

Successful industrial policies without state capacities? The "impossible" case of the province of San Luis in Argentina

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Abstract

This article shows how a state without a qualified bureaucracy or embeddedness in the private sector can achieve the transformation of its productive structure by means of a bureaucratic bypass. This consists of the informal delegation of bureaucratic competencies to a non-institutionalized agent in order to perform tasks that the state apparatus does not have the capacity to carry out and, in this way, promote the arrival of investments in its territory. Since tax relief policies and tax advantages for the relocation of companies are a constant throughout the world, the use of these extra-bureaucratic tools can be used as a way to promote economic development in disadvantaged territories. In the case of Argentina, these policies were channeled through a regional industrial promotion regime that granted subsidies to relocate firms in economically depressed provinces. To test the argument, we show, by means of process tracing, how the government of a peripheral province transformed its productive structure in a period of ten years (1982-1992), by locating a huge number of industries in its territory bypassing its public administration.

keywords: Subnational public policy- Territorial development- Subnational political economy.

1. Introduction

In a region characterized by multiple inequalities, Argentina -a federal country-¹ stands out for one particular aspect: it has the highest inequality among provinces of the five largest countries in Latin America. Such is the difference that the province with the lowest product in the country has a GDP per capita almost ten times smaller than that of the richest². As a result of different agreements between

¹ The Argentine Republic is a Federal State made up of 23 Provinces and the Autonomous City of BuenosAires, which fulfills the constitutional function of being the Capital of the Republic. Each Province constitutes an autonomous state that exercises all the power not expressly delegated to the nation and has legislative powers in the terms established in their respective constitutions in which they expressly state their adhesion to the Republic, has its own constitution, laws, authorities, forms of government, although this must first conform to the laws and the national constitution.

² Retrieved February 2020, Cash supplement, available at: <https://www.pagina12.com.ar/191629-al-amigo-todo>.

provincial and national governments, over the years and with different emphasis, tariff, financial and tax incentives were granted to at least lessen these ostensible territorial imbalances. This was channeled through a regional industrial promotion regime, through which capital subsidies were granted, under the assumption that the establishment of new productive enterprises in the less developed provinces would be achieved by increasing the internal rates of return-on-investment projects.

Thus, through the regional industrial promotion regime, a productive decentralization policy was implemented to help economically underdeveloped provinces in order to improve employment and reduce concentration tendencies. This general system of fiscal incentives was extended from the early 1980s in the Argentine provinces of Catamarca, La Rioja, San Luis and San Juan. Although industrial promotion had important effects in all provinces, in San Luis the changes were of such magnitude that the province managed to transform its productive structure. Between 1983 and 1991, the province's economy grew by 227%, at an average annual rate of close to 30%, and the industrial sector still represents more than 50% of its Gross Geographic Product (GGP). This increased three times its participation in the national economy and surpassed the national average of per capita product³.

The classic political economy literature has highlighted two important conditions for effectiveness in the implementation of public policies for economic development. First, bureaucracies with highly selective meritocratic hiring and long-term career rewards have been shown to create commitment and a sense of corporate coherence that decisively influence the economic growth of states (Johnson (1982), Nordlinger (1987), Amsden (1989), Schneider (1999), and Kholi (2004)). Second, the idea of embeddedness (Evans, 2012) points out that formal and informal links between the bureaucracy and the private sector facilitate the flow of information between the two and allow the establishment of credible mutual commitments. Thus, the idea of embedded autonomy synthesizes the need for the state's ability to set goals and mobilize resources with the role of the private sector in the organization of the productive process.

None of the numerous studies carried out to investigate the general effects of the industrial promotion program have reported the existence of concrete application of the ideal type of a rational Weberian bureaucracy in the beneficiary provinces⁴.

³ (ECLAC, 2003).

