# ‘To Transform the State to Transform the Nation’[1]: The World Bank’s Structural Adjustment Lending and Argentina’s Neoliberal Turn, 1989–91

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[1] Carlos Saúl Menem and Roberto Dromi, Reforma del estado y transformación nacional (Buenos Aires 1990), 19–20.

## ‘To Transform the State to Transform the Nation’[2]: The World Bank’s Structural Adjustment Lending and Argentina’s Neoliberal Turn, 1989–91

The World Bank (WB or Bank)[3], the leading global development institution, was created in tandem with the International Monetary Fund (IMF) at the Bretton Woods Conference in July 1944. Since its establishment, it has co-financed thousands of projects in Africa, Asia, Latin America, and former Soviet satellites. Although the WB is associated with the promotion of pro-market reforms and neoliberalism, and in Latin America with the so-called ‘Washington Consensus’ of the 1980s,[4] little is known about a principal instrument that the Bank has used to promote policy change and reforms among its borrowers: *Structural Adjustment Lending (SAL)*.

Focusing on the Bank’s operations in Argentina between 1989 and 1991 – the early and most transformative years under the neoliberal administration of President Carlos Saúl Menem (1989–99) – this article examines the evolution and impact of the WB's SAL. In addition to its contribution to the vast scholarship on Menem's presidency,[5] to the scarce historical research on the WB's structural adjustment

[2] Carlos Saúl Menem and Roberto Dromi, Reforma del estado y transformación nacional (Buenos Aires 1990), 19–20.
[3] Officially called WB Group, the Bank is composed of five institutions: 1. The International Bank for Reconstruction and Development (IBRD), created in 1945, supports middle-income countries. 2. The International Development Association (IDA), established in 1960, provides loans to countries that are not considered creditworthy in international markets. 3. International Finance Corporation (IFC), inaugurated in 1956, works with the private sector. 4. Multilateral Investment Guarantee Agency (MIGA), founded in 1966, provides investment through insurance. 5. International Centre for Settlement of Investment Disputes (ICSID), facilitates the settlement of investment disputes between governments and foreign investors. This last agency was established in 1988, during the period studied here.
[4] John Williamson, ‘What Washington Means by Policy Reform’, in John Williamson (ed.) *Latin American Adjustment: How Much Has Happened*? (Washington, DC 1990).
[5] See, among the most recent publications: Morgan Donot y Darío Rodríguez, 'Carisma mediático y populismo. El caso de Carlos Menem en Argentina (1989-1999)', *Atlante*, (2024). Available at:

lending,[6] and to the history of neoliberalism,[7] this article aims to fill a historiographical lacuna regarding the role the WB has played in the region since the late 1940s. Apart from the studies by Raúl García Heras, Claudia Kedar, and Christian Hernández, little scholarly literature has examined WB-Argentina relations from a

https://doi.org/10.4000/130p7 (accessed 7.12.25); Tanya Filer, 'Letters to the President: Participation Beyond the Public Sphere in Argentina, 1989–1999', *Journal of Iberian and Latin American Studies*, 23, 3 (2017), 317–39; Facundo Vergara, 'El liderazgo político de Carlos S. Menem en su rol presidencial', *Revista Académica I.E.S.P.Y.C.*, 15 (2024), 222–40.

[6] On SAL in general see among others: Jane Harrigan and Paul Mosley, 'Evaluating the Impact of World Bank Structural Adjustment Lending: 1980–87', *The Journal of Development Studies*, 27, 3 (1991), 63–94; John Shandra, Eric Shircliff and Bruce London, 'The International Monetary Fund, World Bank, and Structural Adjustment: A Cross-national Analysis of Forest Loss', *Social Science Research*, 40, 1 (2011), 210–25; M. Rodwan Abouharb and David Cingranelli, 'When the World Bank Says Yes: Determinants of Structural Adjustment Lending', in Gustav Ranis, James Raymond Vreeland and Stephen Kosack (eds), *Globalization and the Nation State: The Impact of the IMF and the World Bank* (New York 2004), 224–50.

On Latin America, see among others: Edmar L. Bacha and Richard E. Feinberg, 'The World Bank and Structural Adjustment in Latin America', *World Development*, 4, 3 (1986), 333–46; Sebastián Edwards, 'Structural Adjustment Reforms and the External Debt Crisis in Latin America', in Patricio Meller (ed.), *The Latin American Development Debate: Neostructuralism, Neomonetarism, and Adjustment Processes* (New York 1991), 129–68; João Márcio Mendes Pereira, 'The World Bank, State Reform, and The Adjustment of Social Policies in Latin America', *Ciencia & saude coletiva*, 23, 7 (2018), 2187–96; ---------, 'The World Bank and Market-assisted Land Reform in Colombia, Brazil, and Guatemala', 100 (2021). Available at: https://www.sciencedirect.com/science/article/pii/S0264837719309949 (accessed 7.12.25); William C. Smith, 'State, Market and Neoliberalism in Post-Transition Argentina: The Menem Experiment,' *Journal of Interamerican Studies and World Affairs*, 33, 4 (1991), 45–82; Joaquín Arriola Palomares, 'El fracaso de los programas de ajuste estructural en América Latina', *Revista de Ciencias Sociales y Humanidades*, 30 (1992), 627–43.

[7] Although the article focuses in the 1989-1991 period, it claims that the reforms that took place at the time were not totally new. Hence, it is in line with revisionist approaches that view neoliberalism as a context-dependent phenomenon, whose roots extend back several decades before the emergence of the Washington Consensus. Among the most recent studies on the origins of neoliberalism, see: Johanna Bockman, Markets in the Name of Socialism, The Left-Wing Origins of Neoliberalism (California: Stanford University Press, 2011); Ben Clift, The IMF and the Politics of Austerity in the Wake of the Global Financial Crisis (Oxford: Oxford University Press, 2018); Quinn Slobodian, Globalists. The End of Empire and the Birth of Neoliberalism (Cambridge, MA: Harvard University Press, 2018).

historical perspective.[8] Historiography concerning other heavy borrowers from the WB, such as Brazil, Chile, and Mexico, is also scarce.[9]

Drawing on WB files that were declassified at my request (including correspondence between Argentine officials and WB staff, mission reports, and transcripts of meetings of the WB's Executive Board of Directors), and on Argentine and US primary sources, this article advances three main arguments. *The first argument* concerns *agency*. Scholarly debates regarding the Bretton Woods institutions provide different and sometimes contradictory answers to two key questions: to what extent do the conditions attached to IMF and WB loans reflect the preferences of their most powerful member-states (first and foremost the United States), their clients or their bureaucratic apparatuses; and to what extent are such conditions imposed on allegedly passive borrowers keen to receive financial assistance.[10] An analysis of the meetings, missions, and negotiations that took place

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[8] Raúl García Heras, *El Fondo Monetario Internacional y el Banco Mundial en la Argentina* (Lumiere 2008); -----*Deuda Externa y Crisis Política. Banqueros, Fondo Monetario y Banco Mundial en la Argentina, 1973-1986* (Buenos Aires 2022); ---- 'Multilateral Loans, Banking Finance, and the Martínez de Hoz Plan in Argentina, 1976-1981', *Revista de Historia Económica – Journal of Iberian and Latin American Economic History* (2018), 1–26; Christian Hernández, *Globalization, the IMF, and International Banks in Argentina. The Model Economic Crisis* (London 2019); Claudia Kedar, *The World Bank and the Cold War in Latin America: The Argentine Challenge* (Stanford, CA 2026); ----'The Beginning of a Controversial Relationship: The IMF, the World Bank and Argentina, 1943–46', *Canadian Journal of Latin American and Caribbean Studies*, 35, 69 (2010), 201–30; ----'Chronicle of an Inconclusive Negotiation: Perón, the International Monetary Fund, and the World Bank (1946–1955)', *Hispanic American Historical Review,* 92, 4, (2012), 637–68.

[9] Carlo Edoardo Altamura and Claudia Kedar, 'Friends or Foes? Brazil, the IMF, and the World Bank, 1961–1967', *Financial History Review* 28, 2 (2021), 205–36; Jon Kofas, 'The IMF, the World Bank, and U.S. Foreign Policy in Ecuador, 1956–1966', *Latin American Perspectives* (2001), 28, 5, 50–83; ----'The Politics of Foreign Debt: the IMF, the World Bank, and U.S. Foreign Policy in Chile, 1946–1952', *Journal of Developing Areas*, 31, 2 (1997), 157–82; ----'Stabilisation and Class Conflict: The State Department, the IMF, and the IBRD in Chile, 1952–1958', *International History Review*, 21, 2 (1999), 352–85;---*The Sword of Damocles: U.S. Financial Hegemony in Colombia and Chile, 1950–1970* (London 2002); Patrick Sharma, 'The United States, the World Bank, and the Challenges of International Development in the 1970s', *Diplomatic History*, 37, 3 (2013), 572–604; Carlos Urzúa, 'Five Decades of Relations Between the World Bank and Mexico' in Devesh Kapur, John Lewis, and Richard Webb (eds), *The World Bank: Its First Half Century*, vol. 2, Perspectives (Washington, DC 1997).

