

Structural reforms and crises in emerging economies: the cases of Argentina and Russia

Leonardo Pataccini* and Elena Kinzhebaeva**

Abstract

The last decade of the twentieth century probably witnessed the most impressive economic transformations in human history. The collapse of the USSR marked a dramatic and irreversible change in the world economic structure combined with a rapid process of global economic integration. These phenomena implied also the emergence of new dominant paradigms, both in economic and political fields, summarised in the Washington Consensus policies. Driven by this context, many emerging economies started their processes of structural reforms, based on the new axioms. Taking the cases of Argentina and Russia as examples of emerging economies that applied structural reforms in the beginning of the 1990s; this article argues that the main economic and financial crises experienced by these countries during the last two decades were directly linked to the features of the reforms applied. In addition to that, the main outcome of the economic model applied was that it generated a higher internal instability and external vulnerability and it was unable to provide long term growth strategy.

Keywords: Russia, Argentina, structural reforms, liberalisation of economy, Washington Consensus, economic crisis.

Introduction

The last decade of the twentieth century, probably witnessed the most impressive economic changes in human history. On the one hand, the collapse of the Union of Soviet Socialist Republics marked a dramatic and irreversible change in the global economic structure, which came to be dominated by a superpower without parallel in the previous human history. Simultaneously, this event led to a rapid process of global economic integration that deepened the transformations that were already taking place. Finally, other phenomena that should be highlighted are the emergence and imposition of new dominant paradigms, both in economic and political fields. Driven by this context of

* PhD Candidate.

** Cand. Sc. (Ec.).

great global changes, many emerging economies started their processes of structural reforms.

The structural reforms were usually referred to by the euphemistic name of “*Structural adjustments*”. These are the policies sponsored mainly by the International Monetary Fund (IMF) and the World Bank (WB) in developing and emerging countries and their implementation was a condition for receiving new loans from these institutions or for obtaining lower interest rates on performing loans. Theoretically, conditions were implemented with the aim of ensuring that the funds lent would be spent in accordance with the overall goals of the loan. In this regard, the structural reform programmes were intended to allow the economies of the developing and emerging countries to become more market oriented, applying “free market” programs and policy. These programmes included changes such as privatisation, deregulation, severe fiscal discipline and reduction of trade barriers. The main guidelines of these reforms were summarised in the Washington Consensus, a set a policy recommendations developed by the end of the 1980s.

“Emerging economies” could be defined as those national economies that after the fall of the USSR were not included in the group of developed countries, the group of least developed countries nor the group of newly industrialised economies. This was a very heterogeneous group, whose main common characteristic was that they had the mixed features of all previous groups, but they don’t belong to any of them. That is, they had some characteristics of developed countries (e.g. high rates of literacy and developed urban areas), of least developed countries (such as high levels of inequality and predominance of the primary sector) and of newly industrialised countries (e.g. they had an industrial base, but this was not the main sector of their economies). In addition, these countries had an upper–middle income and they were intended to maintain a process of convergence with the developed and high–income economies.

It is also important to note that the emerging economies that implemented these reforms during the 1990s had very similar performances in the following years, even in the economic crisis. In this sense, it is possible to mention that most of the crises in emerging economies during the 1990s and early 2000s showed very similar dynamics: financial instability, recession, default and devaluation. With slight changes in the order of causation, this description can be applied to the cases of Mexico (1994), Thailand, Malaysia, Indonesia and the Philippines (1997–1998), Russia (1998), Brazil (1999), Turkey (2001) and Argentina (2002), among others. Moreover, the similarities within these crises seem to go further: all of them showed highly liberalised commercial and financial schemes, deregulated markets, sustained external indebtedness processes and a considerable influence of international credit institutions, namely the International Monetary Fund and the World Bank.

In this context, the objective of this article is to show that the characteristics of these crises are directly linked to the structural reforms implemented in all these countries since the late 1980s and early 1990s. For this, the authors will take two main cases of study, Argentina and Russia, and will make a comparison between them in order to analyse the policies applied and its consequences in both countries.

According to the previous definition of emerging economies, it is possible to argue that these three countries belong to this group. In fact, despite some important differences, these countries also show interesting conceptual similarities. For example, measured by the UN Human Development Index, they occupy very close positions in the ranking: Argentina is 45th and Russia is 55th out of a total of 187 countries. In addition to this, measured by GDP per capita in the ranking made by the IMF for the year 2012, these countries also occupy very close positions: 55th Argentina (\$17917) and 58th Russia (\$17518).

The authors consider that this article can make a valuable contribution to the analysis of this economic phenomenon because the study of the crisis-structural reforms relationship is done from a comparative perspective of three presumable different cases. In fact, the authors argue that the significant differences between these countries will be very useful to highlight the similarities between them and the influence of structural reforms in their respective crises. It is also believed that these issues have become relevant today, as the causes and characteristics of the last financial crisis, which began in 2008, have much in common with the processes which will be discussed in this article. Therefore, the presentation of these cases can help one to think about the future of the global economy from a broader perspective.

The article will be structured as follows: in the next section will be introduced the theoretical framework of the analysis, focusing on the role of the Washington Consensus. In section 3 and 4 the respective reforms implemented in Russia and Argentina will be described. In Section 5, a comparison will be made between the two processes, explaining their similarities and particularities. Finally, the conclusions will try to emphasise the implications of these processes for these countries today and their connections with the current global situation.

