCR, the political influence and clout of civil society organizations has diminished. Nowadays, the field of the civil society is very fragmented and their objectives are very diffuse. In the context of the 2001-2002 crisis, new civil society organizations, such as the piqueteros, have emerged as important actors. Many of their activities were spontaneous and poorly organized, focusing on day-to-day problems; others tried to answer the social call for action against the rampant crisis and the political inadequacy to cope with it. Some of the new movements disappeared with the economic recovery; others were co-opted by the Néstor Kirchner government or joined up with the agrarian farmer unions in the conflict with the government over export taxes on agrarian products.

Civil society
traditions
4

There are no severe ethnic or religious cleavages. Division along social or ideological divides is moderate. Due to widespread discontent with poor political management, society and the political elites remain somewhat polarized. The expansion of social inequality culminated in the 1980s and 1990s in different forms of social protest, such as rioting, street blockades and supermarket plundering. In 2001 and 2002, they transformed into new social movements and forms of protest

Conflict intensity
4

(piqueteros, cacerolazos), which, however, increasingly declined in intensity and violence or disappeared. The majority of protests during the period under review was peaceful and did not infringe upon the legal order. Cristina Kirchner's populist strategy in the agrarian conflict, in which she called on her supporters for mass demonstrations, thus avoiding Congressional debate on the export tax until 2008, further polarized Argentine society. Violent incidents – for instance the social unrest in the Parque Indoamericano, which was invaded by squatters, or the street riots of young people in the Constitution railway station, both in December 2010 in Buenos Aires – were exceptions to an otherwise peaceful protest culture.

II. Management Performance

14 | Steering Capability

The political leadership pursues some long-term aims, but it sometimes postpones them in favor of short-term political benefits. The leadership seeks to maintain democracy and a market economy, but its strategic aims are only in part commensurate with the country's situation and problems, and the needs of the population. Cristina Kirchner promised to concentrate her government on a few priorities, following and deepening the strategic line of her husband and setting new accents in infrastructure, social policy and in the area of foreign relations. She forced the nationalization of private retirement pensions through Congress in 2008, worth \$25 billion, as the government needed money. The president neither upheld her promise to strengthen political institutions nor did she provide a sound economic framework. As her behavior in the farm conflict and in the debate about incorrect statistical figures demonstrates, she is following an inflexible course of action based on a populist strategy of mobilizing her followers and eluding the treatment of the conflict in the representative institutions, parties and Congress. The hope for a new political style and some corrections of the hitherto existing development strategy after the death of her husband has not been fulfilled.

The government is committed to democracy and a market economy, but has had only limited success in implementing its announced reforms. The implementation capacity of Cristina Kirchner's government was restricted or blocked by the conflict with the farmers' unions, internal conflicts within the PJ, political miscalculations and a lack of internal governmental coordination. Only a few of her programs have been successfully implemented. The most contentious issue, the agrarian conflict, remained unresolved. Both Néstor Kirchner and his wife were forced to govern in a coalition with the negotiated consent of party bosses, and Cristina Kirchner has had to work with some members of the opposition, the so-called K-radicals. The

Question
Score

Prioritization
6

Implementation
6

difficulty of achieving legislative discipline, despite the PJ's legislative majority in Congress, explains why Cristina Kirchner sought an extension of emergency executive decree authority immediately after taking office.

Whereas presidents Duhalde and Néstor Kirchner responded somewhat effectively to the mistakes and failed policies of the past, Cristina Kirchner has shown little willingness and ability in policy learning; instead, she has remained stuck in routines that do not allow for innovative approaches. Néstor Kirchner, an anti-establishment politician, concentrated government action on a few priorities, sometimes against strong international opposition, as for example in debt questions. Kirchner's government style was authoritarian and opaque, sometimes imperious and rarely cooperative. He never held a cabinet meeting, refused to receive ambassadors, purged the Supreme Court, made uninhibited use of government money, taped telephone calls and characterized all forms of dissent or disagreement as illegitimate. His inner circle was limited to a selected few. Cristina Kirchner won the October 2007 presidential election with 45% of the vote, 22 points ahead of her nearest rival. Her campaign was favored by a strong economy, which had grown by 8% each year since her husband took office. Cristina Kirchner began her presidency with a high rate of acceptance and the promise of "continuity in change" – a very ambiguous formula – and to cultivate a "culture of dialogue." But the promise (and expectations among Argentine citizens) of dialogue was not realized. As the agrarian conflict and other conflicting issues (for example, the INDEC manipulation by the government) clearly demonstrate, her political behavior has become more and more authoritarian and inflexible. Cristina Kirchner is surrounded by a closed circle of functionaries and her actions are not coordinated, neither with members of her cabinet nor with her PJ faction, the Front for Victory (FV). In sum, she governs in a style very similar to her husband's, but has not learned from his errors and continues in the same manner or even worse.

