

Argentina and the IMF:
Over a Decade after Default

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Introduction

Questioning the dominance of neoliberal economic policy and the international organizations that prescribe these policies, the International Monetary Fund (IMF) provides significant evidence of the limitations of the world capital system. Exploring this topic using a neo-Gramscian approach reveals the power relations between the developed and developing world. Examining the relationship between Argentina and the IMF, this case study provides a distinct example outlining the failure of neoliberal macroeconomics in Latin America. While faithfully adhering to financial liberalization policies backed by the IMF, Argentina spiraled into economic crisis in 2001 and defaulted on its foreign debt of US\$132 billion (Teubal, 2004). More than a decade after going into default, the Argentine economy has recovered, however, the country is still facing expensive lawsuits and debt payments to vulture funds. The role of the IMF as the mechanism encouraging and facilitating such exploitative lending must be recognized. Structural redesign is no longer a viable option, and a counter-hegemonic movement to dismantle the IMF in order to make way for new regional financial systems is necessary.

A Neo-Gramscian Perspective

In an effort to understand the significant power the IMF holds, as well as the norms it perpetuates, a neo-Gramscian analysis helps expose neoliberalism and international organizations as the integral instruments used to promote the interests of a transnational hegemonic class. According to Gramscian thought, hegemony is the dominance of a certain way of life and thought that is diffused throughout society to inform norms, values, political practices, and social relations (Katz, 2006). A growing number of critics argue that the

current hegemony of neoliberalism – backed by the United States and other developed, industrialized countries – increases the wealth and power of the few at the expense of the many (Katz, 2006). In terms of the current hegemonic system, international financial institutions such as the IMF shape policies that disseminate economic beliefs, and reinforce neoliberal values that undermine the political capacity of the poor while empowering the elite (Katz, 2006; Mueller, 2011).

While there is plenty of literature on the perceived successes and failures of particular IMF programmes, few articles published in mainstream journals are willing to question the moral and economic implications of neoliberal policies. Norms of the preponderant neoliberal system include: the predominance of the market over the state; pursuing development through privatization and trade; the belief that capitalism is the “best” economic system; and the view that freedom is more important than equality (Mueller, 2011). Evident in this approach is the privilege of one social class over the other, as neoliberalism deems inequality not only acceptable but also necessary for the system to function (Mueller, 2011). For instance, many studies have found that IMF programmes do not increase income in developing countries, especially in the long term and for the poorest segments of society (the Argentina case study provides an excellent example). However, historically, few scholars have questioned the validity of the foundational neoliberal policies (Mueller, 2011).

If the IMF has little record of success in producing income and growth, then why do they continue to recommend neoliberal policies? The answer lies in the power relations of the IMF as an instrument of hegemonic ruling class ideology. Most research conducted on

or by the IMF is resolutely unquestioning in its acceptance of the prevailing social order (Mueller, 2011). Nonetheless, there are some good quality and unbiased research studies that question the efficacy of the IMF and neoliberalism. For instance, Ngaire Woods' research has found that it is the coalition of dominant donor countries, technocrats within the IMF, and technocrats in charge of developing countries that encourage the continuation of proposed neoliberal policies with little evidence of success (Woods, 2004). While neoliberalism has served the interests of the privileged few and created humanitarian disasters in the developing world, it is the bias among economists and policy makers in favour of neoliberalism that continue to dictate the IMF agenda (Mueller, 2011). Within the context of this hegemonic system, international organizations such as the IMF are created and controlled by the very class that seeks to maintain their position of power.

Global Civil Society and the IMF

In the face of mounting evidence against the current hegemonic system, global civil society is often posited as the counterforce to neoliberal globalization (Katz, 2004). However, one of the crucial aspects in the spread of Western imperialism has been the ability to co-opt opponents of neoliberalism (Mueller, 2011). Once again, a Gramscian analysis of hegemonic and counter-hegemonic forces in society can help explain the processes by which the dominant ideology comes to be adopted by—or overthrown by—the opposition. Gramsci identifies the gradual but continuous absorption of antagonistic ideas into the sphere of hegemony as a strategy to frustrate potential opponents (Mueller, 2011).

A global counter-hegemonic movement

According to Gramsci, civil society remains the only viable option for coalescing a counter-hegemonic movement to defeat the existing system. Adjusting Gramsci's thought to our modern era, counter-hegemony to the dominance of a *global* capital can only be developed within the auspices of a *global* civil society (Katz, 2004). Counter-hegemony will be formed when deprivation is mobilized through consciousness, and movement from below can emerge when the social classes in different countries are connected (Katz, 2004). For a global counter-hegemonic movement to overcome the neoliberal capital system, a true coalition of civil society groups that bridges the differences between the myriad of disadvantaged by globalization must be formed (Katz, 2004).