Washington Consensus

As noted previously, the changes experienced by these economies can only be understood in the context of the unipolar world that emerged after the end of the Cold War. In this scenario, the freedom of action of emerging countries became much more restricted and the aim of the new global power was to

assimilate their economies into a global scheme (Anderson, 2003). On the one hand, there were the third world economies, which were burdened by their stagnation and external debts. On the other hand, there were the newly independent republics, formerly under the orbit of the Soviet Union and now incorporated into the capitalist world. The roadmap to carry out the process of transitions and convergences is reflected in the so-called “Washington Consensus” (WC).

There is no official document that formalises WC guidelines. However, it is possible to identify a set of policy instruments upon which various economic and political actors who have their headquarters in Washington reached “consensus” (Williamson, 1990). These actors are the Congress of the United States, the executive branch of the U.S. government, the international financial institutions (particularly the IMF and WB), the agencies of the U.S. federal government, the Federal Reserve, the U.S. Treasury Department and major neoliberal “think tanks”.

Concretely, the WC agenda prescribed policies focused on macroeconomic stabilisation, economic opening with respect to both trade and foreign investment, and market expansion at the expense of state’s attributions. In order to meet these goals, the program included ten specific policy recommendations. They were: I) Fiscal discipline; II) Prioritisation of public spending; III) Tax reform; IV) Interest rates liberalisation; V) Exchange rates liberalisation; VI) Trade liberalisation; VII) Liberalisation of foreign direct investment; VIII) Privatisation of state enterprises, IX) Deregulation and greater flexibility and X) Legal security for property rights.

In brief, the WC’s goal was to harmonise the economic relations of emerging economies and the new capitalist economies with the economy of the United States as the new global hegemonic power. Financialisation, liberalisation, deregulation and privatisations of national financial and goods markets would open a stage of endless possibilities for making profits for major U.S. operators who would advance over these virgin territories.

Reforms in Argentina

In the early 1990s, Argentina was facing its own transition period. As for most of the South American economies, the 1980s were a decade of stagnation with no economic growth. In fact, this period is often referred as “*the lost decade*”. Moreover, the country was in serious difficulties to comply the repayment of interest and amortization of its large external and also fast-growing internal debt. In 1990, Argentina’s external debt was U\$S 61.7 billion, equal to 5 times its annual exports (Brenta, 2002). Throughout the whole decade several attempts to overcome this scenario were applied, but none of them met their objectives, including orthodox adjustment plans proposed by international financial institutions.

In this context of persistent stagnation, the first wave of pre-Washington Consensus structural reforms in Argentina took place during the second half of the 1980s. Inspired by the Baker plan, in 1985¹, the first reforms included deregulation of interest rates, reduction in trade barriers to imports of goods and a trade agreement with Brazil that subsequently led to the formation of the MERCOSUR². However, they didn't manage to achieve the goals proposed and, because of that, the privatisation of state enterprises, which was included in the program, did not get neither popular nor parliamentary approval. It was in 1989 when the turnaround came, pushed by a combination of internal and external issues.

Since the adoption of the Brady Plan³, in 1989, all agreements signed by the Argentine government with the IMF included conditionalities on the commitment to adopt structural reforms. Namely, they were: deregulation, privatisation of public enterprises, development of financial intermediation and capital markets, labour flexibility, tax reform, pension system reform, decentralisation of education and health, and public administration reform. However, this process was definitely boosted due to events related to the domestic economy.

The hyperinflationary episodes that preceded structural reforms in many South American countries were essential to enable its further application (Brenta, 2002; Klein, 2007). They prepared the conditions to implement reforms for the sake of new models of macroeconomic stabilisation. In addition, they were very effective instruments in the pursuit of other goals, such as the liquidation of debts nominated in domestic currency. In 1989, the retail price index in Argentina increased 3079%. The hyperinflation reduced the quasi debt denominated in local currency, measured in dollars, from an index value of 100, in December 1989 to 6.9, in January 1990. Because of this, a second hyperinflationary episode took place in the early 1990s, as the onset of liquidation deposits and securities of the domestic financial system and public sector debts caused a capital flight from domestic money to the dollar, with the consequent devaluation pressure. In 1990, the retail price index grew 2314% causing a violent redistribution of wealth and slipping millions of working and middle class families into poverty.

¹ The Baker Plan was launched at the International Monetary Fund and World Bank meeting in Seoul that year. It was intended to relieve the debt pressure on the third world countries and it was proposed by James Baker, the Secretary of the Treasury of the United States.

² Mercosur is the acronym for "Mercado Común del Sur" (Common Southern Market).

³ The Brady Plan was an operation for debt restructuring focused on developing economies. The most important item of these operations was the introduction of so-called "Brady bonds" to repurchase the debt securities held by private banks. The financial assistance provided by the IMF and other major international lending institutions to hold the process was conditional on the implementation of structural adjustment programs in line with the Washington consensus.

In this dramatic scenario, with the popular resistance completely bent, the set of structural reforms promoted by the Washington Consensus was freely and fully implemented. To accomplish this mission, in 1989 the “State Reform law” (No. 23.696) was passed, liberalising the markets for goods and services and paving the way for privatisation of state enterprises. Between 1989 and 1994 Argentina applied most of the compromised structural reforms agreed to in the Brady plan.