[10] To name just a few: Winter, Jacob, Ben Cormier, Teresa Kramarz, and Mark S. Manger, 'Reassessing World Bank Conditionality: Beyond Count Measures', *Political Science Research and Methods* (2025), 1–21; M.N. Barnett and M. Finnemore, 'The Politics, Power, and Pathologies of International Organizations', *International Organization*, 53, 4 (1999), 699–732; R. Clark and L.R. Dolan, 'Pleasing

between representatives of the WB and Menem's administration reveals that during Menem's first years in power, he and his team pushed the Bank to enter into SAL agreements, viewing them as tools to promote their envisioned reforms. *Second*, SAL not only aimed to transform the economic structures and policy mindset of borrowing countries like Argentina but also reflected and facilitated the Bank's own expansion and transformation. *The third argument* relates to what I term the WB-US-Argentina triangle. By granting SAL, the WB not only blurred the traditional lines of labor division between itself and the IMF but also replaced the US administration in its controversial role as manager of Argentina's debt crisis and as intermediary between US commercial banks and Argentina's administration. Beyond that, Menem's reforms and their correlation with the WB's SAL reveals potential tensions between neoliberalization and democratic accountability. Although Menem campaigned in 1989 as a traditional Peronist, promising a *Revolución Productiva* (a productive revolution) and a *salariazo* (massive wage increases), once in office he adopted an unexpected neoliberal agenda and advanced key reforms, especially privatizations, by presidential decree thereby evading congressional debates. While his 1995 reelection reflected both popular support and the influence of clientelist practices, his 1999 defeat suggests an eventual political cost for structural adjustment.

the Principal: U.S. Influence in World Bank Policymaking', *American Journal of Political Science*, 65, 1 (2021), 36–51; B. Cormier and M.S. Manger, 'Power, Ideas, and World Bank Conditionality', *The Review of International Organizations*, 17, 3 (2022), 397–425; Jeffrey Sachs, *Conditionality, Debt Relief, and the Developing Country Debt Crisis* (Cambridge 1988). Available at: https://doi.org/10.3386/w2644.
https://www.proquest.com/working-papers/conditionality-debt-relief-developing-country/docview/1689968450/se-2.

Conceived in the late 1970s under WB President Robert McNamara (1968–81), SAL was launched to rectify the unsatisfactory results of the Bank's anti-poverty programs and the constraints on lending to highly indebted member-states.[11] Following the launch of the Baker Plan in October 1985 and the Brady Plan in March 1989 (detailed below), SAL, alongside Sectoral Adjustment Lending (SECAL), became the centerpiece of the Bank's response to the Latin American Debt Crisis that erupted in 1982.[12] While structural adjustment loans (SALs) targeted economy-wide reforms, sectoral adjustment loans (SECALs) focused on policy change within specific sectors (e.g., agriculture, energy, or finance) but followed the same policy-based lending logic as SALs. Perhaps because targeted SECALs were easier to implement and monitor, they became more widely used than the broader SALs.[13] Unlike traditional project-based WB development loans, which co-financed the construction of projects such as damsor highways, SALs were designed to promote economic reforms while providing rapid-disbursement financing to debtor nations facing acute balance-of-payments difficulties.[14] Their goals included economic growth and liberalization, reducing poverty, improving resource allocation transparency and efficiency, developing the private sector, and strengthening institutions' capacity for policy analysis. Hence, with the launch of

[11] Patrick Sharma, 'Bureaucratic Imperatives and Policy Outcomes: The Origins of World Bank Structural Adjustment Lending', *Review of International Political Economy*, 20, 4 (2013), 667–86; Gadde Omprasad, 'From Project Based Lending to Policy Based Lending: An Evaluation of Structural Adjustment Lending Policy of World Bank', *Journal of Social and Administrative Sciences*, 3, 1 (2016), 56–62.
[12] Christopher Gilbert and David Vines, *The World Bank Structure and Policies* (Cambridge 2000), 22–3.
[13] Francisco Ferreira and Louise C. Keely, 'The World Bank and Structural Adjustment: Lessons from the 1980s', in Christopher L. Gilbert and David Vines (eds), *The World Bank: Structure and Policies* (Cambridge 2000), 159–95
[14] J. Kraske and others, *Bankers with a Mission: the Presidents of the World Bank, 1946-91* (Oxford 1996), 230–3.

SALs, the WB's investments in economic policy-making infrastructure partially replaced investment in physical infrastructure.[15]

Debtor countries signed highly conditional SAL agreements because they became a *de facto* prerequisite for obtaining new loans and for rescheduling debts with private bank creditors. I argue that the Menem administration, which strove to put aside the economic interventionism and *statism* that had characterized Argentina since 1946, when Juan D. Perón was first elected president, did not need the Bank to impose policy change. They viewed SALs as an effective instrument that granted them the funds, technical assistance, and the international seal of approval necessary to enact significant reforms, many of which entailed significant social costs. As Menem noted, SALs allowed him to perform a 'major surgery without anesthetic'.[16]

As neoliberalism became the global economic paradigm, a second and complementary generation of WB SALs emerged in the early 1990s: Public Enterprise Reform Adjustment Loans (PERALs).[17] This new sub-category of SALs reflected an evolution in the Bank's approach to state restructuring and economic liberalization. While the SALs of the mid-1980s focused on macroeconomic stabilization, trade liberalization, fiscal austerity, deregulation, and financial-sector

[15] *World Bank Structural and Sectoral Adjustment Operations: the Second OED Overview.* Corporate and process evaluation. June 30, 1992. Available at: http://documents.worldbank.org/curated/en/535191468914443088/World-Bank-structural-and-sectoral-adjustment-operations-the-second-OED-overview (accessed 7.10.25); Omprasad, 'From Project Based Lending to Policy Based Lending', 59.
[16] 'Un país en estado de choque. Menem somete el país a una cirugía sin anestesia', *El País* (Spain), 10 August 1989.
[17] Asli Demirguc-Kunt and Ross Levine, 'The Financial System and Public Enterprise Reform: Concepts and Cases,' Policy Research Working Paper no.1319. Available at: https://documents1.worldbank.org/curated/en/821811468739543939/pdf/multi0page.pdf (accessed 10.09.25); John Nellis, 'Public Enterprise Reform in Adjustment Lending', WB Staff Working Paper no.233, 31 August 1989. Available at: https://documents1.worldbank.org/curated/en/557551468739171570/pdf/multi-page.pdf (accessed 7.12.25).

reform, PERALs targeted a central component of the neoliberal agenda: the privatization and/or restructuring of state-owned enterprises. Although PERALs operated within the same policy-based lending framework as other SALs, they focused on reforms to state-owned enterprises (privatization, restructuring, and regulatory changes) rather than on broader macroeconomic adjustment. PERALs' aims included reducing the state's direct involvement in the economy, improving efficiency, attracting private and foreign investment, and alleviating the fiscal burdens created by loss-making state-owned enterprises. Both first- and second-generation SALs were disbursed in tranches contingent on the implementation of policy measures, such as reducing deficits, reforming tax systems, liberalizing imports, and cutting public spending. These measures required the enactment of privatization laws, the establishment or restructuring of regulatory agencies, and the sale of specific enterprises – steps that Menem's administration began to take even before it started borrowing from the Bank.

As an examination of WB operations in Argentina shows, neither its role in designing development and economic plans nor most of the conditions attached to its SALs were entirely new. The main innovations in the late 1980s and early 1990s centered on the substantial diversification of WB lending instruments, the breadth and detail of the policy conditions, and the eagerness with which Menem sought the Bank's partnership. Under Menem, WB lending to Argentina reached an unprecedented volume, totaling seventy-two loans over his ten-year term, an average of 7.2 loans per year. The previous high under President Raúl Alfonsín (1983–89) was eighteen loans in six years, an average of three per year. Moreover, under Menem, Argentina became one of the largest recipients of adjustment loans among developing nations. On one hand, the high reliance on SALs casts doubt on whether such loans can indeed correct macroeconomic distortions.[18] On the other hand, one can suggest that the broad nature of the Menem reforms, the implementation of which took a decade, extended the period during which WB assistance and monitoring was needed.