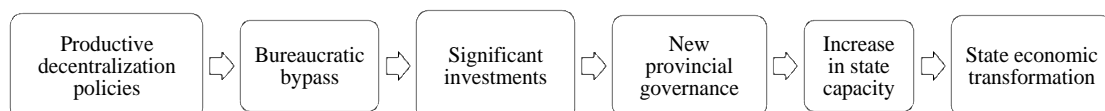
⁴ Azpiazu, 1989; ECLAC, 1989; Consejo Empresario Mendocino, 1999; Eaton 2003; Gutman, G., Yoguel, G., Gatto, F., Quintar, A., & Bezchinsky, G. 1988; Borello, 1989; Sawers and Massacane, 2001; Schvarzer 1987); Borello, 1989; Sawers and Massacane, 2001; Schvarzer 1987), and of the San Luis case in particular (Behrend, 2011; Bianchi, 2016; Chávez, 2003; Gervasoni, 2009; Giraudy, 2010; Guiñazú, 2003; Mera, 2016; Niedwiezcki, 2016; Karamaneff and Salvia, 2019; Samper, 2006; Trocello 2008).

On the contrary, it is pointed out that control of the state organization was concentrated in a small group of personally related individuals and there were no meritocratic hiring patterns or predictable professional careers for bureaucratic personnel. Based on this, this research tries to answer: how does a province that lacks qualified bureaucratic resources and embeddedness with the private sector manage to transform its productive structure?

This is based on the hypothesis that both bureaucratic capacity and embeddedness with the private sector can be substituted - in the first stage of the development process - by means of a bypass to the public administration. The concept of bureaucratic bypass refers to the informal delegation of competencies to a non-institutionalized agent for the purpose of performing tasks that the state apparatus has no intention or capacity to carry out. This is because in the absence of a coherent and self-oriented type of administrative structure, the personal ties of non-bureaucratic agents constitute a source of cohesion that makes it possible to reduce information and transaction costs in the fulfillment of certain objectives. The centrality of external links suggests that bypass efficiency arises not only from the technical capacity of informal networks, but also from the complexity and stability of their interactions with market agents.

This implies that states without a rooted autonomy can implement investment attraction strategies that do not require a Weberian bureaucracy -in a first stage- but a combination of political decision and the pragmatic use of extra-bureaucratic resources. This is because, given their close links with the business world, the private agents of the network provide the process with reliability, predictability, minimum guarantees of competence and commitment, making relocations look less risky for the business community. In this sense, the articulation derived from the use of the bureaucratic bypass favors the fluidity in the link between the governing elite, the management personnel of the established companies, the state contractors and the entrepreneurial class that emerges under the stimulus of new investments. In view of this, the need to comply with the demands of this new governance increases the capacities of the state - through administrative reorganization and the creation of specialized bureaucracy - to streamline procedures and provide the necessary infrastructure for the process of productive transformation.

Figure 1: Causal mechanism



Using the "*process tracing*" technique, the first stage of industrial promotion in San Luis (1982-1992) is traced in order to show how the implementation of the bureaucratic bypass explains the differential in the number of industrial establishments in this province. For this purpose, after this introduction, the theoretical framework is presented in the next section. In the third section, the concept of bureaucratic bypass is developed. In the fourth, the industrial promotion regime is characterized and, in the fifth, the case of San Luis is presented. Finally, the sixth section contains the preliminary conclusions of the research

2. Theoretical framework

This research starts from the assumption of the existence of an area of intersection between economic and political elites, specialized in connecting the spheres of the state world and the business world. This assumption is linked to the concept of public-private circulation (Adolph, 2013; Hecló 1988; Maillet, González Bustamante and Olivares, 2017), which implies that certain groups of individuals develop their working careers between the state and the private sector. Generally, the literature (González-Bustamante, Maillet and Olivares, 2016; Canelo, Castellani and Gentile, 2018) analyzes the benefits for the private sector of access to the government, but does not usually consider the use that some governments may make of the same phenomenon. Therefore, the idea of public-private circulation is a starting point to analyze the various possibilities of interaction between the two spheres, establish hypotheses that explain it, incorporate the temporal dimension of the different processes and empirically address, through the reconstruction of the link, the scope and magnitude of the phenomenon.