Policy learning
5

15 | Resource Efficiency

The Kirchner government used only part of its available resources efficiently. The main problems in the efficient use of resources are the president's discretionary power in budget issues and the way in which public servants are appointed. Financial auditing remains insufficient. Neither the planning nor the implementation of the national budget is transparent. The so-called Economic Emergency Law – still in force despite the fact that the emergency has been over for a long time – enables the government to change budget items or increase expenditures without parliamentary approval. Combined with a constant underestimation of state revenues in the proposed budgets, this allows for additional expenditures of almost 30% that are not subject to controls. In effect, there is no

Efficient use of
assets
5

trusted information about the deviation of actual budget expenditures from the associated planned expenditures. After the executive branch and Congress failed to reach an agreement over a new budget, President Kirchner issued a decree on December 29 to roll the 2010 budget over into 2011. It is very probable that she will raise spending through executive decrees ahead of the general elections in October 2011.

There is neither an efficient use of government administrative personnel nor an efficient administrative organization. By law, civil service positions are awarded through merit-based competition, though noncompetitive employment recruitment is used to bypass the system. Many jobs in the public sector are the result of machinations within clientelistic networks, especially at the province level. At the top level there are erratic and sometimes abrupt personnel changes. The quality of the civil service is severely affected by political interference that undermines professionalism and the administration's meritocratic principles. In the diplomatic service, the Kirchner governments have relied on clientelistic appointments rather than career diplomats. Another emblematic case was the politicization of the National Institute of Statistics (INDEC); the government replaced the qualified technical staff with political appointees in order to manipulate inflation and other macroeconomic data. In addition, there are great differences inside the federal bureaucracy and even more at the provincial level, where professional standards are generally very weak.

The Kirchner governments have attempted to coordinate conflicting objectives and interests, but have achieved only limited success. The presidents' usual response to upcoming conflicts with cabinet or party members was a decision from above – usually issued by decree – or a non-decision. Cristina Kirchner prefers to govern with a restricted group of confidants inside and outside of her cabinet. Potential internal government friction was nipped in the bud by both presidents. The number of conflicting issues between the president and the legislature was reduced. The opposition was too fragmented and weak to engage in serious conflicts with the executive and prevent government decisions. Some congressional members of the opposition supported the president with their votes.

The real opposition comes from the ranks of the Peronists and is associated today with influential politicians, such as ex-president Eduardo Duhalde, Carlos Reutemann, a senator from Santa Fé, and Hugo Moyano, Secretary General of the CGT. As a result of the conflict with the farmers, the government has become increasingly isolated. Unable to capitalize on divisions emerging in the agriculture lobby, various government ploys at winning public support have failed, while political miscalculation has served to alienate the population further. Vice President Cobos, who was responsible for the failure of the government's agrarian proposal in the Senate along with other politicians and provincial governors allied to the PJ, has deserted the Kirchners. Nonetheless, the opposition inside and outside the PJ does

Policy
coordination
6

not have a shared common strategy for the coming election, nor does it have a candidate that could compete with Cristina Kirchner.

Although criminal prosecution of corruption appears to be a priority in the eyes of the public and was declared one of the priorities of both Kirchner governments, it continues to pervade Argentina's public institutions. There is vulnerability to corruption and political influence at all political and administrative levels. Although laws, organizations and intentions exist to investigate corruption in Argentina, they are slow and ineffective. The weakness of the rule of law is combined with a system of privileges that violate the principle of equality. The system lacks transparency, efficiency and neutrality. Foreign investors complain about corruption in both government and the private sector. Criminal prosecution remains an exception in actual political practice. Illegal campaign financing and money laundering usually go unpunished. There is no effective auditing of state spending.

