Neoliberalism, international insertion and financialization: a comparison between Argentina and Portugal

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Abstract

This paper aims to analyze financialized peripheral neoliberalism (FPN) as a specific form of neoliberalism. After presenting four different forms FPN can take and criteria to delimit them, its general characteristics are then examined. The paper highlights a common policy matrix, a similar model of production structures focused on financial accumulation, and a common formulation of international valorization processes. Comparing two countries that exemplify FPN (Argentina and Portugal), the above general characterization is corroborated. However, specificities in monetary regulation, international insertion and population regulation mechanisms are also observed, which give the model specific nuances important for analyzing crises and proposing alternatives for differently structured development policies.

Keywords: financialized peripheral neoliberalism; financialized economy; financial sector; monetary and exchange rate policy; degree of autonomy.

1. INTRODUCTION

This paper aims to make a comparative analysis between certain characteristics of the economic models preeminent in Argentina and Portugal during recent decades. But what is it that makes these two experiences comparable? The most intuitive connection might be musical: Amalia Rodrigue's ode to Lisbon and Amelita Baltar's umbrellas of Buenos Aires. Intellect makes suggestions that science does not accept. There are, however, other more academic issues which can be analyzed to produce for more interesting comparisons between the two countries, more significant even than the fact that, at the time of writing, proposals inspired by the Portuguese context are being considered in Argentina as a possible way out of the crisis.

First, the existence of recent time-lagged economic trajectories with striking similarities allows comparisons to be made. The trajectories of certain variables, especially of the productive matrix and several determinants of the aforementioned developments, have common features. Ultimately, then, we are dealing with models of a single category: the first section of this paper will argue that Argentina and Portugal are clear examples of the same variant of neoliberalism.

These countries therefore share some of the same development and macroeconomic problems, in turn generating common problems. Consequently, making a comparative analysis could be advantageous when seeking to design economic and political alternatives which provide long-term solutions to development challenges the current models face. This is especially true when the time lags present in cycles allow for the evaluation of problems and formulation of potential courses of action.

Just as *fado* and *tango* express similar sentiments while retaining their own distinct personalities, so do the Portuguese and Argentine economies and societies. Both models belong to the same matrix yet exhibit notable differences. This, however, does not preclude further investigation. A fruitful area of inquiry, for example, might be into the influence exerted by each respective form of foreign integration. Another might be to what extent the two exchange rate systems, which share a similar theoretical conception but differ in their technical aspects, produce different trajectories. Or perhaps, an investigation could be conducted into what influence each respective form of regulation has. This paper does not seek to altogether resolve or end the debates around the subject, but does formulate some hypotheses in response to the aforementioned problems.

Section 2 will engage with the various forms and variants of neoliberalism in an attempt to delineate how the specific respective configuration of economic policies of Argentina and Portugal fit into this theoretical paradigm, with both instances being categorized as belonging to the "financialized peripheral neoliberalism" variant. This specific variant will be analyzed in detail in the third section, which will also attempt to explain why Argentina and Portugal can be thought of as having a shared matrix. Following on from this analysis, the fourth section will describe the differences which exist between the two countries, despite both belonging to the same variant. The crises which the peripheral financialization model regularly experiences ultimately allow for some observations to be made, by analyzing the exit strategies via which, in special circumstances, both countries have attempted to transition away from crisis and could serve as pivots on which a change of model could be based.

2. NEOLIBERALISM AND ITS VARIANTS

Musacchio (2018, 2019a) has highlighted the immense variation possible within neoliberalism. Although it is possible to formulate a generic model constituting of a set of basic elements (Musacchio, 2012) which serve to make it a coherent category distinct from other models, there are idiosyncrasies within this designation which allow for the construction of more specific typologies defined according to the combination of two distinct factors. One is the morphology of the productive structure, especially on the relationships and ratios between the goods and service sectors, with the financial sector being particularly significant. The second factor is the extent of each respective country's internal autonomy, which can be used to calculate the productive structure's domestic modulation. We will examine these two questions in more detail later.

"Neomercantilism" vs. finance-driven accumulation

The morphology of the productive structure determines two significant variants of neoliberalism. Lapavitsas (2013, p. 201) correctly identifies that the first element needed to calibrate the relative importance of the financial sector is a distinction between real accumulation and financial accumulation. In an abstract sense, neoliberalism is the product of various transformations in the organization of the productive process and of the intensification of financial appreciation. Understood in this way, neoliberalism therefore combines both forms of accumulation. When analyzed in concrete terms at the national level, one form becomes predominant over the other and drives the accumulation process. This does not mean that the other form of accumulation disappears; it may still have a significant quantitative impact. However, it is qualitatively subordinated to or is dependent on the other form. Understood in this way, it is possible to distinguish between a production-driven variant and a finance-driven variant.

In the former, which we will refer to as neomercantilism, the modulation of the productive structure is driven mainly by the goods sector, especially the industrial sector. It is in this sector that the capital valorization process originates. Within a free movement of capital framework –a typical characteristic of neoliberalism– which stimulates competition between the geographical locations in which productive processes are based, there is a strong imperative to reduce costs, which, in turn, often causes reductions in wealth and capital tax reductions, as well as an increase in regressive wealth distribution. Lower tax rates have a negative fiscal impact, usually accompanied by reductions in public spending, particularly on social security. We can therefore see that production is accompanied by a contraction of the domestic market, which in turn produces the need for an export outlet. The actual outcome of this situation is a vicious circle between regressive distribution and competitive pressure, which exacerbates the situation.