To illuminate the dynamics that led Menem's team to seek SALs as a means to legitimize the implementation of deep reforms, this paper proceeds as follows. The first section briefly discusses the signing of the first SALs with Alfonsín's administration within the framework of the US-promoted Baker Plan. It then turns to the economic crisis that Menem confronted upon taking office and the initial steps he adopted to promote neoliberal reforms without WB financial backing. The second section, covering the period from December 1990 to January 1991, traces the twists and turns of Menem’s negotiations with the WB, which paved the way for the approval of the first two loans to his administration in December 1990. The third section examines the first SALs that the WB granted to Argentina in February 1991, which marked the beginning of the WB's direct involvement in the Menem reforms. The final section concludes.

## 1) The Approval of the First SALs to Argentina and the Crisis of Democracy (June 1985 – November 1990)

In October 1983, Raúl Alfonsín, the first president of the transition to democracy following the most brutal military dictatorship in Argentina (1976–83), assumed office. From the first loan that the WB granted to Argentina in 1961 until

[18] William Easterly, ‘What did Structural Adjustment Adjust?: The Association of Policies and Growth with Repeated IMF and World Bank adjustment loans’, *Journal of Development Economics*, 76, 1 (2005), 1–22.

June 1989, when Alfonsín abruptly resigned, it made 41 loans to the country, totaling $4.465 billion. Eighteen of these loans, worth $2.7 billion, were approved during Alfonsín's term. The WB began lending to Alfonsín only in June 1985, after the first SALs were granted to Latin America in that year and the introduction of the Program for Sustained Growth ( Baker Plan), designed by US Secretary of the Treasury James Baker in consultation with the IMF and the WB.[19] Given that the plan prioritized long-term development (the Bank's main mission) over short-term balance-of-payments stabilization (among the IMF's primary goals), it effectively positioned the WB, rather than the IMF, as the principal institution in charge of debt management in the region.[20] The plan called for debtor countries to adopt adjustment programs; commercial banks to reschedule payments and provide new loans; industrial countries to reschedule credits, grant bridge loans, and increase contributions to multilateral development banks; and international organizations like the WB to offer policy recommendations and funding.[21] Undoubtedly, the Baker Plan injected new momentum into the Bank. While Baker urged it to speed up loan disbursements and program negotiations with borrowing nations, he also requested that the Bank provide direct assistance to the private sector of indebted nations, significantly expanding the Bank's pool of clients. In 1988, Secretary Baker endorsed the establishment of the fifth (and last) specialized agency of the WB: the Multilateral Investment Guarantee Agency (MIGA), which aimed to provide guarantees for direct investments in developing countries (including guarantees to protect investors against

[19] 'Country Brief-Argentina. Part II-Bank Group Operations', 10 December 1989, File 620094, Argentina-LEAP, General 5, WBGA.
[20] Working Paper, 'The Baker Plan. Progress, Shortcomings and Future', August 1989, International Economics Department, WBGA. Available at: https://documents1.worldbank.org/curated/en/512631468764360794/pdf/multi0page.pdf (accessed 5.10.25).
[21] Working Paper, 'The Baker Plan'.

non-commercial risks such as expropriations, breach of contracts, or civil disturbance), thereby helping to attract foreign capital.[22]

The Baker Plan, the goals of which echoed and reaffirmed the WB's structural adjustment agenda, offered highly indebted Latin American countries financial assistance in exchange for fiscal discipline (avoiding excessive borrowing and further debt accumulation); reductions in public spending (especially on social programs); increased tax collection; liberalization of the financial system and interest rates; trade liberalization; and measures promoting investment, privatization, deregulation, and the expansion of property rights.[23] Designed to prevent a breakdown of the international banking system and promote economic adjustment and development, the Plan played a key role in facilitating the approval of large numbers of WB SALs to Latin American debtors such as Argentina, Brazil, Colombia, and Mexico. In turn, the SALs freed the Reagan administration (1981–89) from the need to manage the region's debt crisis by, among other means, dispatching economic missions to the region or coordinating negotiations between debtors and US-based private creditors like Citibank, Chase Manhattan, Bank of America, and Continental Illinois, (as well as foreign banks like Lloyds, Barclays, Deutsche Bank, Crédit Suisse, and Bank of Tokyo)– tasks that the WB eagerly performed, even if its staff felt overwhelmed and feared that a crisis in Argentina would endanger its own reputation. Within this context, it is clear why almost half of the 18 WB loans approved during the Alfonsín presidency were SALs. Remarkably, WB lending since the launching of the SALs underwent such significant expansion that the Bank created specialized divisions for

[22] Christine A. Bogdanowicz-Bindert, 'The Debt Crisis: The Baker Plan Revisited', *Journal of Interamerican Studies and World Affairs*, 28, 3 (Autumn, 1986), 33–45.
[23] María Cecilia Míguez, *Los partidos políticos y la política exterior argentina* (Buenos Aires 2013), 35–7.

several countries in the region, including Argentina.[24] As the WB public data shows, 1985 marked a turning point in terms of the volume of its operations in Latin America. Until then, the maximum number of loans that the Bank granted, annually, to all its member-states in Latin America and the Caribbean (combined) was 68. In 1985, however, the number sharply escalated to 124, reaching 134 in 1986, 132 in 1992, 183 in 1998, and 230 in 1999.

Despite, and partially due to, the significant financial assistance that Alfonsín received from the WB, the IMF, and foreign banks, his regime accrued mounting foreign debt in addition to suffering from episodes of hyperinflation and recession. In early 1989, amid an economic crisis and growing social unrest that led to strikes and massive protests, Alfonsín brought forward Argentina's general elections, originally scheduled for October, to 14 May. Menem, a lawyer who had served as governor of La Rioja Province and was leader of the Peronist Party, was elected president. On 29 May, in the wake of violent food riots that erupted across the country, Alfonsín declared a state of siege.[25] On 12 June, he announced his resignation. Menem took the helm on 8 July 1989, five months earlier than scheduled.

Menem inherited a country still recovering from the aftermath of the latest dictatorship, the sudden collapse of the Alfonsín government, and an economy in crisis. Projected monthly inflation stood at 200%, foreign exchange reserves were virtually exhausted, public spending was dependent on printing money, real wages were insufficient, and non-export sectors had been hit by a recession. This adverse constellation enabled Menem, like Fernando Collor de Mello in Brazil (1990–92) and

[24] Transcript of Oral History Interview with Pieter P. Bottelier held on 7, 11, and 19 January 1993. World Bank Oral History Project. Available at: https://oralhistory.worldbank.org/en/archive/oralhistory/transcriptdetail/transcript-oral-history-interview-pieter-p-bottelier-held-january-7-11-and-19-1993 (accessed 2.10.25).
[25] 'En la memoria, los hechos de 1989', *La Nación* (6 December 2001).

Alberto Fujimori in Peru (1990–2000), to implement previously unthinkable austerity measures, thereby creating what political scientist Kurt Weyland identifies as an unexpected affinity between neopopulism and neoliberalism.[26] Indeed, Menem abandoned his electoral promises to adhere to the traditional Peronist postulates of economic nationalism, strong state regulation of the economy, growth through direct government investment, income redistribution, and substantial wage increases, instead unveiling an orthodox neoliberal policy.[27] As the New York Times reported, Menem 'stunned his Peronist followers […] by sending the legislature a bill that would transfer the state telephone company and two television stations to private ownership and partially privatize the national airline, railroad, shipping line, oil company and mail service. Many of these came into Government control under Juan Perón in the 1940's'.[28] Additionally, Menem abandoned the long-established Peronist 'Third Position' in foreign affairs, aligning with Washington by sending troops to fight in the Gulf War and revising Argentina's stance on nuclear weapons. Furthermore, he broke with the Non-Aligned Movement, signaling that, thanks to his reforms, Argentina had finally become part of the first (capitalist) world. Menem also restored relations with Britain, severed during the Malvinas/Falklands War in 1982,[29] including the reestablishment of unrestricted trade between the two countries – a move that the WB applauded.[30]

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[26] Kurt Weyland, 'Neopopulism and Neoliberalism in Latin America: Unexpected Affinities', *Studies in Comparative International Development*, 31, 3 (1996), 3–31. See also Vicente Palermo and John Collins, 'Moderate Populism: A Political Approach to Argentina's 1991 Convertibility Plan', *Latin American Perspectives*, 25, 4 (1998), 36–62; Celia Szusterman, 'Carlos Saúl Menem: Variations in the Theme of Populism', *Bulletin of Latin American Research*, 19, 2 (2000), 193–206.
[27] Luigi Manzetti, *Privatization South American Style* (Oxford 1999), 71–2.
[28] 'Desperate, Latin American Nations Discover the Free Market', *The New York Times,* 30 July 1989; Susan Stokes, *Mandates and Democracy: Neoliberalism by Surprise in Latin America* (New York 2001), Ch. 3.
[29] Guillermo Miguel Figari, *De Alfonsín a Menem. Política exterior y globalización* (Buenos Aires 1997), Ch. 3; Roberto Russell and Laura Zuvanic, 'Argentina: Deepening Alignment with the West', *Journal of Interamerican Studies and World Affairs*, 33, 3 (1991), 113–34.
[30] Alex Fleming to Suman Bery, 'Argentina – Re-establishment of unrestricted trade with the UK', 18 August 1989, File 620094, Argentina-LEAP, General 5, WBGA.