The main symbol of the structural reforms implemented in Argentina in the early nineties was the so-called “Plan Convertibilidad” (Convertibility Plan). It takes its name from the Law 23.928 “*Convertibilidad del Austral*” (“Austral convertibility”), effective from 1 April 1991. It established a fixed exchange and convertible rate and, in addition, it set the rate between the two currencies: 1 US Dollar = 1 Argentine Peso. The law also provided that the Central Bank must sell all the foreign currencies required for conversion operations at the established price and immediately after, the pesos received in the transaction should be withdrawn from circulation. Finally, it also established the requirement of equivalence between the monetary base and the freely available reserves in gold and foreign currencies. This legal framework set a highly rigid monetary and exchange rate policy and precluded the financing of public expenditure. The Pesos could only be issued against the exchange of foreign currencies, banning the Central Bank to neither finance government deficits nor provide support to commercial banks.

Additionally, by the Decree 530/91, the mandatory income and foreign exchange trading was removed, which allowed operators to freely maintain funds in pesos or dollars. It also guaranteed the free flow of capital into and from the country. In other words, there was a liberalisation of capital movements, including both financial and direct investment, without even registration requirements. This was enforced by the full liberalisation of the banking system, including the privatisation of almost all the public banks, most of them to foreign owners. Furthermore, the adoption of the so-called Basel-Plus regulations, after the Mexican crisis, deepened this process (O’Connell, 2005).

These initial measures were complemented with the full privatisation of all state-owned enterprises, including the airline company, hydroelectricity generation, National Oil Company and the Post Office, among others. This process implied a radical reduction of the state, which included the adoption

⁴ The Austral was the Argentinean currency between June 1985 and December 1991. Due to hyperinflationary episodes, it sharply depreciated against the dollar. Therefore, in January 1992 it was replaced by a new currency, the Convertible Peso, at a rate of 10 000 Australes to 1 Peso (equal to 1 US\$).

of a mixed privatised pension system in 1994, and the virtual elimination of unemployment insurance. As O'Connell (2005) points out, one of the main criticisms to this process arose because it was developed *“under extremely weak or almost non-existent regulatory systems with tariffs in some key services dollarized and indexed to the US cost of living index (in fact most sales – particularly the early ones – were inspired more by pressures to repay debt than guided by the idea of enhancing the efficiency of the economy)”*⁵.

In regard to international trade, there was a strong reduction of tariffs: the average at the beginning of the 1990s was 45 percent and it declined to almost 11 percent by 2000 (O'Connell, 2005). Additionally, almost every non-tariff barrier was eliminated and exchanges with Brazil and the rest of MERCOSUR countries were fully liberalised (Rapoport, 2000). Finally, it is also important to mention that the bulk of 'social expenditure' was transferred to the provinces and suffered severe reductions.

During the beginning of the convertibility the results were encouraging. The GDP grew 9.1% in 1991, 7.9 % in 1992 and 8.2 % in 1993. However, after that initial momentum, the growth rate began to decline: 5.8% in 1994, and fell 2.8% in 1995. The fall of 1995 was primarily linked to the external shock caused by the Mexican devaluation of late 1994. This drove capital away from emerging markets, and weakened Argentina's international reserves (Brenta, 2002). Between the end of December 1994 and June 1995 reserves were reduced from \$17.2 billion to \$13.5 billion, and the monetary base shrank by 19% in the first half of 1995, dragging down the real economy. This crisis was overcome with funding from the IMF and the conditions imposed were to apply further measures of openness and liberalisation. After the fall of 1995, growth rates were positive, but unstable: 5.5% in 1996, 8.1% in 1997 and 3.9% in 1998, before beginning an unprecedented decline that lasted over 40 consecutive months.

But even before the external crisis hit, some negative consequences of the structural reforms were perceived. On the one hand, during the first years, although the economy was growing, the number of bankruptcies increased and there was a persistent increase in unemployment and underemployment. These phenomena were directly related to each other, because the sudden trade liberalisation combined with overvalued exchange rate made local products unable to compete with imports flooding the domestic market. In these conditions, thousands of companies went bankrupt and millions of people lost their jobs. In this regard, as shown in Table 1, the current account of the Balance of payments showed permanent deficits every year since 1992 until the devaluation in 2002.

⁵ O'Connell, 2005; p. 292.

Table 1. Evolution of GDP, external trade balance, bankruptcies and unemployment, 1991–2001

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP (as % of the previous year)	9.1%	7.9%	8.2%	5.8%	-2.8%	5.5%	8.1%	3.9%	-3.4%	-0.8%	-4.4%
Current Account	N. D. A.	-5.558	-8.209	-10.981	-5.104	-6.755	-12.116	-14.465	-11.910	-8.955	-3.780
Bankruptcies	772	840	1252	1400	2.279	2.469	2.232	2.468	2.438	2.665	2.426
Unemployment (%)	6.9	6.9	9.9	10.7	18.4	17.1	16.1	13.2	14.5	17	18

Source: Authors calculations based on INDEC data.