Therefore, production and exports become increasingly entwined and, as the domestic market contracts, there is no longer stable growth in import rates, resulting in a growth in trade surpluses – hence the designation "neomercantilism". Given that imports increase as the domestic market contracts, the model contains only a small margin for growth and investment, resulting in the paradox of high profits and low investment. Resource accumulation shifts to the financial market, meaning that financialization is a consequence of the configuration of the productive apparatus (Huffschmid, 2008, p. 60).

In other instances, the main dynamic center is the financial sector. The central role of finance is the decisive factor in determining which sectors grow and which stagnate. The structure of production becomes "residual," which, in combination with financial dynamics, determines the pulse of the valorization process. Generally, this evolution is tied to speculative bubbles in securities or the real estate market, while public and private indebtedness processes form part of the structure of this process. The high short-term financial returns limit production space to activities with windfall profits (the only ones capable of competing with a rising bubble) and are usually accompanied by a comparatively high inflationary process.

Given that trade openness is the norm in neoliberalism, high inflation is the product of a revaluation of services which increases the value of the national currency, renders goods production uncompetitive (given that goods prices are determined by international market prices), and inflates foreign currency gains. Generally, then, "financialized neoliberalism" allows for a spasmodic growth driven by services, construction, and natural resources. Additionally, given that investors are reluctant to commit resources over the long term, (Bortz and Kaltenbrunner, 2019), slight changes in the trade cycle or in the strategies actors employ have a significant impact, resulting in high levels of volatility. The financial sector has a decisive role in both variants, as financial accumulation has a disproportionate amount of influence in the economy. While in financialized neoliberalism it dictates the process, in neomercantilism it is merely the result of weaknesses in the productive strategy, and productive sector dictates the process.

The question of relative autonomy

The second aspect which shapes the various forms of neoliberalism is a country's degree of autonomy. Although internal processes are always influenced by the international context, foreign actors, competitors' strategies, as well as the opportunities, challenges, and barriers produced by a specific form of labor division, the degree of autonomy varies significantly between individual countries. Where are the most important political economy decisions related to made? Who determines the relative price structure? Who monitors and guides spatial movement and the use of economic surplus?

History shows that –and the neoliberal phases does not constitute an exception to this trend– some nations have a significantly higher degree of autonomy than others and even manage to exert their influence over international bodies. International bodies then, in turn, implement policies which increase this disparity in autonomy.[1]

The degree of autonomy is not the product of an arbitrary distribution of power, but rather is linked to disparities between the development levels of productive forces and their structures. Having control of the technological, financial, and legal mechanisms that play a vital role in each stage of capitalism is as decisive as the methods of "persuasion" and violence.[2]

Several countries dominate the most important sections of the productive chain technological development process in key sectors for a fixed period. From this advantageous position, these countries are able to exert a controlling influence on the modulation of the productive structure, while others find themselves subject to regulation or having to carve out their own position in the division of labor imposed on them (see Mistral, 1986; Beaud, 1987).

It can be seen, therefore, that the disparities in autonomy between various countries allow neoliberalism to reproduce and widen the divisions between developed and underdeveloped countries. This subject has been attributed greater importance during recent years and categories such as centerperiphery and dependency-independency have been revisited, although not always with a satisfactory level of precision.[3] Irrespective of the categorization, a characteristic feature of underdeveloped countries is the emergence or intensification of resource transfer mechanisms: through debt servicing, profit remittances, capital flight -especially on the part of local elites-, privatization/transfer to foreign interests of collective property (especially immaterial intellectual property rights), absorption of environmental costs, or migration of the skilled workforce, in addition to traditional phenomena such as "unequal exchange" (Musacchio, 2018; Marcó del Pont and Todesca, 2019).

This characteristic results from financial liberalization and the radical opening-up of trade in a world of extreme mobile capital, and is one of the most important factors which accounts for the spatial concentration of income (complementary to functional concentration). The attempt to establish free trade agreements which make it difficult to reverse the opening-up of economies, financial liberalization, and the wide-openness of property rights, can also be vital factors in the equation.

Neoliberalism thus reinforces international resource transfers -in some novel ways and by reinforcing traditional ones-; the regulations and power relations produced result in the imposition of accepted standards in national policy design, rather than policy being formulated via the democratic process. In turn, both regulations and some macro-policies (such as fixed exchange rate regimes) drastically restrict policy implementation instruments. Both the establishment of such standards and the adherence to them illustrate the differences in autonomy levels of autonomy enjoyed by some developed countries in comparison to underdeveloped ones.

As in previous models, many of the instruments and policies considered unacceptable are those with the greatest potential to transform production structures and, therefore, capable of challenging existing relationships between countries at the extremes of the spectrum by developing productive forces. In other words, the application of certain instruments is inhibited so as to preserve the status quo and, therefore, existing levels of relative autonomy.

Differences in autonomy become clear when the debt problem is taken into account, as Wolf (2015, p. 177) demonstrates by comparing adjustment paths in the US and Europe. At the global level, the main debtor (U.S.A.) is much more powerful and therefore has more autonomy than the creditors (China in particular). In the Eurozone, by contrast, the main creditor, Germany, is more powerful than the debtors and can impose deflationary adjustment on other member states. As Wolf (2015) concludes: "the difference is simple: Germany controls the relevant central bank; China does not". The same phenomenon can be dealt with in different ways, depending on the room to maneuver that domestic policies have.