Together with his Minister of Public Works Norberto Dromi, Menem devised a plan 'to reform the state and transform the nation'.[31] This plan materialized on 17 August 1989, when Argentina's Congress passed the State Reform Law (Law no. 23.696), which authorized the executive branch to appoint trustees to administer all state-owned companies for 180 days, renewable for an additional 180. It also empowered the government to liquidate, or partially or fully privatize, nearly all public enterprises, including telecommunications, airlines, television and radio networks, gas and electricity providers, subways and railways, petrochemical companies, the steel sector, and the federal highway system.[32] Indeed, the law granted the executive the authority to privatize, immediately, 32 of the roughly 400 existing state enterprises. Moreover, it required that Congress delegate to the executive the power to carry out additional privatizations through presidential decrees and gave it broad discretion to determine the means and criteria for doing so.[33] Certainly, granting such extraordinary powers to the president challenged Argentina's recently reestablished democracy.

Two weeks later, on 1 September 1989, Congress approved the Economic Emergency Law (Law no. 23.697). Known as the Dromi Law, this legislation suspended government subsidies for 180 days and allowed the executive to impose, at its own discretion and by presidential decree, economic measures related to wages, taxes, and tariffs. Ultimately, the two laws resulted in some 350 decrees authorizing privatizations, deregulation, the appointment of new judges, and an increasingly restricted right to strike.[34] Despite the profound impact that these laws had on

[31] Carlos Saúl Menem and Roberto Dromi, *Reforma del estado y transformación nacional* (Buenos Aires 1990), 19–20.
[32] Ibid., 76–80.
[33] Manzetti, *Privatization*, 72–3.
[34] Veigel, *Dictatorship, Democracy, and Globalization*, 173–74; Delia Ferreira Rubio and Matteo Goretti, 'Cuando el presidente gobierna solo. Menem y los decretos de seguridad y urgencia hasta la

Argentina's economy and society, WB staff expressed concern that the legislation had been weakened by the heated congressional debate, although its core provisions remained intact.[35] Nevertheless, Menem's initial reforms, together with short-term improvements in key macroeconomic indicators, secured him the support of Western financiers. In November 1989, the IMF approved a Stand-By Arrangement (SBA) for Argentina, the first since July 1987.[36] As detailed below, the WB resumed lending to the country a year later than the IMF, viewing economic stabilization as a precondition for economic and financial liberalization and, therefore, for renewed lending.

In tandem with Menem's early and decisive steps, and hoping to see Argentina erasing the last vestiges of interventionist and hybrid economic models, WB missions visited the country to work on central issues relating to structural adjustment: public sector reform, social sector management, agriculture, energy, public enterprises, tax policy, housing, provincial finance, health, banking, trade policy, and transport.[37] Initially, the WB was skeptical, deeming Menem's first stabilization plan 'heterodox'.[38] By heterodox, the Bank meant that the plan entailed a major adjustment, froze prices for three months, and used the exchange rate as an anchor, expecting in this way to curb inflationary pressures. Once inflation was under control, further and gradual adjustments were to be carried out, seeking to mitigate

reforma constitucional (Julio 1989–Agosto 1994)', *Desarrollo Económico*, 36, 141 (1996), 443–74. The full text of Law 23696 of 17 August 1989, is available at: http://mepriv.mecon.gov.ar/Normas/23696.htm (accessed 7.09.25).

35 Confidential Draft, 'Argentina. Visit of Mr. Husain, September 10-12, 1989' [undated] File 620094, Argentina-LEAP, General 5, WBGA.

36 Argentina. History of Lending Commitments as of August 2019, IMF Website. Available at: https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=30&date1key=2019-08-31 (accessed 28 August 2025).

37 Confidential Draft, 'Argentina. Visit of Mr. Husain, September 10-12, 1989'.

38 William Tyler to Suman Bery, Argentina: Macroeconomic Mission. Back-to-Office Report', 3 August 1989, File 620094, Argentina-LEAP, General 5, WBGA.

the more painful effects of structural reforms.[39] Nonetheless, the Latin American and Caribbean Department (WB-LAC) believed that Menem was better positioned than Alfonsín to promote a 'much more comprehensive program of structural reforms'. Its staff viewed Menem's steps as a transformative program that he instituted 'at the peak of [his] political power: the elections and hyperinflation had galvanized public support for strong action to restructure the state'.[40] In effect, Menem's team implemented a 190% real increase in the tariffs of public enterprises, including telephone, electricity, and natural gas – the last of which was expected to rise by 640% for large consumers. The prices of automotive gasoil and gasoline rose by 600%.

As Menem's reforms progressed, the WB's expectations rose accordingly. Shahid Husain, WB-LAC vice-president (1987–94), was among the first within the Bank to recognize Menem's neoliberal turn. In September 1989, while reporting on his meeting with Menem, his economic team, and the Central Bank's President González Fraga, Husain emphasized that, upon taking office, Menem 'quickly discarded his pre-election populist rhetoric, appointed seasoned managers to key positions and began to take hard decisions on the economy which no one had expected'.[41] Husain stressed Menem's commitment to the politically difficult reform of the state and the financial sector, privatization of public enterprises, economic liberalization, industrial deregulation, and improvement of infrastructure. To support Menem's efforts to transform Argentina's economy, Husain recommended

[39] Transcript of Oral History Interview with Pieter P. Bottelier held on 7, 11, and 19 January 1993.
[40] P. Beckerman to Suman Bery, 'Argentina: Macroeconomic Mission', 4 August 1989, File 620094, Argentina-LEAP, General 5, WBGA.
[41] Shahid Husain to Moeen Qureshi, 'My Visit to Argentina', 20 September 1989, File 620094, Argentina-LEAP, General 5, WBGA.

acquiescing to his request that a WB resident representative be stationed in Buenos Aires to assist in the formulation and implementation of economic plans and reforms. Myrna Alexander was the first such resident representative in Argentina.[42] Her appointment in December 1989 speaks volumes about the depth of collaboration between the parties, as well as Menem's desire to portray himself as an enthusiastic partner of powerful international organizations.

At a meeting held during the 1989 IMF-WB Joint Meeting of Governors, Husain encouraged the Argentine delegation to proceed with the reforms that were already underway even without WB financial assistance. Minister of Economy Néstor Rapanelli (July–December 1989) – a member of Argentina's industrial elite and former vice-president of Bunge & Born, the largest multinational in Argentina - responded by requesting WB assistance in planning further privatizations. He also emphasized that the WB staff was working on the privatization of the railways company, *Ferrocarriles Argentinos*, the oil company, *Yacimientos Petrolíferos Fiscales* (YPF), and the telephone enterprise, *Empresa Nacional de Telecomunicaciones* (ENTEL). The parties then discussed additional conditions that Argentina would be required to meet to secure the disbursement of previously approved loans. These included the reduction and eventual elimination of industrial and agricultural export taxes and the deregulation of external and domestic trade.[43]

Due to the ongoing economic crisis, WB lending had been on hold since the last loan granted to Alfonsín in January 1989. Nonetheless, the Bank was evaluating

[42] Shahid Husain to Alberto Kohan, 10 October 1989, File 620094, Argentina-LEAP, General 5, WBGA; Shaid Husain to Moeen Qureshi, 'Resident Mission in Argentina', 20 December 1989, Folder ID 1671227, Moeen Qureshi Files - Presidential Chronological Correspondence December 1989. Correspondence with World Bank President, WBGA.