Following this theory, public-private circulation can help mobilize economic capital since the actors involved move naturally and safely in several worlds simultaneously, while thanks to the control they exercise over the knowledge of these worlds they have the ability to mediate between them and maximize their position. Given that knowledge as a power resource is not neutral and is used as one of the most important inputs for the production of society itself (Savage and Williams, 2008), these are expert professionals who can mobilize knowledge and normalize visions.

On the one hand, these individuals have the experience, i.e. they have inside knowledge of the operations of private companies and can better guide the strategic action of governments that must be governed by their actions. On the other hand, they have the know-how, the accumulated knowledge of processes,

criteria and standards that are key when thinking about the possible relocation of an industry. Finally, these individuals bring with them a set of contacts or social capital, i.e., other individuals to contact, consult or hire in the future to receive timely and efficient advice on how to guide the government's actions towards the business community

In this sense, it is the access to the business elite, the sense of common belonging, the ability to conform to the canons, which configures a zone of interaction that, in turn, is codified and sold as a service. It is therefore useful to take a look at how certain individuals constitute key pieces of the map of power in a society.

To this end, the aim is to find the relevant criteria to distinguish, within the elites, those groups that are in charge of connecting the spheres and, in this way, increase the probabilities of obtaining concrete benefits from these connections.

This circulation and its potential exchanges were always analyzed from a business perspective, in the sense of how the private sector sought to influence the decision-making processes of the public administration. Probably the most recognized case is the so-called "revolving door" phenomenon, which refers to the passage of some people through high positions in the public and private sector at different times in their careers. Canelo and Castellani (2016) point out that it can occur in these directions: a) senior managers in the private sector who access relevant positions in the public sector (entry revolving door); b) civil servants who, upon leaving their public position, are hired by the private sector to occupy managerial positions (exit revolving door); or c) individuals who occupy senior positions in the private and public sectors alternately (recurrent revolving door).

Is it possible for a similar phenomenon to occur, but guided not by business or by the interests of groups of private individuals, but by state authorities? Is it possible for governments to resort to a similar strategy and use these services to oil the link with businessmen? Is it possible that, in the absence of a competent bureaucracy rooted in the private sector, the link with businessmen could be promoted through alternative channels? Based on these questions, the concept of bureaucratic bypass is developed in order to respond to these concerns.

3. *Bureaucratic bypass*

A bypass is an informal delegation of bureaucratic competencies to a non-institutionalized agent for the purpose of performing tasks that the state apparatus does not have the capacity to carry out (Karamaneff, 2021). This is because in the absence of a coherent and self-oriented type of administrative

structure, the personal ties of such agents constitute a source of cohesion that makes it possible to reduce information and transaction costs in the fulfillment of certain objectives. In economic development, in the absence of a bureaucratic structure that establishes regular links with the private sector, the informal interaction of these agents with the business community is encouraged through particular channels.

Given that some governments do not always have the optimal resources to implement an effective policy for economic development (qualified bureaucracy rooted in the business sector), the governing elite finds an alternative for the implementation of a policy of their interest in these private sector intermediaries. Government leaders turn to these individuals or organizations with the objective of articulating resources (information, contacts), influencing business action and facilitating agreements between the two sectors. These intermediaries have higher levels of training, -generally consulting, legal, accounting and/or financial firms- and maintain close links among themselves and with the political leadership (coming from the same elites and professional networks), which allows them greater levels of fluidity in the coordination of actions.

These intermediary structures are, at the same time, political and operational because they can influence the decisions of the entrepreneurs on the location of their companies, the decisions of the government on the sectors and/or entrepreneurs to be encouraged and, at the same time, provide material support and information on the economic, political and/or productive conditions of the province or the sector involved.

In addition, these individuals or organizations are not usually paid directly by governments, but their economic incentives are provided by the sale of their specific services - accounting, legal and/or financial - to the business sector when they relocate or by non-legal funds. On the other hand, in material terms, these retributions are usually higher than the potential income of a public administration salary, so that the interest in formally joining the bureaucracy is not an incentive (at least not in the first instance). Thus, the incentives for their involvement lie in the (private) economic interest of these groups of intermediaries and the profits they obtain from the relocation processes.