The conjunction of both problems and the four forms of neoliberalism

If the two criteria above (the finance-production relationship and the differences in autonomy) are combined, four main variants of neoliberalism are produced: (a) "central" neo-mercantilism (e.g., Germany, the Netherlands); (b) "central" financialized neo-mercantilism (e.g., the U.K.); (c) "peripheral" neo-mercantilism (e.g., Czech Republic); and (d) "peripheral" financialized neo-mercantilism (e.g., Argentina, Portugal) (see Table 1).

Table 1. Forms of neoliberalism

<table>
<tr><td></td><td colspan="2">- Production shapes the productive structure (PS).
- "Residual" financial accumulation.
- Exporting industrial economy.</td><td></td></tr>
<tr><td rowspan="2">- Coordinated productive structure.
- Internal modeling of PS.
- Net wealth recipient.
- Determinant of the "permitted" polices.</td><td>"Central" neomercantilism</td><td>"Peripheral" neomercantilism</td><td rowspan="2">- Incomplete and uncoordinated productive structure.
- External modelling of productive system.
- Systematic wealth leakage.
- External restriction regarding
- "permitted" policies</td></tr>
<tr><td>Financialized "central" neoliberalism</td><td>**Financialized "Peripheral" neoliberalism**</td></tr>
<tr><td></td><td colspan="2">- Finance shapes productive structure.
- Production determined "residually".
- Growth driven by the service sector and natural resources.</td><td></td></tr>
</table>

Source: compiled by the authors.

As is often the case with any schematization, the actual manifestations of these categories almost always exhibit a degree of hybridity. Nevertheless, one of the four variants tends to clearly predominate over extended periods of time in a given country.

These forms cannot exist without a network of international relations. For example, if a country maintains a large favorable trade balance, it must have its counterparts, i.e. trade partners with trade deficits which mirror these surpluses. These, in turn, are financed by debt which requires creditors who possess a lendable financial capital. In practice, the link is much deeper than a simple matter of current transaction balances and involves a more complex web of international relations and regulations than can be explained in terms of a dichotomy between development and underdevelopment. For this reason, this subject, absent from the debate for a long time, is once again gaining relevance, in works such as those by Álvarez et al. (2013);

Musacchio (2019b) or Coimbra (2017). This subject and its cycles, which were analyzed in broad strokes by Musacchio (2018, 2019a), will not be addressed in this paper, as this is not the present paper's objective. These considerations will be relevant, however, when seeking to understand the analysis of Argentina and Portugal, two examples of (NFP), which we will return to later.

3. BRIEF OUTLINE OF FPN AND INITIAL BASIS FOR A COMPARISON

FPN is a form of neoliberalism in which the financial sector shapes the economic process and in which national autonomy is ostensibly limited. Generally, it is associated with incomplete productive structures, with the industrial sector in particular being the most incomplete sector, something which reflects a dislocation within the productive system. Both the absence of vital production chain links and this dislocation have deeply-rooted historical causes,[4] which culminate in structural weakness and heavy dependence on decisions taken beyond the national borders. These characteristics become further entrenched on incorporation into the financialization process with little input of the terms of that entry.

This is not, of course, a stationary model, but rather a process that consists of two distinct phases: expansion and crisis. The expansion stage does not always witness uninterrupted growth and, even when it does, it is not necessarily the case in all other variables; employment, for example, ceases to grow; in fact, such variables can even fall in spite of the general growth. The volatility generated during the expansion stage usually produces, in the medium or long term, a crisis in the form of a collapse in the balance of payments.

In Argentina, three distinct phases of FPN can be distinguished: 1977-1983, 1991-2001, and 2015 up until the present day. The first of these experienced a brief boom, followed by a prolonged crisis beginning in 1980. The second saw a longer and more volatile boom, accompanied by a more acute crisis. In Portugal, on the other hand, two processes took place; the first covers the period from 1993 to 2002 (with a moderate boom until 1998 followed by a slowing down), with the second period lasting from 2003 to 2015. In the case of Portugal, it is difficult to speak of an expansion period as such, given the significant volatility of growth (Reis, 2018, pp. 89-90).

The expansion phase

The adoption of this model is normally brought about by a set of policies and deals which stipulate the terms of its implementation. The design of these processes i.e. the concrete make-up of specific programs which reflect permeability in the face of external demands does, of course, take place in the national sphere. Decisions are taken at the national level which organize the political elite, part of the economic elite, and a section of civil society in support of the program. Nevertheless, several domestic interests are realigned to external pressures in the service of the interests of developed countries, international bodies, and foreign private-sector actors. The process usually contains several contradictions and, as it involves a section of the economic elite, tends to exclude the remaining part.[5] This is a pertinent reality, as it undermines the hypothesis that the process of policy design is an inexorable or natural one which responds only to internal forces and important national projects.

In both Argentina and Portugal, the articulation between internal groups dedicated to financial appreciation, external economic actors, and international institutions’ decisive role in "persuasion" and design of the programs is clear. In Argentina, the IMF’s conditions are permanent and, in the 1991 program, entry into the Brady Plan for renegotiating foreign debt constituted a clear constraint on the country (Bazza *et al*., 2018, p. 137; Brenta, 2019, p. 133). The Brady Plan crystallized the adoption of the exchange rate anchor, financial liberalization, and trade opening, as well as a privatization scheme and an aggressive labor flexibilization program. The articulation between domestic sectors and internationally accepted "good practices" became even clearer in the next phase, which begins in 2015, when the influence of the IMF was much less decisive and the program was applied much less coercively, driven instead by a fraction of the domestic elite, led by domestic financial groups.