Meanwhile, the public sector accounts also began to show inconsistencies: in 1994 the national government current savings declined, and the cash surplus disappeared due to the decrease of state revenues, in a large extent due to the above mentioned partial privatisation of the pension system⁶. The public deficit increased in 1998 and 1999 because the current revenue fell 4% and 9%, respectively, due to depression. Moreover, it must be added that the current expenditure increased those years by higher interest payments on the foreign debt, an item that rose from \$6.6 billion to \$8.2 billion. In 2000, the interest burden for the foreign and domestic debt increased by 17%.

In order to meet financial needs, the government turned to the IMF for help (Kulfas, 2005). In March 2000 an agreement for \$10.5 billion was signed, and in December 2000, a “shield” was completed by an amount close to \$40 billion, involving international financial institutions, local banks, and the Spanish state, whose national companies made strong direct investments in Argentina during the whole decade. But economic indicators continued to worsen: in 2000, GDP fell around 1%, unemployment increased to over 20% and deflation was recorded. Instability and poor prospects of Argentina’s economy only worsened their situation, so that the process of capital flight intensified: from January to December 2001 approximately \$9 billion of international reserves were lost, equivalent to 35% of the total. To try to stop the drain of deposits in the financial system, on 3 December 2001 the optional dollarization of financial liabilities was authorised, and all

⁶ The pension funds that stopped flowing into the public system generated a revenue gap for the State, increasing pressure to cut spending and/or external financing. This scenario also created a bitter paradox: private firms engaged in the management of pension funds became the most important local holders of Argentine government bonds, so that, after privatisation, the Argentine state had to pay interest on the money that it had stopped to collect (Brenta, 2002).

active operations were compulsively converted into dollars. Simultaneously, a strict restriction on deposits in the financial system was imposed, known as “Corralito financiero”.

Despite these desperate measures, in the last quarter of 2001 GDP fell by 10.3% compared to the same period in 2000. Depression was lasting over thirteen consecutive quarters. In late December 2001, the economic crisis and the arbitrary policies led to millions of citizens to demonstrate against the government. Following violent clashes, the President and his cabinet resigned. After a troubled transition, between December 2001 and January 2002 default of external debt and devaluation of the Argentine peso was announced. A split type of change was applied: the official rate for foreign trade and other certain transactions would be \$1.40 per dollar (40% depreciation) and the exchange rate for other transactions would be set by in the free market. These measures ended with the main symbol of the convertibility plan: the exchange rate parity between the Argentine peso and the U.S. dollar. However, many other structural features that were still remaining were reversed during the next years. The recovery of Argentina's economy occurred in the second quarter of 2002 and was based on a retrieval of the role of the state, trade surplus, import substitution and competitive exchange rate, bolstered by the rise in international prices of raw materials.

Reforms in Russia

Since the 1990s, Russia also chose the way of foreign debt and structural reforms prescribed by the IMF and the World Bank. The Russian reforms, including privatisation, tax reform, reform of the labour code, pension reform, education reform, budget reform, Forest Code and others, were developed with the direct participation of international financial institutions and were based on neoliberal axioms (Zuev, 2012).

In accordance with the neoliberal program, the formation of a free market economy had three main elements: liberalisation, deregulation and privatisation. Thus, in conformity with the plans designed by the reformers and in order to change its economic structure, Russia had to proceed to:

- “Free prices” of goods and services, which was intended to provide automatic determination of their market value and remove the problem of shortages in the domestic market
- Trade liberalisation, which would accelerate the exchange of goods and change marketing infrastructure; and
- Privatisation of public ownership: transferring it – for a fee or free of charge – to the private sector was expected to create a middle class (smallholders), which could engage in business and participate in the market.

The transition to a market model was approved in October 1991. In January 1992, prices were liberalised, but the structure of production was still oligopolistic, which led to increasing average prices by the end of 1992, up to 150 times (Yavlinsky et al., 1991). In this context, there was a so-called «dramatic circle»: enterprises increased a product's prices trying to reduce losses, the purchasing power of the rouble and consuming capacity of the population declined, leading to a forced increase in nominal wages. The deficit of the state budget was increasing and at the same time the money emissions were growing. In this manner 1992 became a symbol of catastrophic inflation. Only by 1996 inflation was reduced to 1% per month.

Table 2. Inflation in Russia, end of period, consumer prices (percent change)

1992	1993	1994	1995	1996	1997	1998	1999
2508.8	839.9	215.1	131.3	21.8	11.0	84.4	36.5

Source: IMF, World Economic Outlook Database.

As for stabilisation, theoretically it was aimed at curbing inflation and improving the financial situation of the state. In the context of the neoliberal program, attempts to improve the financial situation of the state were primarily focused on reducing the public debt and budget expenditure. It was assumed that the non-interference of the state in the economy could improve its efficiency. But in reality, these very fast changes in economic processes provoked a huge economic downturn, which was the main characteristic of the Russian transition period. During the period 1991–1996, the average annual decline for GDP was 8.2%, and for industrial production, it was 13%.

Table 3. Russian Real GDP growth, in %

	1992	1993	1994	1995	1996	1997	1998	1999
GDP	-14.5	-8.7	-12.7	-4.1	-3.5	0.8	-4.6	3.2

Source: Gaidar institute for Economic Policy (Russian Economy in 1992–1999. Trends and Outlooks) [www.iep.ru].