One could argue that global civil society is currently undergoing a slow process of counter-hegemonic formation in response to the continued failures of neoliberalism. The current structure of global civil society networks is a positive sign of the emergence of a potential counter-hegemonic movement (Katz, 2004). The expansion and coordination among different movements, especially since 2000, can be seen with the creation of the World Social Forum (WSF) as a place for different sectors of civil society united against neoliberal globalization to exchange ideas and proposals (Ramos, 2006). The WSF is not only an annual event, but also a global opportunity to develop alternative forms of globalization "based on the respect of human rights, the environment, social justice, and difference" (Ramos, 2006, p. 151). However, for the current network to generate the solidarity required to develop a true counter-hegemonic movement, increased inclusion, participation and representation are needed to actively build coalitions between NGO's (Katz, 2004).

Co-opting counter-hegemonic forces

International organizations such as the IMF ensure the hegemony of their ideology by providing incentives and concessions to critics of neoliberalism. By engaging with and allowing the participation of global civil society, the IMF has found a way to placate their harshest critics without making substantive changes (Mueller, 2011). Participation has become an instrument through which hegemonic forces allow limited (and to an extent, false) freedom of self-expression for the dominated groups (Katz, 2004). In this practice, the ruling class inevitably co-opts the major organizations in civil society and uses them to promote its agenda under a cloak of openness. The ineffectiveness of current forms of participation has led many civil society organizations to see this type of consultation as pure tokenism. That is to say, international organizations are increasingly using participation as a method to disseminate information about, or gain support for, predetermined policies (Mouelhi & Rückert, 2007).

The co-optation of dissenting civil society actors can be seen with the IMF's implementation of the Poverty Reduction Strategy Programs (PRSP's) in 1999. Attempting to move away from the stigma of unpopular structural adjustment policies, the IMF adopted PRSP's to address the criticism it received for ignoring the needs of the poor and for being unresponsive to calls for reform (Mueller, 2011). In a bid to give a greater voice to NGO's (and a greater buy-in on their part), PRSP's encourage civil society to participate in the formulation of poverty reduction strategies (Mueller, 2011). However, many civil society organizations in developing countries have confirmed that participation has been restricted to information sharing. Moreover, this has tended to be a one-way, top down

process of popularizing suggested policies for poverty reduction that still follow the failing neoliberal model (Mouelhi & Rückert, 2007; Mueller, 2011). Even the Independent Evaluation Office of the IMF found that PRSP's, while an improvement over previous structural adjustment policies, "had limited impact in generating meaningful discussions, outside the narrow official circle, of alternative policy options with respect to the macro-economic framework and macro-relevant structural reforms" (IMF-IEO, 2004, p.3).

Even if global civil society participation with the IMF and other international organizations is more than mere tokenism, there remain concerns about unequal involvement among types of NGO's. For example, critics of the existing form of participation argue that civil society groups without strong representation in the government tend to be altogether excluded from the process (Mueller, 2011). Moreover, organizations that do not share neoliberal thinking are often not invited to participate in the process; marginalized civil society groups include trade unions, women's groups, and direct representatives of the poor (Mouelhi & Rückert, 2007). On the whole, interaction with international organizations and global civil society tends to reach mainly urban, elite, English-speaking civil society professionals; failing to engage wider and often more marginalized constituencies (Scholte, 2004). Lastly, the current network of global civil society disproportionately consists of organizations from rich countries, reproducing the same power disparities that characterize the capitalist world system (Katz, 2004).

Case Study

While the IMF is just one of many international economic institutions increasingly attracting criticism for their polarizing neoliberal policies, it also face increased scrutiny in

its continued practice of linking financial assistance to national policy reform. Structural adjustment requirements form the majority of IMF loan conditions, and are linked with the processes of economic liberalization (Brown, 2009). The negative socioeconomic outcomes resulting from structural reforms are illustrated in the decades-long relationship between Argentina and the IMF. After years of irresponsible lending from the IMF, Argentina's high-profile default indicates there is something fundamentally wrong with the international financial system (Bond, 2014).

Effects of unchecked IMF lending

In 1991, Argentina began adopting structural adjustment policies under the "Convertibility Plan". In attempt to open itself to the world economy, industries faced a massive privatization program and potent deregulatory measures (Cavallo, 2004). Furthermore, the Peso was pegged to the US dollar to bring down inflation and control devaluation, and over 30 state enterprises were privatized without implementation of any regulatory boards (Cooper & Momani, 2005). Consequently, in an attempt to integrate Argentina into international finance markets, foreign indebtedness became a core aspect of the government's economic policies (Teubal, 2004).

The IMF kept lending money to the Argentine government throughout the 1990s, and payment schedules were extended when deadlines could not be met (Teubal, 2004). Eventually, Argentina was no longer able to service its debts and IMF loans were increasingly used towards interest payments on private debt. By 1999, foreign debt surpassed 50% of Argentina's GDP, and the IMF advised the government to balance the budget by implementing austerity measures (Cavallo, 2004).

These economic reforms resulted in an increase in unemployment and poverty rates, greater income inequality, reduced social services, and a diminished standard of living (Brown, 2009). In effect, the continuation of strict structural adjustments and severe austerity rounds left the country in a social and economic crisis. In the meantime, foreign investment had left the country causing a drain of domestic funds (Cooper & Momani, 2005). Accordingly, increases in taxes and reductions in wages had a rigorous effect on the middle and working-class (Almeida, 2007). As a result, access to food, healthcare, housing, and employment were limited for a large number of citizens (Teubal, 2004).