Anti-corruption
policy
5

Anti-corruption activists have accused both Kirchner governments of stalling on their good government agenda, particularly in not ensuring the effective functioning of administrative controls. The Anti-Corruption Office (Oficina Anticorrupción), which was implemented by the De la Rúa government and under which it enjoyed considerable independence, depends now on political will in order to initiate certain types of investigations. In addition, its authorities are appointed and removed by the president. Under the Peronist governments since 2002, it has become increasingly difficult for the agency to carry out investigations that jeopardize the government's reputation.

16 | Consensus-Building

All relevant political actors agree that a market-based democracy should be Argentina's development goal, although ideas about the obstacles that will be encountered and the strategies that should be applied vary widely. In addition, apart from consensus on these basic goals, there is no agreement on eliminating defects in democracy or strengthening political and economic institutions. Efforts made under the de la Rúa administration abruptly ended with the 2001 crisis. Since then, Peronist hegemony in the political system has provided for the maintenance of this "low-level equilibrium" in which dominant actors are considered to be more important than institutions and can be checked or defied only by other dominant actors, not by the rule of law. The clout of the organized labor movement and its potential veto power underline the fragility of compromises and the government's weakness at meeting demands after the death of Néstor Kirchner.

Consensus on goals
8

The fact that the approval of democracy continues to be very high, that there was no threat of a military coup after De la Rúa's forced resignation in 2001 and that constitutional procedures were followed in principle, can all be interpreted as signs

Anti-democratic
actors
8

of the maturity of Argentine democracy, especially in light of its dictatorial past. Relevant veto actors with an explicit anti-democratic agenda do not exist. Two important former veto powers – the military and the church – are seriously weakened. The agrarian unions fought strongly against the export taxes imposed by Cristina Kirchner’s government, but they did not resort to violence as a strategy and they do not harbor anti-democratic interests. On the other hand, the power of the CGT and of its leader, Hugo Moyano, has increased in recent years. Argentina’s trade unions have never had a tradition of defending democracy as a political regime. Under the leadership of Moyano, the unions are attempting to impose their partly anti-market strategies by illegal and even criminal means, while the Kirchner government remains somewhat reluctant to act in this matrix of power struggles leading up to the 2011 elections.

The political leadership prevents cleavage-based conflicts from escalating, though the government itself has occasionally contributed to the exacerbation of selective conflicts, above all with the farmers and with the media conglomerates Clarín and La Nación. The high level of conflicts in the agrarian sector forced Cristina Kirchner to bargain more cooperatively than her husband. Due to the necessity of building bridges to the opposition to create pragmatic arrangements, the intensity of confrontation has decreased. On the other hand, the government’s reaction to recent social protests and land occupation in the periphery of Buenos Aires was once again very rigid. Nevertheless, the unresolved agrarian conflict and the economic and social impacts of the international financial crisis have not yet provoked serious social conflicts.

The political leadership takes the interests of civil society – albeit selectively – into account. It accommodates them only in part and only when these organizations can put pressure on the government, or when they form part of the power base of the government and/or the leading party. A good example of the government’s discretionary behavior is the farmer conflict. In their inaugural speeches, both Kirchners envisioned “a culture of dialogue” and saw themselves as presidents of a new era, but in fact, the inclination of both presidents towards isolated or uncoordinated decisions was stronger. Cristina Kirchner prefers populist top-down approaches to urgent social, economic and political problems, which involves calling up partisans for mass demonstrations and taking some spectacular measures to garner popular support. The mobilization of adherents in a populist manner is not a convincing method of addressing problems and creating a base for dialogue and constructive solutions.

Social movements that succeeded in mobilizing marginalized sectors during the turbulence of the 2001/2002 crisis were gradually demobilized. Informal ways of exerting influence dominated, and formal democratic instances remained largely confined to piquetero leaders’ participation as individuals in parliament or governmental offices. The relationships between Cristina Kirchner and organized

Cleavage /
conflict
management

7

Civil society
participation

6

labor are more balanced and based on neo-corporatist arrangements. Neo-corporatism has been used as a mechanism to moderate distributive struggles in an increasingly open economy. Wage agreements have been paralleled by bilateral government-business pacts on maximum prices in each sector.