The transition period was also connected with structural shifts, such as changes in proportions between prices and/or production volumes of different goods and services. This meant that the prices of some goods increased several times faster than others. The production of some goods, such as machinery and equipment, declined sharply, but the production of other commodities didn't change significantly or even increased, such as oil and gas. It is important to mention that these structural shifts occurred during all of the transition period, not only at the moment of price liberalisation.

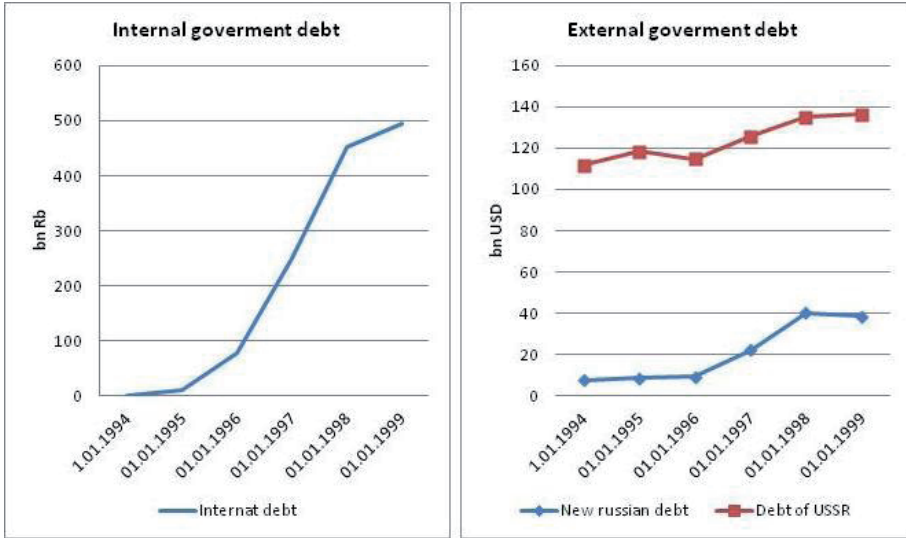
A precarious financial stability was achieved due to external and internal debt that helped to finance the budget deficit. After the fall of the Soviet Union, the Russian Federation was committed to repay most of the foreign debt of the USSR. Additionally, the country's external debt during the transition period has increased dramatically: in 1985 it amounted to \$28.3 billion, in 1990 increased to \$59.8 billion, in 1993 – up to \$80 billion, and in 1999 exceeded \$140 billion.

The privatisation of state property started on 14 August 1992 with the decree on privatisation vouchers signed by B. Yeltsin. The “Vouchers” were the main component of the first stage of privatisation (1992 – 1994). Their main objective was to give equal starting opportunities to every citizen, as they shared the common property of the country. However, when the privatisation process started, the market prices of companies had not been determined yet. In that context, the basis for the sale of state's productive capacity was based on an arbitrary value set by the Russian federation government and distributed equally among all the population, including children (148.7 million people). The share of each Russian citizen was 10 thousand roubles, but because of the enormous inflation, by the end of 1993 almost all of its purchasing power was lost. In practice, the Vouchers functioned almost as “bearer checks” and due to strong backlogs of salary levels, its systematic delays and non-payments; they became an object of trade. Thus, Vouchers were bought by those who had the cash to afford it much below their nominal price, provoking a strong differentiation within the Russian society⁷.

Internal debt also increased during the 1990s. Since 1993, it is possible to distinguish three stages in the history of the domestic public debt (Pichugin, 1995). The first stage refers to the period 1993–1995: it is characterised by the small size of the domestic debt and its slow growth, consisting only of two types of securities – Sovereign bonds (OVGVZ) and treasury bills. In the second phase – from 1996 to 1997 – there was a sharp increase in the public debt. By this time T-bills, bonds (OFZ), State Savings Loan bonds (OGSZ) and OVGZ were used as instruments. The third stage in the development of the domestic debt was after the August 1998 default, when the government securities market was significantly reduced⁸.

⁷ Privatisation in Russia and others countries of Commonwealth of Independent States. Centre of Scientific Studies of global and regional problems. Executive editor – Vinogradov V.A. Moscow, 2003.

⁸ Ministry of Finance of the Russian Federation [official site www1.minfin.ru].

Figure 1. Internal and external government debt


Source: Bank of Russia [official site www.cbr.ru].

On 27 October 1997, the Dow Jones Industrial Average index fell to a minimum record value of 554 points and this date may be considered as the beginning of the financial crisis in Russia, which destroyed all macroeconomic results achieved up to 1997, and changed the course of economic reforms. Obviously, the aggravation of the global financial crisis and the fall of exports prices in the international market were also involved in the economic destructive process experimented with in Russia. At the end of 1998 it seemed that the seven years of economic reforms were lost. Compared with 1991, the year of the birth of the new Russian state, the quality of life in 1998 was worse in many ways and the August financial crisis was the last step on the way to the collapse of Russian economy. Finally, in 1998 default and immediate devaluation of the rouble were announced and in 1999 there were the first real signs of economic recovery, such as positive economic growth, especially in manufacturing. An unexpected “post-crisis” economic breakthrough surprised researchers of Russian economic reforms, because in 1998 most of them thought that the 1990s program of reforms had finally failed.