On the other hand, given that they require the subsequent approval of political leaders for administrative procedures or to continue operating with new relocations, the concern of each intermediary for what officials think of him leads to greater adherence to behavioral norms. In this sense, the mobilization of investments allows the formation of stronger links with the business community, improving communication and, therefore, government effectiveness. This generates a sense of commitment to the goal of attracting more investments and an "esprit de corps" that promotes and reinforces the good performance of this network.

Therefore, this investment attraction policy does not require -in its first stage- a Weberian bureaucracy but a combination of political decision and the pragmatic use of extra- bureaucratic resources. This is produced by the formation of an informal network of professionals who, in the first instance, function as connectors between a small group of senior officials and the owners and managers of companies. In this sense, given their close links with the business world, the network operators provide the process with reliability, predictability, minimum guarantees of competence and commitment so that relocations appear less risky.

The use of the bypass makes up not only for the lack of a Weberian bureaucracy but especially for the embeddedness that is lacking in a state apparatus without any tradition or closeness to the private sector. In this way, the use of informal networks allows it to condense bureaucracy and embeddedness while autonomy is preserved by the government by reserving the general orientation of the process. In this sense, the centrality of external linkages suggests that the effectiveness of the bypass arises not only from the technical capacity of informal networks, but also from the complexity and stability of their interactions with market agents.

However, this does not imply that the state does not require the formation of a Weberian bureaucracy, but rather that some specific functions are temporarily substituted in the absence of certain bureaucratic capacities. At this point, the key factor in determining the correct functioning of the bypass is given by its temporariness: once established, the dense networks of connection without a solid internal structure would leave the state incapable of solving collective action problems, of transcending individual problems and the individual interests of its private counterparts.

Therefore, the bypass cannot be extended in time, but functions as an efficient instrument for the search and attraction of industrial capital accumulation and then transforms itself to address the problems and opportunities generated by the success of its operation. The arrival of investments can function as an engine that puts the state into operation, creating or streamlining public structures capable of providing the goods and services necessary for the development of the new economic matrix.

At this point, the use of the bureaucratic bypass promotes the creation of an alternative route in which coordination is facilitated between the local governing elite, potential investors and -once settled- the management personnel of the companies, state contractors and the entrepreneurial class that emerges under the stimulus of public and private investment. In other words, on a temporary basis and with the political direction of an autonomous government, a bureaucratic bypass can facilitate the formation of a network of collective actors with the political, social and economic sustainability necessary for the productive transformation of a state without Weberian bureaucracy and embeddedness with the business community.

4. The industrial promotion regime

The regional industrial promotion regime was a productive decentralization policy in Argentina by which assistance was provided to economically underdeveloped provinces with the purpose of improving employment and shortening concentration trends. Despite successive regulations and modifications⁵, the general system of tax incentives was extended from the early 1980s until the end of 2012 in the provinces of La Rioja (Law No. 22,021/79), San Luis, Catamarca (Law No. 22,702/82) and San Juan (Law No. 22,973/83). Among the main promotional benefits provided for in the regime and its amendments are:

1. Income tax deduction and/or exemption;
2. The exemption from tax on corporate capital and assets incorporated in the patrimony;
3. The release (on a sliding scale) of value added tax (VAT) on sales to the domestic market;
4. The release (on a decreasing scale) of VAT for companies supplying raw materials, inputs or goods for use to companies benefiting from the regime on sales made by them to the latter
5. Exemption from payment of duties or other taxes on imports for the purchase of capital goods, tools and components of such goods;
6. The possibility of deducting the taxable amount from income tax or deferring the payment of taxes by investors in beneficiary companies (a benefit that was later discontinued).