The political leadership has placed high priority on the issue of human rights violations and acts of injustice during past authoritarian regimes. During her presidency, Cristina Kirchner continued the human rights policies of her husband. A law implementing the Rome Statute of the International Criminal Court came into force in January 2008. A bill incorporating the crime of “enforced disappearance” into the penal code was approved in 2009. Néstor Kirchner embarked on a series of efforts to address past human rights abuses, and his progress in this area was quite remarkable. In 2006, the Supreme Court ruled seven to one against the “Full Stop” law (Punto Final) and the “Due Obedience” law (Obediencia Debida), which was partly backed by high-ranking army officers. According to the Prosecution Co-ordination Unit, more than 600 people were facing criminal proceedings for human rights violations, including enforced disappearances. Since the amnesty laws were annulled, 44 people have been convicted. The most spectacular trial was that of the ex-dictator Jorge Rafael Videla and General Luciano Benjamín Menéndez in December 2010; the first was sentenced to life in prison, the second to 28 years.

However, doubts remain if these somewhat radical measures will help to bring about a process of reconciliation between the victims and perpetrators of past injustices. In addition, trials against perpetrators of human rights violations suffer from various obstructions. There are complaints about the slowness and even indifference of the judiciary in handling these trials. According to the Center for Legal and Social Studies (CELS), 193 people implicated in crimes committed during the dictatorship died before being brought to justice. In its annual report of 2009, CELS calculated that, given the current pace of sentencing, the trials would not conclude before 2024, more than 40 years after the end of the military dictatorship. The security of witnesses in human rights trials has become a serious concern since the “disappearance” in September 2006 of a torture victim who had testified in one of the cases that year. In her speech before Congress on 1 March 2008, Cristina Kirchner recognized this failure and blamed the judiciary for it, which in turn accused the government and the legislative of not providing sufficient resources and enacting necessary reforms in the penal code.

17 | International Cooperation

Since the recovery of the economy in 2003, the government has gradually begun to reopen the country to the international community. Some foreign policy measures, such as the debt swap and Argentina’s intimate relationship with Venezuelan

Reconciliation
8

Effective use of
support
6

president Hugo Chávez, have shocked the northern countries. However, this did not prevent these states from normalizing their relations with Argentina and offering new investment and assistance programs. The prioritization of immediate economic recovery over satisfying foreign creditors and the international credit market and the break with the IMF were very controversial decisions but economically successful. During her electoral campaign, Cristina Kirchner sought to raise the profile of Argentina abroad, with official visits to Spain, France, Mexico, Germany, Chile and the United States, among other countries. U.S. analysts considered her presidency a potential turning point for relations with the United States, which were strained due to Néstor Kirchner's close relationship with Chávez. In 2010, five years after Argentina froze relations with the IMF, Cristina Kirchner announced the acceptance of an IMF review of the Argentine economy, but doubts remain about the seriousness of her offer. Relations with the United States remain on a low profile as a consequence of a series of diplomatic faux pas on the Argentine side. Foreign policy remains subordinate to domestic policy and is marked by improvisation, a lack of flexibility and defensiveness.

At the beginning of her presidency, the international acceptance and expectations of Cristina Kirchner were very high, but this has been replaced over time by a growing skepticism. The alliance with Chávez, the flirtation with the Castro regime, the inflexible position in the pulp-mill conflict with Uruguay, the premature recognition of a (future) Palestinian state, the interruption of gas supply to Chile, the clash with the Spanish government about the nationalization of Aerolíneas Argentinas and – last but not least – the often undiplomatic behavior of the president, her Foreign Minister or Argentina's ambassadors abroad, have all nourished doubts about the responsibility, continuity and reliability of Argentina's foreign policy. The lack of a coherent strategy in Argentina's foreign policy makes it difficult to implement a coherent and predictable strategy and to act as a credible partner.

Argentina's government favors foreign direct investment to enhance economic growth and productivity. It therefore offers incentives for foreign investors and maintains free trade zones and a special customs area. The country is active in the United Nations and other global forums. In the G20, in which the country has been a member since 1999, Argentina's diplomacy is closer to the BRIC states than to the northern countries. Relations with Europe are focused on Spain, France and Germany. Relations with the latter two countries are affected by an outstanding debt arrangement with the Club of Paris about the rest of the private bonds held by Europeans, as well as frozen tariffs of public enterprises. In recent years, Europe has shown growing interest in Latin America in general and in Argentina in particular, due primarily to the rapid recovery of the Latin American economies from the international financial crisis of 2008/09.