Since the financial crisis in August 1998, the Russian economic recovery has been driven mainly by:

- High international prices at the world market of oil and other Russian exports;

- Growth of domestic production beyond the energy sector in the aftermath of rouble devaluation, due to import substitution.

Actually, since the beginning of the reforms in the Russian economy exports have been playing a key role in the economic development of the country. On average, they have accounted for one third of GDP in the last 20 years. This figure has not changed much during the whole period, except in 1992, when the proportion reached 60.4% and post-crisis 1999–2000 – 40% (See Table 4).

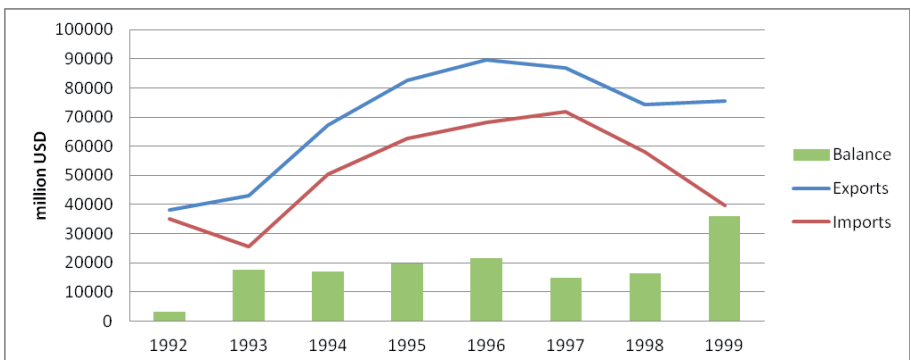
Table 4. Correlation of Russian exports and GDP

Year	GDP, \$bn	Exports, \$bn	Share of exports in GDP, %
1992	85.6	51.7	60.4
1993	183.8	58.6	31.9
1994	276.9	67.4	24.3
1995	313.5	82.4	26.3
1996	391.8	89.7	22.9
1997	405.0	86.9	21.5
1998	271.0	74.4	27.5
1999	195.9	75.6	38.6

Source: IMF, World Economic Outlook Database; Bank of Russia.

At the same time the share of oil and gas in Russian exports rose and the share of machinery and equipment decreased. In this scenario, the high volatility of commodity prices increased dramatically the vulnerability of the national economy to external risks.

Figure 2. Russian Import and Export balance



Source: Federal state statistics service of the Russian Federation [official site www.gks.ru].

Table 5. Comparison between Argentina and Russia

Policy recommendations of the Washington Consensus	Argentina	Russia
Fiscal discipline	It was banned for the Central bank to finance the State budget. Therefore the deficit was covered by external borrowing through bond issues or loans from international financial institutions, particularly the IMF, WD and IDB.	Drastic budget cuts, budget deficit was financed by increasing public debt (for example, internal debt of the Russian Federation, expressed in Russian government securities increased from 0.09 to 451.05 billion roubles from 01.01.1993 to 01.01.1999). ⁹
Prioritisation of public spending	The main component of the public spending was the payment of pensions. Secondly, with special emphasis on the second half of the decade, were the debt service payments. Behind them were spending on health, operating expenses and education. However, after the crisis of 1998, severe cuts were applied to all of the above except the payment of foreign debt.	At the beginning of the 1990s, social policy was aimed at increasing the share of social spending in total expenditure, but the effectiveness of social programs remained at a low level (e.g. sharp increase of population below the poverty line), which was one of the main reasons for the rapid increase in the budget deficit. However, social sphere was not a priority during the period of structural reforms.
Tax reform	Export taxes were eliminated, import tariffs were drastically reduced and a general 21.5% VAT was introduced.	In 1992 the Tax Code was approved, which introduced such taxes as income tax, individual tax, VAT, excises, land tax, etc. During 1990–2000 a series of laws and amendments were applied to the tax legislation.
Interest rates	Since 1991, interest rates were highly positive, determined by the market. This situation was formalised in 1992, with the reform of the charter of the Central bank.	The banking sector was privatised and liberalised, financial sector was created with a deregulated framework, opening access of foreign capital in the domestic market and allowing Russian banks and enterprises to borrow in foreign markets. After the shock therapy period (1992–1995), interest rates were positive.

⁹ Data from the Department of state debt and state financial assets of the Russian Federation, 2012. Available online at: <http://www1.minfin.ru/common/img/uploaded/library/2011/02/sddolggod2011-0.pdf>