In Portugal, incorporation into the European Economic Community (EEC) was a delayed effect of the 1984 IMF agreement, but it also crystallized a dramatic shift in the strategy adopted by economic elites (Léonard, 2016, p. 199). First, the incorporation to the EEC and then to the Maastricht Treaty and finally to the Eurozone implied the adoption of a set of external regulations that impose a very strong adjustment on both economic policy instruments and autonomy levels.

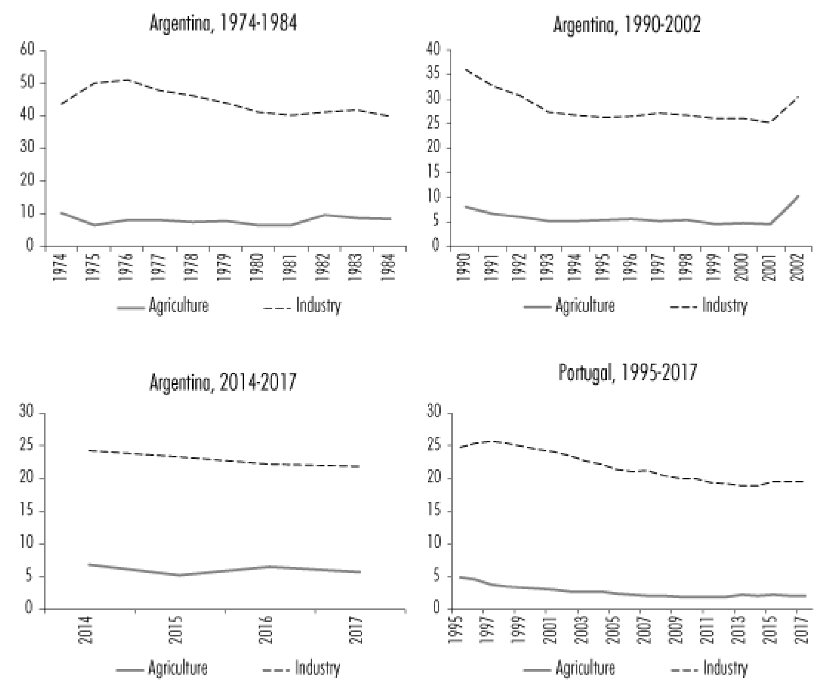
In general, the trigger is a stabilization plan which seeks to apply discipline at the national level via deeper integration with the international economy or a specific region.[6] The program includes the implementation or deepening of trade openness and financial liberalization, together with a monetary regulation that sets the nominal exchange rate, pegs the local currency to an external currency, or directly replaces the local currency with an external one. The logic of this "damned triptych" (trade openness, liberalization, and exchange rate anchor) is to subject the domestic economy to competition from abroad, in an attempt to equalize domestic and international inflation rates. The scheme, however, minimizes the role played by prices of non-tradable goods and services, those not subject to the disciplinary process and not conditioned by the predicted price path. Therefore, the immediate convergence of inflation rates is only a hypothetical possibility.

A quick look at cases such as Argentina, Portugal, Uruguay, Spain, and Greece confirms that inflationary inertia continues after the plan is implemented. The causes must, of course, be analyzed on a case-by-case basis, but two common characteristics can be seen: first, prices that are not disciplined by the "cursed triptych" increase, namely, those that are non-tradeable. This means that the relative price structure is affected by inflation, resulting in an increase in the price of non-tradable goods. Additionally, the exchange rate appreciates, producing a real revaluation of the local currency (or the equivalent, in the case of having adopted a foreign currency). Second, although several factors may contribute to the phenomenon of appreciation, the principal causes are the structural measures that typically accompany the "triptych", such as fiscal adjustments to reduce the deficit and which affect the tariffs of public services, or adapting tariffs so as allow state enterprises to be privatized. Additionally, the opening up of sectors previously dominated by public monopolies to private companies segments the market, resulting in fluctuations in prices. Strong finance and construction sectors also play a role in this process.

In this context, the specific kind of "exchange anchor" present plays a crucial role, as, although the financial sector is always at the center of the accumulation process, the configuration of monetary regulations determines the characteristics of the speculative bubble. Different regimes produce different outcomes, so different outcomes will result from a future exchange rate targets regime (Argentina 1978-1981); a convertibility regime with 100% foreign currency reserve coverage (Argentina 1991-2001), a floating exchange rate with dirty flotation (Argentina from 2015 onwards); establishing rules for monetary expansion, inflation, interest rates, and devaluation according to a regional average (Portugal 1993-1999); or the adoption of a single regional currency (Portugal in the Eurozone), as will be seen later.

The other side to this revaluation, as previously stated, is a change in the relative price structure, one which undermines the competitiveness of tradable goods in three ways: internally, in comparison to imported tradable; in export markets; and in comparison to the profitability of the financial sector, whose inflated profits act as a constraint on productive investment. In the long term, this results in a partial destruction of the productive apparatus in the tradable sector, especially in the industrial sector and in parts of the agricultural and fisheries sector. Only those sectors with extraordinary profits can maintain a stable position. The impact on employment is usually notoriously negative. Both Argentina and Portugal are clear examples of this (see Figure 1).