[43] Lucien Moreau to Files, 'Argentina: 1989 Annual Meeting Discussions', 13 October 1989, File 620094, Argentina-LEAP, General 5, WBGA.

potential loans, including a first PERAL designed to support Menem's privatization program.[44] When, in October 1989, the government submitted the long-awaited tax reform to Congress, the WB-LAC, which considered the law 'timid and incomplete', expressed doubts regarding its expected revenue effects and its ability to simplify the tax system.[45] The staff of WB's Argentina Division was particularly concerned about the reform of Corporate Income Tax and VAT, which was reduced from 15% to 13% rather than increased to 18%, as the WB had advised.[46] Argentina's transformation thus continued to unfold according to the script laid out by Menem and his team, showing that domestic actors were able to shape the reform agenda even as they negotiated with the Bank.

By January 1990, the WB-LAC was convinced that it should respond positively to Argentina's request for increased Bank involvement in structural reforms. Strong WB (and IMF) support was considered essential 'to convey to an exceptionally skeptical private sector that the government was serious about its stabilization and structural reform efforts'.[47] Nevertheless, as WB-LAC Acting Director Suman Bery noted, 'While there is considerable commitment to an essentially liberal model of adjustment on the part of the president and his team, they are handicapped severely by both political and administrative weakness'.[48] The Bank's backing became

[44] Malcolm Rowat to Joaquín Ferrán, 'Argentina: IMF Program', 13 October 1989, File 620094, Argentina-LEAP, General 5, WBGA.
[45] Luca Barbone to Suman Bery, 'Argentina-Tax Reform Proposal Submitted to Congress', 2 November 1989, File 620094, Argentina-LEAP, General 5, WBGA.
[46] Luca Barbone to Marcelo Selowsky, 'Argentina: Tax Reform', 9 November 1989, File 620094, Argentina-LEAP, General 5, WBGA.
[47] Richard Newfarmer to Pieter Bottelier, 'Argentina: Conversation with IMF', 7 February 1990, File 620550, Argentina-LEAP, General 6, WBGA.
[48] Suman Bery to Ngozi Okonjo-Iweala, 'Argentina: Lunch between Messrs. Conable and Camdessus', 20 March 1990, File 620550, Argentina-LEAP, General 6, WBGA.

particularly important in the wake of the December 1989 economic crisis, which led to the resignation of Minister of Economy Rapanelli.[49]

In February 1990, Argentina experienced a new episode of hyperinflation. In March, President Menem issued Decree 435/90, aimed to expand the stabilization plan and state reforms, primarily through a rapid reduction of public sector employment and a sharp retrenchment of the Housing and Development Banks.[50] A few days later, Husain visited Argentina for a second time, meeting with Menem, economists, and industrialists. Husain's report reveals that he was aware of the social costs and political risks associated with rapid economic liberalization. As he noted, 'President Menem's honeymoon period [is] over'.[51] He was partially correct: popular support fell from 86 % in September 1989 (with the approval of the Dromi Law) to 25% by March 1990 as citizens, who had begun to feel the effects of his neoliberal shift, found it increasingly hard to pay their bills. Menem's own party was divided between those who called for the reinstatement of traditional Peronist policies and the *Menemista*s, who advocated for neoliberal reforms. The fact that the opposition was likewise divided over Menem's neoliberal agenda, and that Menem's reforms resulted in a split in the ranks of the labour movement and the *Confederación General de Trabajadores* (CGT), debilitated potential pockets of resistance to structural reforms. Overall, Argentines felt that there was no way back to statism and interventionism when most Latin American countries, as well as former Soviet states,

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[49] Pieter Bottelier to Shahid Husain, 'Argentina: Back-to-Office Report and Proposed Strategy', 12 January 1990, File 620550, Argentina-LEAP, General 6, WBGA.
[50] Decreto 435/90, 4 March 1990, Información Legislativa, Ministerio de Justicia de la Nación. Available at: https://servicios.infoleg.gob.ar/infolegInternet/anexos/0-4999/2894/norma.htm (accessed 1.12.25).
[51] Shahid Husain to Moeen Qureshi, 'My Visit to Argentina', 23 March 1990, File 620550, Argentina-LEAP, General 6, WBGA.

were implementing market-reforms. Aware that economic crises had provoked military rebellions during Alfonsín's term, Husain emphasized that, although the military's position on economic matters remained unclear, 'the official army support[ed] democratic government and appear[ed] unready to intervene'. Nevertheless, he warned that if 'social unrest turn[ed] to extensive violence [as under Alfonsín], they may, however, feel compelled to intervene'. Husain added that poverty had increased dramatically with 'more than a third of the population having to rely on emergency and social programs to survive'.[52] Despite these difficulties, Menem (and the WB) pressed ahead with structural adjustment.

Menem's commitment to reform notwithstanding, Husain refused to make concessions. Meeting with Menem and Minister of Economy Antonio Ermán González (who replaced Rapanelli in December 1989), Husein highlighted that the Bank needed 'to rely on a continued strong political commitment to continue putting in place the more liberal structures that the government has been pursuing since the change of administration'.[53] Following this meeting, Husain advised the WB management either to support 'strong reforms' or 'pull out of Argentina'. The latter option was too risky; it might have implied that Argentina would not repay its $2.4 billion debt to the Bank. Husain therefore suggested opening negotiations for two loans: a Public Enterprise Rationalization Loan (PERL) and a Public Sector Reform Loan (PSRL). Hoping to find a way for the Bank to play a more proactive role in Argentina, he emphasized that both loans 'would entail strict conditions on the pace

52 Ibid.
53 Ibid.

and quality of structural reforms'.[54] Bilateral interactions soon intensified, including a meeting between WB President Barber Conable (1986–91) and Minister González.[55]

As negotiations concerning the first WB loans proceeded, Argentina advanced its privatization program. On 8 November 1990, at the ceremony marking the transfer of ENTEL (the telephone company) to private ownership, Menem described this privatization as a fundamental step in 'the revolutionary change' of the state and therefore of the nation – 'a necessary, indispensable, and profound transformation that is allowing us to change history'.[56] Certainly, ENTEL was not the first state-owned enterprise that Menem privatized. Earlier privatizations had included television channels, roads, segments of the railways, and defense companies; indeed, even nationalist and statist factions of the military had begun to accept Menem's neoliberal model. Menem reiterated his determination to 'transform definitively the old and obsolete structures of the Argentine state' in a speech given at the ceremony marking the privatization of *Aerolíneas Argentinas.*[57] 'It is time to take capitalism seriously', he argued, because Argentina had long existed in a halfway state 'between a socialism without planning and a pseudo-capitalism without a market'.[58] This statement, a critique of Peronist principles of economic nationalism, interventionism, and statism, underscored Menem's determination to pursue a far-reaching economic transformation. In this sense, his project recalls the Chicago Boys' radical reforms in

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[54] Ibid.

[55] Shahid Husain to Barber Conable, 'Argentina: Your Meeting with Economy Minister González', 5 April 1990, File 620550, Argentina-LEAP, General 6, WBGA.

[56] Discurso del Presidente Menem, 8 de noviembre 1990, 83–4.

[57] Discurso del señor presidente de la Nación, Doctor Carlos Saúl Menem, en el acto de privatización de la empresa Aerolíneas Argentinas, el 21 de noviembre 1990, 91. Available at: http://lanic.utexas.edu/larrp/pm/sample2/argentin/menem/900805d.html (accessed 7.11.25).

[58] Discurso del señor presidente de la Nación, Doctor Carlos Saúl Menem, en las 'Jornadas sobre desreguWB-LACión y competencia en sectores clave de la Economía', 29 de noviembre de 1990, 115–16. Available at: http://lanic.utexas.edu/larrp/pm/sample2/argentin/menem/900825d.html (accessed 7.11.25).

Chile under the dictatorship of Augusto Pinochet (1973–90). Yet, Menem, unlike Pinochet, was democratically elected in 1989 on a Peronist-informed platform. Likewise, he was reelected in May 1995, by which point his neoliberal program was already well underway. Menem's 1995 reelection shows the success of his reliance on populist strategies (e.g. food and school-meal programs, targeted subsidies, emergency employment programs[59]) to secure popular support while enacting reforms that mainly benefited Argentina's economic elites. As Gastón Souroujon argues, by relying on populist techniques, Menem created a temporary consensus among large sectors of the population who were negatively affected by his reforms. Moreover, in his hands, the Peronist tradition went from being a champion of unions and public-sector workers to an ally of business and financial elites.[60]

## 2) <u>The Beginning of a Fruitful Partnership: The First WB Loans to the Menem Administration (December 1990-January 1991)</u>

In December 1990, two decisive and not entirely unrelated events took place: first, an attempted coup sought to overthrow Menem's government; second, the WB approved its first loans to the administration. On 3 December 1990, a group of nationalists and right-wing officers known as *Carapintadas*, led by Colonel Mohamed Ali Seineldin, seized the army headquarters in Buenos Aires (several blocks from the presidential palace) and other military installations, leading to armed clashes with

[59] Paul H. Lewis, *The Agony of Argentine Capitalism: From Menem to the Kirchners* (Westport, CN 2009).