Policy recommendations of the Washington Consensus	Argentina	Russia
Exchange rates	The exchange rate was established by law 23.928. It was fixed and convertible: 1 Argentine Peso = 1 US Dollar, from 1991 to 2002	The formation of the currency market started in autumn 1989. On 1 July 1992 a floating exchange rate against the US dollar was introduced by the Bank of Russia, the rate was daily fixed at the Moscow Interbank Currency Exchange by a tendering mechanism.
Trade liberalisation	Export taxes were eliminated as were almost all quantitative restrictions. Taxes on imports were also drastically reduced from an average of 45% in 1990, to 11% in 2000.	On 15 November 1991, the Decree "On Liberalisation of foreign trade activities in the territory of the RSFSR" was passed. It allowed foreign trade activities for companies and individuals and the opening of foreign currency accounts. As a result the foreign trade turnover for the years 1992–2000 increased approximately 2.5 times.
Liberalisation of foreign direct investment	It was possible to keep freely funds in Argentine pesos or U.S. dollars. Moreover, the entrance and exit of capital into the country was totally liberalised without minimum terms, restrictions or conditions of any kind.	The law on foreign investment (1999) proclaimed the right to establish institutions and set the regime for foreign investments and protection against unfair expropriation. The role of foreign capital in the creation and development of market institutions increased, but the legal regime of FDI kept restrictions.
Privatisation of state enterprises	Between 1990 and 1995 virtually all state enterprises were privatised, including oil, airlines, railroads, public services companies and the pension system.	Mass privatisation was carried out in accordance with the State Program: vouchers, direct sale of state property or auctions (1992–1994), secured auctions (1995) and privatisation rights on housing and land.
Deregulation and greater flexibility	Between 1990 and 1995 several measures of deregulation and flexibility were introduced, especially in prices and labour market. Deregulation in the business legal framework promoted a sharp increase of corruption.	State intervention was drastically reduced. Market gained importance as regulator of economic activity. Decentralisation of economic management was begun, increasing autonomy of private economic units.

Policy recommendations of the Washington Consensus	Argentina	Russia
Legal security for property rights	Property rights were protected by local legislation and international agreements, especially since joining the WTO, in 1995.	Quick privatisation in the absence of a legislative framework did not contribute to the full legitimacy of private property formed in these years. During the period of structural reform local laws failed to make privatisation in conformity to international standards for the protection of property rights.

Conclusions

As it was mentioned in the introduction, the cases that have been described in this article show substantial structural and circumstantial differences within them. However, it is also important to note that all of them have implemented – at different paces and extensions – the policies recommended by the Washington Consensus agenda with remarkable similar consequences in some aspects. Thus, in this conclusion the authors will try to address their similarities and specificities, as well as the general trends.

In the first place, it is worthwhile to mention that in all cases trade liberalisation combined with an overvalued exchange rate and low productivity affected negatively the balance of payments, tending to place emphasis on exports of primary goods and raw materials. In the case of Argentina it was impossible for local industries to compete with imported goods. This led to an increase in the number of bankruptcies and a rapid increase in unemployment. This dynamic was accentuated when the economy was growing, as there was a greater part of disposable income to spend on imports, and consumption turned to buy cheaper foreign goods in the detriment of local production. The case of Russia is a little different in this regard: even when there was a permanent surplus in the current account, there was a shift in the structure of foreign trade. Both exports and imports increased during this period, but exports were mostly composed of raw materials and imports of finished goods. This also led to bankruptcies of industries and an increase of unemployment, but combined with an external surplus.

In the second place, it is possible to state that high interest rates had two main negative consequences for local industries in these countries. On the one hand, there is the traditional contractionary effect on local investment and demand. On the other hand, deregulation of financial markets, foreign exchange and capital movements, combined with high interest rates set by

the market promoted foreign speculative investment instead of productive investments. At the same time, deregulation for mobility of capital left the financial systems of these countries in positions of extreme fragility and high exposure to external shocks. The best example of this, were the major financial crises suffered by Russia in 1998 and by Argentina in 2001.

In the third place, in the described scenarios, internal and external debt plays a key role to sustain the economic model. In the case of Argentina, the only way to sustain the convertibility model was through indebtedness. The increase of external debt was not the result of “mismanagement” but, on the contrary, it was an indispensable condition for sustaining the economic model for 10 years as it was the only way to raise the needed foreign currencies for the Central bank reserves. When dollars stopped flowing into the Argentine financial system, especially after the “Tequila” crisis and even more after the Russian crisis, the only way to ensure those dollars was taking credits from the international financial institutions and the issuance of debt bonds. However, from 1997–1998, the ratio between dollars received and capital flight was almost 1 : 1 , which means that the Argentine economy was virtually taking on debt to finance capital flight of private local and foreign agents.

In the case of Russia, it is no coincidence that the debt was increasing during the years of macroeconomic stabilisation. The Russian government needed urgently to raise funds to alleviate the social situation and pursue its project of consolidation of the market economy system. In this context, the way to get these funds was the issuance of debt securities. In this way, it is possible to argue that under the WC model, external debt plays a key role in the economic growth in the short term, but it finally lead to a crisis in the medium–long term.

In summary, it is evident that there are direct causal connections between the nature of the structural reforms applied in these countries during the first half of the nineties and the respective crises that these economies suffered. The main conclusions that the authors can draw from the cases analysed are that neoliberal structural reforms don't provide a long–term sustainable growth strategy, but instead of that, increase internal instability and external vulnerability. The first statement is based on the notorious volatility showed by the GDP evolution and the harshness of the crisis that followed the growth cycles (See Annex 2). In addition to that, when economies were growing, they were not effective in absorbing the unemployed labour force. Regarding the second statement, it is clear that economic openness and integration make national economies more vulnerable to external shocks (Foo, 2005). However, the particularity of this model is that the main channel of transmission of external vulnerability is the financial sector. This is confirmed by observing that the major crises in these countries were related to the financial sector.

Conversely, as Argentina and Russia reversed much of the neoliberal reforms during the following decade, they showed a relatively successful performance despite the drop in export prices and world trade volume.