Figure 1. Agricultural sector and industry share in the economy (in % of GDP)

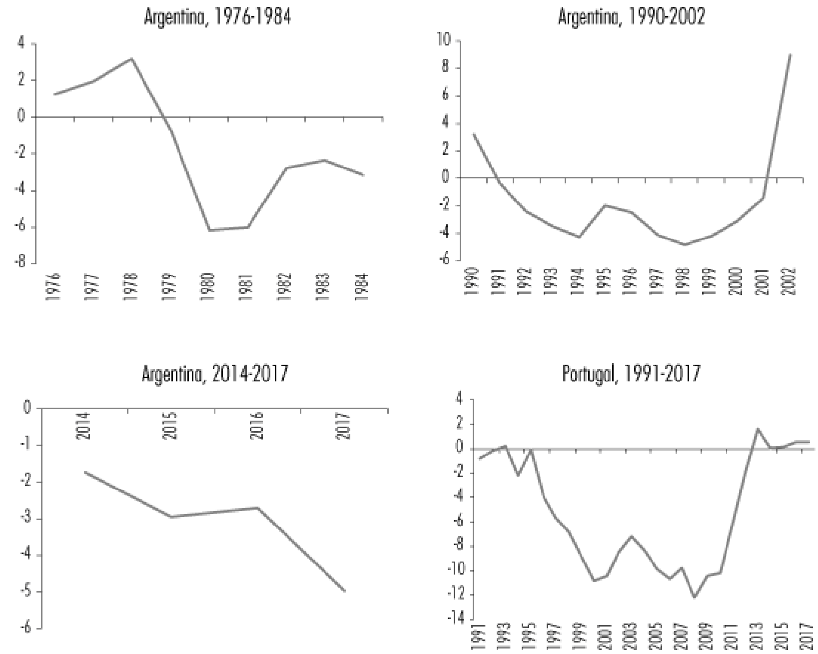


Source: Compiled by the authors using data from the World Bank (<https://databank.worldbank.org/source/world-development-indicators>).

The financial sector thus conditions the development of the productive structure from three angles: first, financial liberalization, especially the free movement of capital, creates disadvantageous conditions for domestic productive locations by opening them up to foreign competition. Second, productive sectors with "normal" profits that are, however, lower than those of speculative activities are unable to compete with inflated profitability of the financial sector. Finally, credit volume is invested in activities with high short-term profits, with no consideration for long-term sustainability.

Another characteristic, one related to the low level of accumulation which countries that adopt the model experience, is the heavy dependence on capital inflows needed to maintain the boom. Analysis of such situations makes it clear that the model is based on external debt. On the one hand, competitive conditions drive imports and obstruct exports, so that expansions usually produce debt-financed trade deficits. On the other hand, financial valuation conditions drive external capital inflows, often from emanating from the indebtedness of local actors. The combination of trade deficits, servicing foreign debt, and the systematic repatriation of profits from external investors or capital flight from local actors opens the way to growing current account deficits, also financed by debt, which are bound together in a vicious circle (see Figure 2).

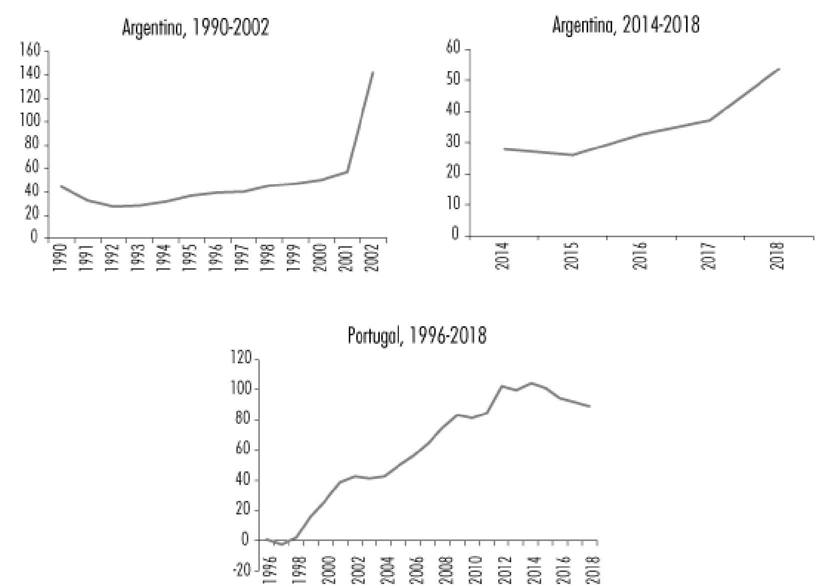
Figure 2. Current account balance (as % of GDP)



Source: Compiled by the authors using data from the World Bank (<https://databank.worldbank.org/source/world-development-indicators>).

Debt also dictates the pulse of the expansionary phase's duration: as long as it is possible to get into debt, the model will be able to reproduce itself on a larger scale. When external constraints, internal saturation, or the sum of imbalances restrict the capacity to borrow, the phase of exhaustion and crisis becomes inevitable. This is the case with Argentina after 1980, 1998 and at present. It is also the case with Portugal after the international and regional crisis of 2008 (see Figure 3).

Figure 3. Foreign debt levels (in % of GDP) Source: Compiled by the authors using data from the World Bank

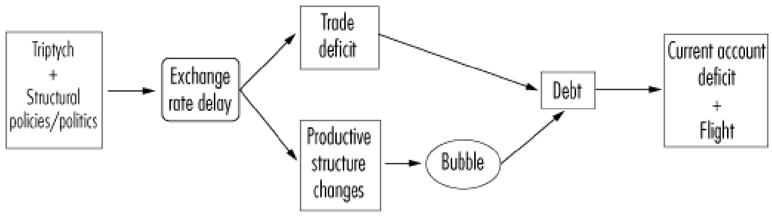


Source: Compiled by the authors using data from the World Bank (<https://databank.worldbank.org/source/world-development-indicators>).