[60] Kurt Weyland, 'Neoliberalism and Democracy in Latin America: A Mixed Record', *Latin American Politics and Society*, 46, 1 (2004), 135–57; Gastón Souroujon, 'When Peronism Met the New Right: The Menem Administration (1989-1999)', in Gisela Pereyra Doval and Gastón Souroujon (eds), *Argentina's Right-Wing Universe During the Democratic Period (1983-2023),* (New York 2024), 58–74.

government supporters. The fight left at least six military personnel and five civilians dead, and about 200 individuals wounded. This was the fourth and bloodiest military rebellion since the return to democracy in 1983, the first under Menem, and the last to date. The leaders of the attempted coup objected to the prosecution of officers for crimes committed during the dictatorship as well as the deteriorating economic condition of the military under civilian rule. Equally significant was their opposition to several components of Menem's reforms, particularly the privatization of strategic state-owned enterprises – unveiling another type of friction between neoliberal reforms and democracy in the context of Argentina's transition period.[61] Remarkably, the failed coup did not prevent US President George W. Bush (1989–93) from arriving in Argentina two days later as part of a scheduled visit to Latin America. As the New York Times reported, Bush did not alter his plans 'because of the strong backing and praise [he] gave to the Argentine leader for his efforts to rebuild the economy along free market lines […]'.[62] This backing, however, did not translate into the signing of the US–Argentina trade agreement that Menem so desired.[63]

On 18 December 1990, with the country still reeling from the military rebellion, and following months of meetings, missions, studies, and negotiations, the Menem administration signed its first loan agreements with the WB: a $200 million Provincial Development Project and a $100 million Water Supply and Sewerage Sector Project. According to the WB-LAC staff, the unfreezing of disbursements and the approval of the loans (which, although not formally SALs, nonetheless promoted

[61] 'Argentine Military Uprising Fails Only 2 Days Before Visit by Bush', *Los Angeles Times* (4 December 1990); 'Vivió el país ayer el mayor enfrentamiento entre militares de los últimos treinta años', *Ámbito Financiero* (4 December 1990).
[62] 'An army revolt one day, an invasion the next', *The New York Times* (8 December 1990).
[63] 'Lo que no se llegó a firmar con EE.UU.', *Ámbito Financiero* (6 December 1990).

structural adjustment) became possible once the economy began to stabilize in March 1990 as a result of Menem's reforms.[64] The water loan was designed to strengthen public finances at the national and provincial levels, improve the allocation of public spending, and increase private sector participation in providing public services.[65] The provincial project was expected 'to provide financial support and incentives for provinces to undertake their own adjustment programs'.[66] The explanation offered by Pieter Bottelier (WB Country Director for Argentina, 1987–91) underlines the scope of the structural reforms that the new loans were intended to support. As he noted, 'the Argentine problem had three legs': poor performance and lack of effective control over public enterprises; the absence of efficient financial oversight, with provincial governments enjoying an almost automatic overdraft facility at the Central Bank; and an excessively costly social security system. With regard to the last, he noted, 'Argentina had built social security systems in the early part of the century, when they were rich and growing rapidly'.[67] Upon his return from Washington, encouraged by renewed WB lending, Minister González announced that the WB loans granted to Argentina would be followed by two IDB loans and a WB PERAL.[68] In the meantime, the WB grew increasingly confident regarding Menem's

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[64] Transcript of meeting of the Executive Directors of the IBRD and IDA, 9 August 1990: Argentina - Second Trade Policy Loan Project. WBGA.

[65] *Argentina - Water Supply and Sewerage Sector Project.* Memorandum and Recommendation of the President of the IBRD to the Executive Directors. 26 November 1990. WBGA. Available at: http://documents.worldbank.org/curated/en/764281468205141227 (accessed 6.10.25).

[66] *Argentina - Provincial Development Project. Memorandum and Recommendation of the President of the IBRD to the Executive Directors.* 21 November 1990. WBGA. Available at: http://documents.worldbank.org/curated/en/441431468003892943 (accessed 6.10.25).

[67] Transcript of Oral History Interview with Pieter P. Bottelier held on 7, 11, and 19 January 1993.

[68] 'La Argentina logró u$s 350 millones', *Ámbito Financiero* (19 December 1990).

commitment to reducing the role of the state, increasing production, improving the quality of services, and promoting private sector development.[69]

Notably, Menem's large-scale privatizations were not only crucial to downsizing and transforming the state. They also increased fiscal revenues and reduced external debt to roughly $20 billion by late 1991. Debt reduction, in turn, enabled the government to improve its relations with private foreign creditors by ensuring monthly repayments of $40–60 million beginning in January 1991.[70] Strengthening ties with commercial bank creditors, moreover, was considered essential for securing a Brady-type arrangement with WB support. This is highly significant because the Brady Plan was designed to restructure unsustainable debts by issuing 'Brady bonds'. This initiative marked a clear departure from the Baker Plan, contemplating reduction of debts owed by heavily indebted nations. Argentina, Brazil, Mexico, Uruguay, Peru, Ecuador, and Costa Rica undertook Brady restructurings from 1990 to 1998.[71] In any event, Argentina could not sustain high levels of debt repayment for long. Although reserves stood at $3 billion (excluding the equivalent of $1.4 billion in gold), many of these funds were not liquid.[72]

Menem's plans went far beyond privatization and debt rescheduling. To advance his neoliberal agenda, in January 1991 he eliminated the Ministry of Public Works and Services, which, he claimed, had become unnecessary due to the

[69] *Public Enterprise Reform Adjustment Loan (PERAL) Project.* President's Report, 14 January 1991, 17–18. WBGA. Available at: http://documents.worldbank.org/curated/en/947351468002156075 (accessed 6.10.25).
[70] Suman Bery to Pieter Bottelier, 'Argentina – Debt Situation', 10 January 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.
[71] Manuel Monteagudo, 'The Debt Problem: The Baker Plan and the Brady Initiative: A Latin American Perspective', *The International Lawyer*, 28, 1 (1994), 59–8; Neil Shenai and Marijn A. Bolhuis, 'How the Brady Plan Delivered on Debt Relief: Lessons and Implications', *IMF Working Paper* 23, 258 (2023).
[72] Moeen Qureshi to Barber Conable, 'Argentina: Your Meeting with Citibank', 14 February 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.

extensive privatization of public enterprises previously under its responsibility. He also created a new Ministry of Justice, appointed new ministers, and reshuffled key diplomatic positions, naming Carlos Ortiz de Rosas as ambassador to Washington, while Guido Di Tella became minister of foreign affairs. According to Luc Moreau (WB-LAC), allegations of corruption (including a letter from US Ambassador Terence Todman complaining about requests for bribes) were among the reasons for the cabinet reorganization.[73] Indeed, the rapid and numerous privatizations raised concerns about their transparency and integrity. As the Argentine press noted, the agreements signed with the WB allowed the government to signal that forthcoming privatizations would proceed under Bank supervision, thereby enhancing their credibility. As the Argentine newspaper Clarín remarked, the Bank ultimately positioned itself 'at the very heart of the most important decisions in the national economy: the total reform of the state, including enterprises, provinces, and privatizations'.[74] Nevertheless, the reorganization of Menem's administration fell short of achieving stability. By late December 1990, the exchange rate stood at approximately 5,400 Australes per US dollar. By January 29, however, it had dropped to around 8,000 Australes per dollar. In late January 1991, in response to the continued depreciation of the national currency against the dollar, the economic team resigned.[75]

Notably, while WB operations in Argentina were reaching new heights, the WB-LAC staff remained disillusioned. As Bottelier wrote to Minister González on 31

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[73] Luc Moreau to Pieter Bottelier, 'Argentina- Cabinet Changes', 18 January 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.
[74] 'El Banco Mundial Eje de la Deuda Externa', *Clarín* (20 January 1991).
[75] Myrna Alexander to World Bank Headquarters, 'Resignation of Economic Team', 29 January 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.