In short, the set of reforms promoted by the Washington Consensus was intended to open national economies to integrate them into the world economic order that emerged after the end of the Cold War. However, the main outcome of this model was that it generated a highly unstable equilibrium and it proved to be unable to ensure sustained growth in the medium to long term. Moreover, since the beginning of the new millennium a dramatic change in the global context is observed, characterized by the multipolarity of power and the growing role of emerging economies. After a decade of profound structural changes and instability during the 1990s, they began significant and sustained growth cycles since the early 2000s, promoted by the increase of commodity prices and integration in regional blocs, among other features. However, further research should be conducted on this topic to systematize the characteristics and projection of this phenomenon in the future global scenario.

Bibliographical references

Arceo, Enrique (2005). Apertura económica, desindustrialización y endeudamiento en la crisis argentina de 2001, Mimeo, Buenos Aires.

Azpiazu, Daniel (2003). Las privatizaciones en la Argentina. Diagnóstico y propuestas para una mayor equidad social, CIEPP/Miño y Dávila/OSDE, Buenos Aires.

Basualdo, Eduardo (2000). Acerca de la naturaleza de la deuda externa y la definición de una estrategia política, FLACSO/Universidad Nacional de Quilmes/IDEP/Página 12, Buenos Aires.

Brenta, Noemí (2002). La Convertibilidad y el Plan Real de Brasil: Concepción, implementación y resultados en los años 90; Presented at the XIII International Economic History Conference, organized by the International Economic History Association, Buenos Aires, 22–26 July 2002, and published in Journal N° 23 cycles, Buenos Aires.

Damill, Mario (2000). El balance de pagos y la deuda externa pública bajo la Convertibilidad, in Boletín Informativo Techint, N° 303, July–September, Buenos Aires.

Damill, Mario; Roberto Frenkel y Martín Rapetti (2005). “La deuda argentina: historia, default y reestructuración”, mimeo, CEDES, Buenos Aires.

Dragos Aligica, P. & Evans, A. (2009). The neoliberal revolution in Eastern Europe; MPG Books Ltd.; Cornwall.

Foo, Jennifer Ping–Ngoh (2005). “Have banking and financial reforms in transition countries been effective?”, *Managerial Finance*, Vol. 31 Iss: 1, pp.1–22.

Klein, Naomi (2007), *The shock doctrine: the rise of disaster capitalism*, Metropolitan Books/Henry Holt, New York

Kulfas, Matías (2001). “El rol del endeudamiento externo en la acumulación de capital durante la Convertibilidad”, in *Magazine Época*, N° 3, November, Buenos Aires.

Kulfas, Matías (2005). *La Deuda Externa Argentina: Evolución y Perspectivas tras su Reestructuración*; “Economics Working Group” belonging to Observatorio Argentina, New School University, Banco Nación, 1st June, Buenos Aires.

Lapavitsas, C.; *Financiarización o la búsqueda de beneficios en la esfera de la circulación*; *Ekonomiaz* N° 72; 3er cuatrimestre; pp. 98–119, 2009.

O’Connell, Arturo (2005). The recent crisis –and recovery– of the Argentine economy: some elements and background, in Epstein, *Financialization and the world economy*; Edward Elgar Publishing; Cheltenham.

Pataccini, L. (2013). *Neoliberalismo y expropiación financiera en las ex repúblicas soviéticas. Letonia: particularidades y similitudes con el caso argentino*. *Ensayos sobre Economía Política y Desarrollo*, 1(1), 209–234.

Pichugin, B.M. (1995). The report of the Council on foreign and defense policy institute of Europe, Russian Academy of sciences with assistance of the Inkombank “The foreign debt of its settlement”.

Privatization in Russia and others countries of Commonwealth of independent states. Center of Scientific Studies of global and regional problems. Executive editor. Vinogradov, V.A., Moscow, 2003.

Rapoport, Mario y colab. (2000). *Historia económica, política y social de la Argentina (1880–2000)*. Macchi, Buenos Aires, Argentina.

Williamson, John (1990). What Washington Means by Policy Reform, Peterson Institute for International Economics, Chapter 2 from *Latin American Adjustment: How Much Has Happened?* Edited by John Williamson. November 2002.

Yavlinsky, G.A.; Fedorov, B.G. & Shatalin, S.S. (1991). Transition to a market economy (500 days Program). St. Martin's Press, New York.

Zuev, V. (2012). Directions of Structural Reforms Implementation in Russia: Financial Management and Innovations // Finansy. No 12. P. 18-21].

Internet statistical sources and databases

Banco Central de la República Argentina (Central Bank of Argentina): <http://www.bcra.gov.ar/>

European Bank for Reconstruction and Development: <http://www.ebrd.com/>

Eurostat – European Commission: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

Gaidar Institute for Economic Policy: <http://www.iep.ru/en>

Instituto Nacional de Estadística y Censos (National Institute of statistics and census of Argentina): <http://www.indec.mecon.ar/>

International Monetary Fund. World Economic Outlook Databases: <http://www.imf.org/external/ns/cs.aspx?id=28>

Ministerio de Economía y Finanzas Públicas de la República Argentina (Ministry of Economy and Public Finance): <http://www.mecon.gov.ar/>

Ministry of Finance of the Russian Federation [official site www1.minfin.ru]