Something that stands out in both cases is the difficulty they face in reacting to fluctuations and crises. Reis (2018, p. 90) highlights a tendency on Portugal's part that can also be observed in Argentina: adoption of the previously-mentioned exchange rate regimes resulting in the national currency being determined by external conditions, which leads to a loss of control over the cycle and over the capacity to react to external or internal shocks. According to Reis, the Portuguese economy (and NPF generally) is characterized by instability.

In reality, these difficulties in responding are related to a loss of autonomy, one incurred through the even more extensive annulment of the classic economic policy instruments. The "damned triptych" results in several instruments being abandoned, such as exchange rate policy, monetary policy, and tariff and para-tariff policy, and also introduces severe restrictions on fiscal policies. Incorporation to various regional agreements involves abandoning many instruments used to implement active policies (industrial policy, government purchases, and foreign financial and productive capital regulation). One outcome is a serious difficulty in using countercyclical policies to control the economic cycle and being able to respond to significant imbalances. Similarly, structural change policies are extremely limited, which makes it very difficult to escape the trap without drastic transformations in domestic policies and the terms of international insertion. However, the weakness created by NPF prevents, to a certain degree, against this kind of reversal (see Figure 1).

Figure 1. The expansionary phase of financialized neoliberalism



Source: Compiled by the authors

The crisis

While during the expansionary phase there is usually an inflow of capital, this trend reverses during the crisis. Without this inflow of capital, the trade and current account deficits cannot be sustained. Nor can the financial and housing bubble be sustained. The bursting of these bubbles curbs the process of speculative valorization and leads to a massive capital outflow. But since this outflow also includes the profits obtained, the flight far exceeds inflow, as it also includes the flight of local capital, thereby increasing the intensity of the crisis.

The private sector's high debt levels generated instability, not only internally but also among creditors, both for the countries of Southern Europe after the 2008 crisis and for Argentina at the beginning of the 1980s and 2000. Therefore, the solution -usually implemented during the period of crisis in NPF- consisted of a "final round of rescue credits". International organizations and creditor countries granted credits to the state, which was in charge of organizing the "orderly" exit of the big financiers and taking on a large portion of private debt. Thus, the debt was gradually nationalized, while foreign exchange was provided to the large local and foreign financial groups engaged in the process of capital flight. In general (and was the case in the analyzed cases), these rescue mechanisms are inaccessible to small debtors, who took on debt to buy a house or consumer goods, or else have made small speculative investments. In their inception, bailouts tend to be categorically asymmetrical and transfer the financial burden of the adjustment onto families and small businesses.

A fiscal crisis then ensues, as the state is crippled by the cost of servicing the debt, which necessitates a renegotiation of liabilities according to terms dictated by those who conduct negotiations on the creditors' behalf. Examples are the successive IMF programs for Argentina between 1982 and 1991, between 1998 and 2003 (Brenta, 2019) or the agreement made in August 2018. For Portugal, the 2011 adjustment program imposed by the Troika composed of the European Commission, the European Central Bank and the IMF (European Commission, 2011; Rodrigues and Adao, 2015) illustrates this same process.

Some shifts in international organizations' thinking and their periodic *aggiornamento* aside, programs generally share a common diagnosis and certain elements: they are imposed on economies experiencing high inflation due to monetary and fiscal causes, with high levels of debt which indicate a bloated state, accompanied by competitiveness problems caused by an excess of labor and pension rights. The trade and current account deficits, which could denote an excess of consumption, must also be factored in (cf. Bohoslawsky and Raffer, 2017). Thus, these programs impose the following: severe public spending cuts, especially in social and administrative areas; regressive tax reforms; cuts in wages and pensions; labor flexibilization; privatization of public enterprises; and market deregulation. The diagnosis and measures adopted tend to deepen the pre-existing distorted productive profile and serve only to engage with the epiphenomena in a delayed manner, as such policies actually aggravate many of the problems they are intended to address. Current account deficits are temporarily reversed, although this outcome is caused by underconsumption, which reflects the higher levels of poverty and unemployment.

What is remarkable is that, both in the expansionary stage and during the crisis, there is a structural wealth leakage, which is an intrinsic feature of underdeveloped economies and one that is accentuated in the neoliberal model, particularly so in NPF. The mechanisms used, however, vary from one phase to another. If the phenomena associated with unequal exchange persist over time, during the expansion phase the main axis becomes visible via examination of various current account items, such as interest payments on debt or profit remittance. In periods of crisis, meanwhile, leaks flow to the capital account in several ways: capital flight, outflow of investments increased by previous earnings, debt capital payments, and loss of reserves. Ultimately, this results in domestically-generated wealth leakages which flow from the local extended reproductive system and from the national space, thereby inhibiting the development of national productive forces.

4. SIFTING THROUGH THE DIFFERENCES

If the processes at play within the framework of NPF share a common root and set of characteristics, each specific manifestation of it presents significant local idiosyncrasies which affect both the form of financialization and the crises. Making a comparison between Argentina and Portugal allows us to scrutinize these differences, which is vital both to formulating exit strategies and alternative policies, as well as for restarting economic and social development. It is, however, beyond the scope of this paper to conduct a full systematic analysis of the differences. Instead, some specific and important problems will be addressed.