January 1991 (four days before he was replaced by Domingo Cavallo), two major problems were affecting the Bank's ability to execute its projects in Argentina. The first was the lack of local counterpart funds, which hindered the pace of project implementation and caused delays in the Bank's disbursements. Hence, although the WB portfolio in Argentina consisted of twenty projects, disbursements fell from $474 million in 1989 to $226 million in 1990.[76] The second problem concerned instability in the management of governmental offices, coordinating units, and public enterprises, which complicated project coordination and delayed implementation. Bottelier emphasized that both problems increased the Bank's monitoring costs. Indeed, projects in Argentina required more than twice the institutional average in staff time: 21 staff-weeks per project compared to 10–11 Bank-wide.[77] Thus, even as Argentina accelerated privatizations and implemented reforms consistent with the WB's long-standing recommendations, the WB-LAC staff complained about the number of Bank personnel and attention the country required. Partially for this reason, Bottelier requested that new Minister of Economy Domingo Cavallo (February 1991–August 1996) and the new Central Bank President Roque Fernández establish priorities for the Bank's close technical assistance and oversight, understanding that the WB could not remain involved in all the sectors undergoing privatization and/or reorganization.[78] This extraordinary request indicates the magnitude of the transformation unfolding under Menem. Additionally, some Bank staff may have felt uneasy about the institution's unprecedented level of involvement in the country.

[76] Myrna Alexander, 'Argentina. Status of WB Operations', 15 February 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.
[77] Pieter Bottelier to Antonio Erman González, 31 January 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.
[78] Pieter Bottelier to Domingo Cavallo, 17 April 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.

The greater the Bank's exposure, the greater the risks it assumed. Indeed, decades of lending to Latin America had taught the WB to expect recurrent political and economic instability in the region.

Soon after assuming office, Minister Cavallo announced a new fiscal package, further trade liberalization measures (including the removal of export taxes and the lowering of import tariffs), improved tax collection, and financial sector reforms – all in line with the Bank's structural adjustment strategy. He emphasized his commitment to advancing structural reforms of the state, public enterprises, provincial finances, and the social security system. Notably, Cavallo assured Bank staff of 'the importance he and Menem attach[ed] to the policy reform actions supported under [the WB's] two proposed adjustment loans (PERAL and PSRL)',[79] which, as detailed in the next section, were approved in February 1991.

## 3) <u>The Beginning of the WBs Formal Involvement in Argentina's Neoliberal Experiment: The First SALs to the Menem Administration (February-December 1991)</u>

In February 1991, an economic mission led by Bottelier visited Argentina and met the new economic authorities. The mission, which evaluated the pace of reform and privatization, expressed satisfaction that two of the eight ministries had already been 'rationalized,' with two more in progress and the remaining four scheduled for 1991. This 'rationalization', a term frequently used in WB reports, involved significant workforce reductions. In this case, 57,000 government employees (about 10% of the

[79] Pieter Bottelier to Moeen Qureshi, 'Argentina', 4 February 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.

total) were laid-off, with an additional 60,000 cuts planned until late 1991. According to Bottelier, Argentine officials were eager to see the approval of the first SALs, which they considered crucial for supporting the reform of public enterprises.[80]

Cavallo's team did not have to wait long. On 12 February 1991, two months after the approval of the first WB loans to the Menem administration, the Bank granted Argentina its first PERAL and its corresponding Public Enterprise Reform Execution Project Loan (PEREL). Later that month, it approved an additional loan to promote structural reforms in the agricultural sector. As WB President Conable noted, the first PERAL formed part of a broader Bank program designed to support the government’s objectives of stabilizing Argentina's economy and resuming growth through improved management, privatization, and the restructuring of public enterprises.[81] Notably, the Bank had long understood the necessity of reforming Argentina’s public sector and state enterprises. According to Conable, although public enterprises in Argentina did not represent a disproportionate share of the economy relative to other Latin American countries, 'their inefficiencies and heavy financial losses have had a profound impact on the overall economy’.[82] In Conable’s view, a central problem in Argentina had been 'the expansion of the state through nationalization and the creation of large public monopolies to provide basic infrastructure in support of industrialization', a process that occurred from the mid-1940s to the late 1960s. In the 1960s and 1970s, he continued, several governments had attempted, with limited success, to reduce and reform the public

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[80] Pieter Bottelier to Moeen Qureshi, ‘Argentina: Back-to-Office Report. Macroeconomic Assessment’, 8 February 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.

[81] *Argentina - Public Enterprise Reform Adjustment Loan (PERAL) Project.* President's Report, 14 January 1991. WBGA. Available at: http://documents.worldbank.org/curated/en/947351468002156075 (accessed 5.10.25).

[82] Ibid, 10.

enterprise sector. Their efforts focused on reversing nationalizations, implementing initial privatizations, curbing the expansion of the public sector, and liberalizing regulations on foreign investment. Although in the 1980s President Alfonsín 'initiated a number of reform programs (including some minor privatizations), it [was] the Menem government that [took] the decisive role in the implementation of the public enterprise reform program',[83] explaining the Bank's inclination to assist him. Conable noted that, since the 1940s, Argentina had depended heavily on public enterprise as the engine driving economic growth. Thus, despite earlier hesitant reforms, by July 1990 there were still 230 public enterprises in Argentina, most of them in three sectors: hydrocarbons and energy; transport and communications; industry and the services sector. Total public enterprise employment stood at approximately 294,000 in December 1989, compared with 313,000 in December 1984. In 1988, public enterprise deficits amounted to 4.5% of GDP, in contrast to a surplus of 10% in Chile.[84]

Yet, just as the WB was becoming involved in Argentina's neoliberal transformation through SALs, WB–LAC staff found new grounds for complaint. Likely worried about the reputational risks of supporting reforms that appeared to be associated with rising poverty, they reported concern at 'the lack of response from the Government with respect to the social sectors [...]'.[85] At least formally, Minister Cavallo acknowledged that 'a disproportionate burden of adjustment [falls] on those least able to shoulder it—the poor'.[86] Hence, he assured Conable, during the

[83] Ibid., 11.
[84] Ibid. 13–14.
[85] Shahid Husain to Barber Conable, 'Argentina: Your Meeting with Economy Minister Domingo Cavallo', 25 April 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.
[86] Domingo Cavallo, 'Letter of Development Policy. A Program for Economic Growth', Annex 1, 13 May 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.

adjustment period the government 'will undertake new efforts to enhance its program of protecting the poorest groups', by establishing a program of basic health care and preventive medicine, among other means.[87]

On 20 March 1991, Cavallo submitted to Congress a proposal aimed at guaranteeing the full convertibility of the Austral at A10,000 per US dollar, to take effect on 1 April. Known as the Convertibility Law (Law no. 23.928), this radical piece of legislation pegged the exchange rate at one Argentine peso per US dollar, required the Central Bank to back two-thirds of the monetary base with international reserves, and legalized dollar transactions.[88] Additionally, it introduced trade liberalization measures, including reductions in import tariffs and the elimination of export duties.[89] Here too, however, the WB was disappointed. Although the Bank had long recommended abandoning the Austral in favor of the dollar, it argued that Argentina should first solve the fiscal problem and only then turn to the dollar as an anchor to ensure fiscal and monetary discipline.[90] Nevertheless, the WB again ended up backing Argentina's autonomous decision and declaring that the dollarization had been successful: inflation in April was about 4–5%, and the government began to rebuild reserves.[91]

In tandem with the dollarization – which constituted a turning point in Menem's economic program and in Argentina's relations with the international

[87] Ibid.
[88] Pablo Gerchunoff and Juan Carlos Torre, 'La política de liberación económica en la administración de Menem', *Desarrollo Económico*, 36, 143 (1996), 733–68.
[89] Sebastián Pedro Salvia, 'The Boom and the Crisis of the Convertibility Plan in Argentina', *Revista de Economía Política*, 35, 2 (2015), 325–42.
[90] Richard Newfarmer to Pieter Bottelier, 'Argentina: Convertibility of the Austral', 25 March 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.
[91] Jim Hanson to Pieter Bottelier, 'Argentina's Autumn Plan: A Reprise', 25 April 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.

financial community – a WB mission met with the Central Bank management. Both sides agreed that Argentina could be a strong candidate for Brady Plan support, albeit only after demonstrating that macroeconomic stability had been consolidated with the backing of an IMF SBA and an Extended Fund Facility (EFF). Given that IMF assistance was considered a precondition for debt negotiations, the WB offered to support Argentina's efforts vis-a-vis the IMF.[92] In July 1991, the IMF granted Menem's administration a second SBA (following the first, approved in November 1989) and a first EFF in March 1992.[93]

On 27–29 May 1991, a new WB mission headed by Suman Bery visited Argentina. The head of the newly established Adjunct Sub-Secretary of Economic Policy, Juan Carlos Sánchez Arnou, who served as the liaison with the WB, 'made a formal request to the Bank for more order and discipline in the dispatch of missions to Buenos Aires'. This request, alongside previous WB complaints about the heavy workload in Argentina, attested to the depth of the Bank's involvement since the first SALs were granted. Bery responded positively.[94] In the meantime, and in light of the principles delineated in the Baker and Brady Plans, the WB continued to play a key role in discussions between Argentina and commercial creditors.[95] In 1991, the WB approved three additional loans to support structural reforms in Argentina: an Agricultural Service and Development Project worth $23 million in June; a $350

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[92] Paul Beckerman to Files, 'Argentine Debt: Meeting with Argentine Debt Team', 25 April 1991, File 1007439, Argentina-LEAP, General 91-01, WBGA.
[93] Argentina. History of Lending Commitments. Available at: https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=30&date1key=2019-08-31 (accessed 6.10.25).
[94] Suman Bery to Pieter Bottelier, 'Argentina: Mission May 27-29, 1991, Back-to-Office-Report', 4 June 1991, File 1079470, Argentina-LEAP, General 91-02, WBGA.
[95] Richard Newfarmer to Suman Bery, 'Argentina: Commercial Bank Advisory Committee in New York', 19 July 1991, File 1079470, Argentina-LEAP, General 91-02, WBGA.

million Public Sector Reform Technical Assistance Project in July, and a Public Sector Reform Loan Project in November totaling $28 million.