By virtue of the fact that they received the full benefit of investment incentives, but the cost was spread over the rest of the country, industrial promotion opened a real window of opportunity for the economic development of the promoted provinces⁶. At this point, the bureaucratic bypass was the possible alternative in provinces without qualified public administrations or embeddedness with the private sector since -in the absence of a coherent and self-oriented bureaucracy- the personal ties of the private operators constituted a source of cohesion that allowed reducing the information and transaction costs in the fulfillment of the objectives established by the political leadership of the provincial government.

⁵ The legal framework that supported the industrial promotion regime was the "Historical Reparation Act". Then, through Decree 1125/96 it was established that the benefits for deferred implementation projects would expire in 2005 but a year later, Decree 69/97 extended this time limit until the end of 2012.

⁶ Under the federal co-participation regime in force in the country, the province acting as enforcement authority granted federal tax benefits -reducing the income available to the National Treasury and that of the rest of the provinces- while favoring the location of investments in its own territory. In this way, the promoted provinces received the full benefit of the investment incentives, but the cost was spread over all the provinces.

5. The case of San Luis

Although the four provinces experienced important changes derived from the implementation of the industrial promotion regime⁷, the data on the fiscal cost of the promotion show that the four promoted provinces concentrated 98.0% of the regional incentives granted in the country and that, among the four, San Luis managed to capture almost 70% of those benefits (see Table 1). Prior to the tax incentive regime, the economy of San Luis was characterized by the clear predominance of primary activities (agriculture and livestock) and, within them, of cattle raising in particular. Industry, on the other hand, showed very little diversification in terms of the branches that accounted for the bulk of employment and production. Before the implementation of the promotion regime, the manufacturing industry represented less than 15% of the province's GGP and, within it, the production of food, beverages, tobacco and non-metallic minerals accounted for 50% of the establishments, 70% of employment and 85% of the production value. The rest of the branches had a very small weight and completed a provincial industrial structure that appeared rigid and scarcely diversified (see Table 2).

In this sense, the transformation of San Luis was of such a magnitude that the province changed in more than one aspect. In the first place, it modified its economic structure to the point that the industry in San Luis today shows a considerable degree of diversification, ranging from the processing of agricultural products to industrial manufacturing with a higher technological content and levels of industrial wage employment well above those of the main urban centers of the country (Karamaneff and Salvia, 2019). Secondly, industrial promotion gave the provincial government control of material and symbolic resources to expand its power base, be reelected for five consecutive terms and project itself nationally (Behrend, 2011). Based on this, the literature reduces the explanation for the success of San Luis in attracting the bulk of investments to two options: the conditions derived from its geographical location and the political and institutional framework of the province.

Those who support the geographical argument (Bianchi, 2013) argue that, although promotional incentives played a key role in the localization of industrial activity, the fact that the province has received a greater number of productive projects -and most of those with an export orientation- was determined by its strategic location. This is due to the fact that San Luis is located in the geographical center of the Bioceanic Corridor that links the port of Buenos Aires with the port

⁷ On average, in Catamarca, La Rioja and San Juan between one hundred and three hundred projects were represented, while in San Luis more than one thousand were presented (National Ministry of the Interior, 1996). Between 1983 and 1991, the province's Gross Geographic Product (GGP) grew by 227%, at an average annual rate of close to 30%, and by the end of the 1990s it was still receiving -on average- three.

of Valparaíso (Chile) and, at the same time, it is closer to the main centers of domestic market consumption in the country. These same studies (Bianchi, 2013; Sawers and Massacane, 2001) also assured that the sole purpose of the installed companies was to collect tax benefits and that, once the subsidies ended, the factories would move again⁸.

The alternative argument is that the fluidity of the link between local authorities and the business community that settled in the province was the explanatory variable of the productive transformation of San Luis. This is because industrialization from above favored the articulation between the local ruling elite and the management of established companies, state contractors and the entrepreneurial class that emerged under the stimulus of public and private investment (Guiñazú, 2003). Unlike the other provinces, the government of San Luis Potosí carried out an administrative reorganization - which included the creation of a specialized bureaucracy - aimed at streamlining procedures and facilitating the access of businessmen to local authorities⁹.