In November 2001, capital flight had led to an implementation of the “corralito,” or the restriction of withdrawals from the banking system (Cavallo, 2004). Protestors took to the streets of Buenos Aires and other large cities to fight back against the austerity measures that left them living in poverty (Almeida, 2007). On the 19th and 20th of December, spontaneous *cacerolazos* (saucepan-banging protests) emerged to force the resignation of the government (Rossi, 2013). In the wake of violent protests, the Saá government declared default on its debts. Foreign creditors lobbied against the default, while Argentina continued making payments to the IMF (Cooper & Momani, 2005). Simultaneously, the Peso was unpegged from the US dollar, causing inflation and more unemployment (Teubal, 2004). Accordingly, in Argentina, the required reforms did not improve economic growth as promised; they actually decreased it (Brown, 2009).

As a result, a newly elected government headed by Nestor Kirchner restructured the debt, standing up to the IMF and negotiating the segmenting of the international creditors (Cooper & Momani, 2005). Among private creditors, 93% of lenders agreed to reduce

Argentina's debt burden, and Kirchner managed to repay the IMF ahead of schedule (Cooper & Momani, 2005). The IMF's role in Argentina between 2000 and 2003 was a clear test of its ability to manage a country in crisis, and its actions remain controversial today (Cabezas, 2008). By replacing debt default with debt restructuring, the IMF ensured creditors will be repaid—no matter how foolish the loans—and the poorest people of the developing nations will be the ones who pay (Bond, 2004).

By diverging from neoliberal policies, the Argentine economy was able to recover in the decade following its debt crisis. However, vulture funds that bought up billions of dollars in Argentine bonds—for 30 cents on the dollar—have been holding out for payment in full, plus interest and penalties (Salmon, 2014). Recently the New York Court and the New York Court of Appeal have ruled that Argentina must repay the vulture funds every time it repays the creditors that participated in the debt restructuring, and banks processing these payments must comply. Yet, Argentina can't afford to make the payments. As a result, it wants to repay its creditors, but it can't. At the same time, it doesn't want to repay the vulture funds, but it has to. (Salmon, 2014). The role the IMF played in the Argentine crisis is crucial, as it provided access to financing through supported programmes well above the established limits (Cabezas, 2008).

Argentine civil society reactions

In the year 2001, Argentina turned to the IMF in a desperate attempt to avoid economic collapse, but the negotiated loan agreements resulted in a popular outcry against the structural adjustments that were implemented (Brown, 2009). Although this was no doubt a culminating point for the nation, organized Argentine civil society movements had

already been expressing their discontent for years. The *Central de Trabajadores de la Argentina* (CTA), established in 1993-1994, is a permanent labour-based multi-sectoral organization on the frontlines of anti-austerity protests (Almeida, 2007). Acting as an umbrella organization, the CTA played a key role in the resistance to neoliberal reforms on the national level, and took part in the continental campaign against the Free Trade Area of the Americas (FTAA) (Rossi, 2013).

At the core of the CTA constituency are the main victims of neoliberal reforms: state workers, teachers, and the unemployed (Rossi, 2013). In a cycle of protests that started in 1997 and ultimately peaked in 2001-2002, the CTA orchestrated massive protests against Argentina's participation in IMF programs (Ortiz & Béjar, 2013). Specifically, just prior to the violent *cacerolazos* protests in late 2001, the CTA and the *Frente Nacional contra la Pobreza* (FRENAPO, *National Front against Poverty*) organized a referendum for the application of a universal citizenship income right that could alleviate poverty and massive unemployment (Rossi, 2013). With a turnout of 2,700,000 voters, the result of the referendum was never presented, as the government was forced to resign the following week (Rossi, 2013). Following the default crisis, the CTA joined a coalition of civil society organizations that was founded by Jubilee South (Rossi, 2013). The Jubilee South campaign introduced the topic of illegitimate debt, and advocated for the non-payment of Argentina's foreign debt (Rossi, 2013).

Concluding Thoughts

While litigation regarding debt repayment is ongoing, Argentina continues to face the problems created under the umbrella of lending policies of the IMF. This case study highlights the skewed neoliberal thinking of the existing hegemonic world system, as the IMF continues to prescribe structural adjustments with little concern or interest for the needs of the developing world (Mueller, 2011). Recent studies on reforms made by the IMF, such as the implementation of PRSP's, suggest that the modus operandi has not changed significantly, as it merely adds new elements to a fundamentally unchanged neoliberal policy package (Mouelhi & Rückert, 2007). It is thus argued that the mandate of the IMF remains the same, and much needs to be done to change the current situation (Glenn, 2008). When it comes to truly significant transformation, understanding the role of the IMF in creating and upholding a hegemonic neoliberal system is the first step toward meaningful reform (Mueller, 2011). In neo-Gramscian terms, a counter-hegemonic movement strong enough to overthrow hegemonic neoliberal ideologies will only come to fruition under the auspices of a truly global civil society.

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