Three crucial aspects in which similar contexts can differ are the monetary regime, the pattern of international insertion pattern (these first two factors are related to one another), and regulation of the labor market. The differences produced by the monetary regime are clear. On three occasions, Argentina resorted to policies designed to fix the nominal exchange rate. The first attempt was the establishment of an exchange rate adjustment with pre-announced and decreasing devaluations, constituting an "exchange rate platter" based on a fixed and immovable exchange rate. The second instance was the introduction of a convertible currency with a legally-determined exchange rate and guaranteed with reserves 100% of the circulating currency. The third was softer, based on a variable exchange rate with dirty floating intended to curb devaluation pressures. In all three cases, however, the mechanisms employed were designed to modify or break away from the system without breaking international agreements.[7] This is in stark contrast with the Portuguese case, which introduced a foreign currency, issued by a regional central bank that determines exchange rates, monetary and exchange rate policies, objectives of monetary regulation, and the amount of currency annually available to each country.

These differences have practical implications for the expansionary phase of the cycle. In Argentina, the risk of unforeseen devaluations (exchange risk) and default (country risk) of the growing foreign debt coexist. This produces an interest rate differential which is positive in relation to reference rates. The domestic interest rate is thus a positive function of indebtedness and the appreciation of the real exchange rate. The fundamental axis of the resultant financialization is the direct financial market via carry trade: foreign credit is obtained at low rates (something generally only accessible to large local conglomerates or large foreign banks), currencies are exchanged into pesos, which are then placed in financial investments at the high and growing local interest rates (which, in addition, also absorb the domestic inflation rate). Attempts by the government to curb monetary expansion raises interest rates higher still, ultimately resulting in the state having to assume responsibility for payment. This creates a vicious circle of speculation, the duration of which depends on unpredictable and partly subjective factors such as market confidence or financial conditions abroad.

In the case of Portugal, two different stages are delimited. However, these are stages in a gradual process, rather than being sudden impacts, as is the case in Argentina. At the beginning of its first experience of FPN, Portugal had already gone through a long phase of gradual trade opening and financial liberalization within the framework of the EEC.[8] Moreover, unlike Argentina, the process was aided by regional assistance in the form of reconversion, infrastructure construction, and social impact mitigation programs. The crucial impact of Portugal's international insertion was clear from the outset. Within this updated framework, Portugal’s monetary system has gone through two distinct phases; the first began with the signing of the Maastricht Treaty, which maintained the escudo, but which limited the independence of domestic policies as convergence patterns become more rigid. The second phase saw effective entry into the Eurozone, completely eliminating Portugal’s monetary sovereignty. During the second stage in particular, the Portuguese government has been unable to adjust interest reference rates. In fact, even the country’s own economic dynamics have no bearing on how interest reference rates are set. Unlike in the case of Argentina, the absence of a local currency eliminates the exchange rate risk, while (especially until the 2008 crisis) the assumption that regional institutions guaranteed assistance in crises almost completely eliminated the risk of default. Thus, nominal interest rates did not differ significantly from the rest of the region (see Alexandre and Bação, 2014, pp. 86-87).

The financial sector, therefore, was not associated with outright speculation in securities, instead assuming on a more understated role. Higher inflation with nominal interest rates similar to the rest of the region reduced the real interest rate. For these reasons, private consumption was financed much more heavily than in Argentina, which meant that families became more deeply indebted. In addition, this fueled a housing boom in which credit for construction and home purchase played a key role, albeit supported by a public housing policy that Argentina lacked (cf. Rodrigues *et al.,* 2016). Thus, although the central features of the model are repeated (especially the exchange-rate lag and the remodeling of the production structure), the ways in which financial rents are obtained and the transmission mechanisms diverge from the general model (see Table 2).

Table 2. Scheme of similarities and differences

	Expansion	*Crisis*	*Alternatives*
Similarities	"Damned triptych"	Current account problems	Wage bill expansion
	Exchange rate delay	Forms of adjustment	Evolution of employment
	Production deformation	Regressive income redistribution	Greater autonomy in Economic policy
Differences	Debt	Nationalization of debt	Public investment
	Monetary forms	Interest rates	Exchange rate policy
	Labor market	Exchange rate management	Trade policy
	Fields of Financial Valuation		Budgetary policy
			Price adjustment

Source: Compiled by the authors

In Portugal, the more "friendly" general framework facilitated the accumulation of much deeper imbalances than in Argentina, due to the more relaxed regulation of the financial sector. Thus, while Argentina rarely exceeds a current account deficit of 5% of GDP, Portugal's current account deficit has exceeded 10%.

What "improves" the Portuguese model during the boom, aggravates the extent of the crisis. In principle, the model's crisis is associated in both countries with debt crisis, capital flight, and a breakdown of public finances. In both cases, agreements are quickly negotiated that facilitate the rescue of the private financial system and the transfer of debts to the state (cf. Brenta, 2019; Rodrigues and Adao, 2015). However, the differences are evident both in the immediate form of the crisis and in the medium- and long-term alternatives.