However, none of the arguments can fully explain the success of San Luis in attracting most of the investments because they leave aside a key actor in the process: the business community. The decision to move assets and relocate to another province is not a reflex action in response to a fiscal stimulus, but requires a planned action. If the criterion for relocation was proximity to consumption centers, the geographical explanation does not consider why, given the existence of multiple industrial promotion regimes throughout the country -even in areas and provinces closer to major consumption centers-, San Luis has been more successful in attracting industries. Why not use other industrial promotion benefits and continue where they were located or relocate to closer places? If the answer is that the benefits were greater in the four promoted provinces, it is understood that the installation costs, the training of new workers and, fundamentally, the freight costs would have compensated for this.

⁸ In previous studies (Karamaneff and Salvia, 2019; Karamaneff, 2019; Karamaneff, 2021) this argument was tested and the results of such research show that, once the industrial promotion in San Luis ended, there was an increase in the number of industrial wage earners in the order of 13% and that in addition -five years after the end of the regime- there was a 30% higher probability of being an industrial wage employee in San Luis than in the rest of the country. This was due to the fact that, in addition to the advantages of a strategic location and the benefits of a local government that responded to its interests, the costs of moving and locating factories that had already been installed for some years reduced the incentives for businessmen to leave the province of San Luis. Thus, it is evident that the promotional mechanisms allowed not only the decentralization of productive activities to areas of lesser relative development, but also that, once the benefits were over, the companies reached a level of competitiveness that allowed them to remain in the province.

⁹ The paradigmatic example was the Ministry of Industry -created by Law No. 4524/83-, which played a key role in the promotion of industrial investment and the reorganization of the Public Administration personnel -decree No. 1085/94- which, among other modifications, established the competitive entry to the administrative career.

On the other hand, the thesis that success was the formation of a coalition between the local ruling elite, the management of the established companies, state contractors and the business class makes sense for a later stage, when the settlement had already taken place. This approach does not explain why most of the investors located their industries in St. Louis, but what happened after they had settled. Given that the construction of this coalition first required the attraction and establishment of investments, this argument could explain the sustainability of the model, but not its origin.

Since they received the full benefit of investment incentives, but the cost was spread over the rest of the country, industrial promotion opened a real window of opportunity for the economic development of the promoted provinces. The government of San Luis took advantage of this opportunity by implementing a strategy different from that of the other provinces: it *bypassed its own* bureaucracy and outsourced, in an informal manner, the search for investment to a group of private actors. In a generalized framework of institutional weakness and policy instability (Levitsky and Murillo, 2009), which was accentuated by the democratic transition, the strategy of attracting companies required haste because the duration of the delegation of the enforcement authority was uncertain. In this context, the province did not have a highly qualified bureaucracy or a sufficient level of rooting with the private sector to promote the arrival of companies¹⁰.

Faced with this situation, the government decided to informally outsource the search for investments to private actors -usually law/accounting firms- that constituted real non-institutionalized networks of intermediation with businessmen. These operators offered the quick management of the settlement decrees and showed the benefits that, in addition, they would bring by locating in a province with a strategic location, namely: the possibility of hiring workers with lower levels of unionization, the direct link with the provincial authorities, the low or null imposition of local taxes and the provision of the services and infrastructure necessary for the installation of their factories. This outsourcing of the search for investors was done both to make up for the scarce technical capacity of the local bureaucracy and to take advantage of the close link that -due to the characteristics of their activities- these operators had with the business community. Operating outside the bureaucracy also offered other incentives, such as the sale of the establishment decrees¹¹, speeding up the arrival times of

¹⁰ On the bureaucracy in San Luis, see Samper (2006).

¹¹ Accusations that were never proven in court were brought against the alleged illegal practices supported by the provincial government. Government officials and operators were continuously accused of selling decrees, which meant soliciting money for the legal approval of industrial projects. In other words, selling what should not be sold and granting legal authorization to industrial projects without proper inspection (Guiñazú, 2003).

industries and not expanding the state's administrative staff in times of budgetary restrictions.