Throughout 1991, Argentina repeatedly sought to enter a debt-reduction program with foreign banks. The WB's participation in this effort was equally persistent. For example, in September, Cavallo met new WB President Lewis T. Preston (September 1991 - May 1995). Appointed by President Bush, Preston (who had previously served as chairman of J.P. Morgan & Company) steered the Bank toward reducing the debt burden of developing countries and facilitating negotiations between debtor nations and commercial banks.[96] During this first meeting with Preston, Cavallo sought to secure the Bank's support for entering negotiations with creditors concerning a debt-reduction program.[97] In October 1991, at President Bush's invitation, Menem visited Washington and met the WB and IMF management to secure their support for a Brady-type operation.[98]

Also in October, Menem announced a sweeping deregulation package. This time, the WB staff was deeply involved. The new measures were expected to facilitate ongoing structural reforms and deregulate trade, the financial sector, social security, and agriculture. Specific steps were adopted: all export restrictions as well as limits on retail and port operating hours were eliminated; collective wage negotiations were abolished; and export taxes on grains, meat, forest, and fish products were suspended.[99] Additionally, seeking to strengthen ties with the elite

[96] 'New world bank chief seen focusing on debt', *The New York Times,* 8 March 1991.
[97] Myrna Alexander to Files, 'Argentina: Meeting by Minister Cavallo with Preston', 27 September 1991, File 1079470, Argentina-LEAP, General 91-02, WBGA.
[98] Rainer Steckhan to Lewis Preston, 'Argentina: Proposed Breakfast with President Menem', 7 October 1991, File 1079470, Argentina-LEAP, General 91-02, WBGA.
[99] Suman Bery to Ping-Cheung Loh, 'Argentina: Deregulation Announcements', 1 November 1991, File 1079470, Argentina-LEAP, General 91-02, WBGA.

agricultural-export sector, as he had done with local businessmen and foreign capital, Menem promoted the abolition of discriminatory taxes on the sector, the removal of tariffs on imports of agricultural machinery and chemicals, and the effective deregulation, de-bureaucratization, and privatization of ports and other related services.[100]

By November 1991, after approving eight loans to the Menem administration, the WB augmented and diversified operations in Argentina, reaching a total of 72 loans by the end of Menem's term on 10 December 1999. During this ten-year period, SALs became a key component of the WB's lending portfolio to Argentina. Thus, for instance, three of the five loans that the WB granted to Argentina in 1993 were SALs, in addition to a wide range of SALs and PERALs that were approved later. Examples include a Capital Market Development project worth $500 million approved in March 1994; a $300 million Provincial Reform Loan and a $500 million Provincial Bank Privatization Loan Project, both in 1995; a $350 million Health Insurance Reform Loan in April 1996; four Provincial Reform Projects, all in August 1997; a $5 million Model Court Development Project in April 1998; a Special SAL Project worth $2.5 billion in November 1998; and a $30 million State Modernization Loan in December 1998. These loans were accompanied by a series of honors. In 1998, in recognition of Argentina's improved macroeconomic performance and the transformation of the economy and the state, Menem (by then regarded in Washington as the posterchild of neoliberal reform) was invited to open the Annual IMF-WB joint meeting, together with incumbent President Bill Clinton.

[100] Discurso del señor presidente de la Nación, Doctor Carlos Saúl Menem, referido al Pacto Fiscal para la Reactivación y el Crecimiento Agropecuarios, 10 de noviembre de 1991, 37–8. Available at: http://lanic.utexas.edu/larrp/pm/sample2/argentin/menem/910901d.html (accessed 7.10.25).

Honors aside, Menem's economic policy had a negative impact on many sectors. By the end of his tenure, 36% of the population (about 13.4 million individuals) were living below the poverty line, and 8.6% (approx. 3.2 million people) had been reduced to extreme poverty. During his second term (1995–99), the number of individuals living under the poverty line rose at an average annual rate of one million people.[101] This fact, alongside the haphazard and at times corrupt manner in which reforms, especially privatizations, were conducted, may have led to Menem's failure to secure a third term in the presidential elections of 1999.

## Conclusions

In tandem with the announcement of the Baker Plan at the IMF-WB Joint Annual Meeting of Governors in October 1985 as part of the US strategy to promote economic stabilization and growth in highly indebted nations, the WB began granting SALs to Latin America. Argentina was no exception: in June 1986, President Alfonsín signed the country's first SAL with the Bank. Unlike standard WB development loans, SALs were not tied to specific development projects. Rather, they were designed to support policy change and comprehensive structural reforms. Following this early experiment with adjustment lending, the presidency of Menem, an economically atypical Peronist leader, marked a new peak in WB operations in Argentina. By examining the fruitful collaboration between the WB and Menem in the period 1989–91, this article has highlighted the dual role of SALs as instruments of policy

[101] Haeduck Lee, 'Poverty and Income Distribution in Argentina, Patterns and Changes', in Report No. 19992-AR, *Argentina Poverty Assessment: Argentina. Poor People in a Rich Country,* January 2000, WBGA; 'El legado de Menem al próximo gobierno', *Página 12* (30 April 1999); 'Más pobres en la cuenta de Menem', *Página 12* (10 June 1999).

change in borrowing states and as both a manifestation and a driver of the Bank's own institutional expansion and consolidation. By granting an increasingly diverse range of SALs, the WB significantly broadened its lending instruments, prompting an organizational restructuring that led to an increase in the number of staff, the creation of new country divisions and missions, and the assumption of a formal role as an intermediary between debtor nations and foreign commercial banks. These new WB responsibilities partially overlapped with the IMF's original mission of promoting financial stability and solving balance of payments problems. They also relieved the US administration of the politically costly burden of dealing directly with Latin America's virtually unpayable foreign debt.

Far from being a passive player in the neoliberal game that was sweeping through the post-Cold War world, Menem actively sought to transform Argentina according to his own vision and in collaboration with his own confederates, Dromi and Cavallo. Widespread disenchantment with traditional statist approaches and the recurring failure of hybrid economic models created a political and social environment that granted Menem the opportunity to experiment with new economic ideas. His ability to attract the support of diverse actors, including industrialists, agricultural exporters, parts of the unions and the military, and workers in the informal sector, enabled him to embark on a deep transformation of Argentina's economy and state. The Bank's technical and financial support, and its precious seal of international approval, were key to executing painful reforms.

Menem began implementing widespread reforms before the WB resumed lending in December 1990, following its interruption in January 1989 during

Alfonsín's term. Surprisingly, the WB often found itself in a reactive position, witnessing how Menem's team abandoned electoral promises based on traditional Peronist precepts, passed new legislation, issued presidential decrees, closed allegedly obsolete ministries, privatized state-enterprises, fired public employees by the thousand, and limited the right to strike. The granting of the first SALs to Menem in February 1991 thus marked the beginning of the WB's involvement in adjustment programs and institutional reforms through at times tense dialogue with his economic team. The scope and intensity of this involvement was unprecedented. The Bank at once desired a smaller state and one capable of creating the conditions necessary to replace what Menem called 'pseudo-capitalism' with a purer version of neoliberalism. Although Menem embarked on this process without new WB loans, the SALs enabled him to transform Argentina 'without anesthetic' over the course of a decade. By 1999, as the social costs of Argentina's transformation accumulated and suspicions of corruption multiplied, voters opted to halt a political and economic experiment that had reshaped the nation.