Credibility
5

The political leadership cooperates with many neighboring states and complies with the rules set by regional and international organizations. Both Kirchner presidencies focused on the strengthening of Mercosur, notwithstanding disputes with Brazil in the commercial sector, the pulp mill conflict with Uruguay and gas supply disputes with Chile. The relationship with Mercosur partner Brazil is characterized by a mixture of friendship, political rivalry and occasional commercial conflicts. Argentina has complained about the imbalance of trade relations in Brazil's favor and has defended protective measures. Despite these conflicts, however, there is an ideological affinity among the governments in the Cono Sur. They are also in favor of constructive cooperation in advancing the Mercosur process, strengthening UNASUR and expanding the south-south cooperation beyond the region. In 2010, relations with Brazil were consolidated in a wide range of treaties, fortifying the strategic partnership between the two Mercosur partners. The most contentious issue in foreign policy under the two Kirchner governments was the construction of a \$1.2 billion pulp mill on the Uruguayan side of the Uruguay river. On 28 July 2010, the dispute, which has been ongoing for seven years, appeared to reach a resolution; the agreement provides for joint environment monitoring of both sides of the Uruguay river basin, ending Uruguayan concerns that any monitoring scheme for the plant would amount to an invasion of sovereignty.

Regional
cooperation
8

Strategic Outlook

Ten years after the systemic crisis of 2001/02, the prospects for sustainable political and economic development in Argentina are not promising. The political system remains personality-driven and populist, based more on personal loyalty and clientelistic networks than on strong and representative political institutions and constitutional rules. The death of Néstor Kirchner, previously the undisputed political leader in the country, produced, on the one hand, the revalorization of the ex-president and of the Peronist movement. On the other hand, it has provoked the resurgence of power games in the political arena as new coalitions are forming to either support or combat Cristina Kirchner's re-election in 2011. Innovative learning processes among the political elite are not in sight. The unification process among opposition forces came to an end before it had really begun. The internal battle for leadership within the Radical Civic Union (UCR) remains just as undecided as the question of potential alliances with other political forces. The relationship between the central government and the provinces also remains precarious. The combination of parties, organized power in the provinces and the lack of internal democracy favors clientelism and permits only ad hoc coalitions, not the formulation and implementation of a sustainable political strategy.

In the economic arena, the next government will face the unresolved problem of inflationary pressure caused by the restructuring of pricing structures and swift growth in demand, which may lead to a supply bottleneck, and, as a political consequence, to social protests. The first steps to correct the upwards trends of inflation rates and inequality would be to reestablish a serious and credible statistical system, to implement structural poverty-reduction policies and to provide incentives for higher saving rates. However, the structural basis for sustained economic development remains fragile as Argentine development strategy focuses on the comparative advantages of a country with abundant natural resources. Susceptibility to external shocks, especially to volatile world market prices for commodities, remains high and the informal sector large. Capital flight remains high, reflecting the doubts of business circles about the sustainability of economic policy. A sufficient energy supply and a science-based production structure remain additional challenges for the next government.

It remains an open question whether the increasing gap between a rich minority and the impoverished segments of the population can be reduced in the long run. This will require a structural social policy that goes beyond assistance policies and clientelistic networks. The social policy under the Lula da Silva government in Brazil could serve as a model to learn from and perhaps emulate. Isolated presidential decisions, based on presidential decrees and high popular support, cannot compensate for the deficient articulation, channeling and aggregation capacities of the political parties, nor can they serve as a substitute for a Congress that neglects its functions of legislation and control. Crisis and institutional weakness tend to be mutually reinforcing, a dilemma that could be called the "Argentine disease."

Last but not least, one of the most urgent problems to address is a public debate between the political class, civil society representatives and the scientific community about the future of the country and the development strategy necessary to begin moving the country toward competitive and sustainable development. This debate does not exist currently, and the country is buffeted by ideas of autarky, ideas about national sovereignty that are out of date in a globalized world, and a strategy of increasing competitiveness and active integration in the world economy.