At this point, the alternative of *bypassing* the bureaucracy and outsourcing the search for investments became feasible. Given that the operators of the informal networks were service providers for the businessmen (through their law and accounting firms), outsourcing also functioned as a sort of insurance -for the industrialists- of the fulfillment of the commitments assumed by the government: infrastructure, non-predation with local taxes, assistance and administrative facilities in the establishment. This outsourcing implied that a group of private actors -generally lawyers and accountants from firms linked to the new government- would carry out the search for investments and the subsequent coordination with the provincial authorities in order to obtain the settlement decrees and the tax benefits granted by them. In this sense, the articulation with the intermediaries enabled a game in which the businessmen obtained the settlement decrees and the commitment of the authorities to comply with the necessary demands for their installation in the province, the provincial government obtained -at a very low cost- new investments in its territory and the legal-accounting firms obtained new services to sell to the companies with the elaboration of the projects.

On the other hand, the use of the bypass made up not only for the lack of a Weberian bureaucracy, but especially for the embeddedness that was lacking in a state apparatus without any kind of tradition or closeness to the private sector. San Luis was a province characterized by a clear predominance of primary activities (agriculture and livestock) and industry was practically non-existent (Morina, 1989, Guiñazú, 2003). Thus, the use of informal networks allowed it to condense bureaucracy and rooting, while autonomy was preserved by the government, which reserved the orientation of the process and the final decision on the approval of settlement projects. In this sense, the centrality of external links suggests that the effectiveness of the bypass arose not only from the technical capacity of the informal networks, but also from the complexity and stability of their interactions with market agents.

Successful industrial policies without state capacities?

Table 1: Share of the provinces in the total "notional fiscal cost" of the regional tax incentive system, 1980 - 1988 (%)

Province	1980	1981	1982	1983	1984	1985	1986	1987	1988
Catamarca				0,2	2,0	6,5	7,3	6,7	8,7
La Rioja	1,0	3,9	12,0	10,1	15,6	11,7	9,4	7,7	10,0
San Juan					0,4	4,3	7,5	5,8	9,9
St. Louis				0,6	12,0	36,0	39,4	59,3	69,4
Four provinces	1,0	3,9	12,0	10,9	30,0	58,5	63,6	79,5	98,0
Remaining provinces	99,0	96,1	88,0	89,1	70,0	41,5	36,4	20,5	2,0
Total	100	100	100	100	100	100	100	100	100

Source: Secretarías de Industria y de Hacienda, reproduced in Diario de Sesiones de la Honorable Cámara de Diputados de la Nación, May 17, 1988, p. 272.

Table 2: Evolution of the geographic gross product in San Luis, 1980-1990 (%)

Sectors	GGP by sector (%)	
	1980	1990
Agriculture and livestock	25,1	4,4
Mining	11,2	2,1
Industry	14,7	63,7
Utilities (water, gas and electricity)	1,6	0,9
Construction	11,1	3,5
Trade	13,4	4,5
Transportation and communication	3,2	2,4
Financial	0,2	9,4
Public Administration	19,5	9,2
Total	100	100

Source: Federal Investment Council. Directorate of Statistics and Census of the Province of San Luis. Statistical information notebook N 9, 1995.

6. Investment raising and investment placement

In December 1982, although the de facto government of San Luis already had the authority to apply for the projects, the military authorities of the province adopted a conservative strategy in which they hoped that the tax benefits would be enough for the industrialists to decide to settle in the province. The process for the approval of the projects included an evaluation committee that, in the words of its members, replicated the criteria of the Secretariat of Industry of the Nation "making everything much slower" and delayed the delivery of the settlement decrees¹². This situation would only change in December 1983, with the transition to democracy and the decision of the newly elected governor, Adolfo Rodríguez Saá¹³, to informally outsource the search for investors and centralize the political authority for the approval of projects.