Portugal's crisis exit-strategy revolves around deflation, given that it cannot influence the monetary regime, meaning the exchange rate must be adjusted directly via its nominal variables, without affecting the exchange rate. In Argentina, by contrast, the crisis usually takes the form of an exchange-rate explosion, with a rapid transformation of relative prices and an adjustment of the real exchange rate. The possibility of abandoning the exchange-rate regime and recovering some monetary and exchange-rate policy instruments allows it, on the one hand, to make redistributive adjustments to real variables without involving nominal ones; it can, for example, reduce the purchasing power of wages even by increasing them nominally, absorbing into the political plane some of the social conflicts that such a measure causes. It is also possible for the currency to devalue in real terms, altering the relative price scheme, thereby going beyond the model's parameters and seeking to transition from crisis via greater quantity of and diversity in exports. It can also reclaim additional economic policy instruments, however there is no guarantee regarding their effectiveness in obtaining desired outcomes. These alternatives are not available to Portugal, unless it breaks its agreements with the European Union.[9]

The impacts on the labor market also need to be analyzed with some care, as here some significant geographical and historical characteristics have influence. Portugal has a long tradition of strong migratory flows. Therefore, the expulsion of labor from the system also leads to a population reduction and, conversely, many migrants return during the migratory phase. Unemployment rates therefore fluctuate less, while the current account benefits from family remittances sent by family members living abroad. All this makes it possible to moderate the impact of fluctuations in employment on income distribution. In Argentina, where there are lower levels of emigration, the impacts on unemployment and distribution are more noticeable. This is a unique feature of the regulatory mechanisms of both countries and one that produces appreciable differences.

5. HOW TO CONSTRUCT ALTERNATIVES?

The construction of alternatives is a challenge both countries share, as do all countries which have adopted NPF models. In general, each country must implement a specific policy which combines three general characteristics: a change in relative prices that repositions the (re)production of the material base; the containment of resource leakage and prevention of surplus drainage; and, finally, a development program which transforms the structure of the productive base. The challenge therefore consists of formulating a solid technical program which is sustained by a social constellation with sufficient power to impose change from the political plane; and finally, construct a discourse that legitimizes the process from a narrative perspective. Ultimately, it is a matter of at least partially reconstructing autonomy, a process that becomes manifest in the process of reclaiming economic policy instruments. This is, of course, a challenge that implies not only changes of a technical nature, but also socio-political changes.

Seen in this way, the comparative experiences of Argentina (between 2002 and 2015) and Portugal (since 2015) are, once more, points of interest. Both experiences demonstrate that both the model and the form of international insertion allow for a margin of room to maneuvering in which to develop alternative projects. They also show that there are internal margins, even among the dominant classes, to socially and politically reorganize, in an albeit precarious way. From a technical perspective, both experiences demonstrate that a point of support in the medium is to reconstruct the bases of growth based on an expansive policy supported by progressive income distribution and the recreation of the states' role, both in the gestation of the macro-economic framework and in the development of the social and political system, as well as in regulation and induction through public investment. The two experiences show that breaking the dependence on resorting to taking on fresh debt is crucial. This implies sustaining a certain fiscal and current account balance, which is usually called "the twin surpluses". Within this framework, the lesser degree of institutionalized monetary restriction and of international insertion gives Argentina much more room for maneuver, particularly in respect to the direct control of the surplus drainage, achieved via restrictions on the free flow of financial capital or foreign investment controls. With less flexibility in this regard, Portugal has recently managed to take advantage of lacunas in the EU to escape highly orthodox policy models.

The Argentine experience shows, however, that, in the long term, the lack of technical consistency in policies can strengthen the recreation of the political bloc pushing for a return to the previous model. For Portugal, this challenge is doubly difficult, since the long-term transformation objectives can only be achieved within the framework of EU policy changes or by breaking with the Eurozone, a path that may, both technically and politically, be too difficult. In each case, it quickly became apparent that it is easier to restart growth than to articulate a real development policy, as this requires an accurate diagnosis of internal shortcomings, an explicit planning process, and politically sustainable alternatives.

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[1] There is an extensive literature on this subject. For further reading, see van der Pijl (2006, 2014)

[2] Who determines international legality? Analysis of the construction of institutions such as IMF or the WTO reveals the dominant role played by the major powers, whose influence on the formation of the global or regional economic order has increased significantly. For further reading on the case of the IMF, see Block (1977).

[3] See Becker and Jäger (2012); Gambarotto and Solari (2015); Reis (2009).

[4] An analysis of the historical roots of the problem in the case of Argentina can be found in Rapoport *et al*. For Portugal, see Reis (2018).

[5] In the case of Argentina, the confrontation between sectors associated either with the financial model, neo-mercantilist model, or the domestic market has been discussed frequently. See Azpiazu and Schorr (2010).

[6] This implies economies with an inflationary process which is of a higher than average intensity.

[7] That is why the most radical proponents of the model proposed dollarization. Many foreign companies understood that the abandonment of convertibility in 2002 violated the investment protection regime and sued the country at the ICSID. Overall, the plaintiffs were successful.

[8] There were debates at the time about whether a simultaneous program of opening, liberalization, and monetary rules should be imposed, or whether these should be done in sequence, as McKinnon and Mathieson (1981) suggested. The debates incorporated a comparative analysis, using Argentina and Spain as case studies (García Ruiz, 1992).

[9] Some economists believe it is possible to abandon the exchange rate regime without repudiating the rest of the regional agreements (cf. Louçã and Ferreira do Amaral, 2014). However, an exit that does not abandon the free mobility of capital would be a complicated process, to say the least. For a comparison between the degrees of freedom entailed in both types of exit from exchange-rate and international regimes for the cases of Argentina and Greece, see Musacchio, 2012.