This situation was quickly reflected in the number of new projects: 54 new industries during the last year of the military government (1983) and 266 in the first year of the Rodríguez Saá government (1984) (Morina, 1989). The number of projects authorized in 1984 represents one per working day throughout the year, which shows both the entrepreneurial interest in the regime and the ease of approval by the provincial authorities. This was due, as mentioned before, to the fact that the enforcement authority granted the provincial governments the level of autonomy to negotiate directly with the entrepreneurs, promote bonds of trust and assume the necessary commitments to achieve the establishment of the industries in their territories. For this task, the government of San Luis resorted to the extra bureaucratic services of private operators as a way of taking advantage of its links with the business sector.

From a series of interviews carried out in the framework of this research, the idea that the government was seeking to locate as many companies as possible, regardless of their origin, activity or the value added they generated, frequently emerged. In the words of the then governor of the province, "promotion was like seeing Manna fall from the sky and we had to take advantage of it"¹⁴. A sample of what was happening can be seen in the account of the members of the evaluation committee of the Ministry of Industry when they point out situations in which "there were things that, technically, did not fit, but in a week they had to be given the decree of location". When they themselves questioned the political authority about the convenience of approving such a quick settlement due to the fear that they would leave when the tax benefits were over, the answer from the

¹² Interview with a member of the Evaluation Committee during the de facto government and, later, an official of the Ministry of Industry in democracy.

¹³ He served five consecutive terms as governor of San Luis between 1983 and 2001, a position herelinqhished when he was elected by the Legislative Assembly as interim president of the Republic.

¹⁴ Adolfo Rodríguez Saá in an interview with the author (2019).

government was: "first we have to settle the companies and then we will decide how to retain them".

7. New governance

In order to obtain tax benefits, large companies did not relocate the entire production process, but rather fragmented it and moved production phases to the promoted provinces (Kosacoff, 2007). In addition to reducing costs, this allowed industrialists to settle permanently in these new destinations not only themselves, but also some managers and other lower-ranking executives. These representatives of the industrialists -once the province granted them the settlement decrees- acted as the "adelantados"¹⁵ who were in charge of setting up the factories. Together with provincial officials, state contractors, union leaders, survey operators, merchants and local service providers, they would form the industrializing coalition that would lead the province during the following decades.

CEOs based there at that time often repeat their stories about arriving at a "wasteland" where they became the pioneers, so later, other industrialists, convinced by the veracity and effective operation of the promotion regime, would follow them in their relocations. In this sense, they expressed the idea that they played a role similar to that of the "adelantados" but, as captains of industry with a mandate: it was not only a question of obtaining the tax benefits granted by the industrial promotion but also of bringing "development to the desert". Thus, in their speeches, they usually speak of the success of San Luis as the result of an exogenous development, in which "eighty factories -twenty of them owned by illustrious surnames- generated a new culture. They were worlds in themselves". Worlds that, in San Luis, did not exist¹⁶.

It was these pioneers who founded the business chambers that would later become the privileged interlocutors with the government authorities when it

¹⁵ This denomination of the XVI century was used to refer to a high Spanish dignitary who carried out or advanced a public enterprise by mandate of service, account and under royal design. The title of "adelantado mayor" was usually granted to individuals distinguished or appreciated for their military qualities and, above all, for their loyalty, and the royal commission was accompanied by the inherent coverage of material powers to "advance" the proposed enterprise.

¹⁶ Interview with former manager of Glucovil SA and former president of the Industrial Chamber of Villa Mercedes. Eng. Martín André (2020).

came to making demands, particularly in the area of infrastructure. Since there were two different poles of settlement -the city of San Luis and Villa Mercedes-, in 1983 the Chamber of Industrialists of Villa Mercedes was created and, in 1984, the Chamber of Industry of San Luis. Both would later form the Industrial Union of San Luis, which acts as a provincial link with the Argentine Industrial Union (UIA). In the words of one of the founders of the Chamber "...what was available was the minimum for a small town, and we all lacked the same things: water, telephone, electricity". Therefore, for them, "setting up the chamber was a necessity" that would serve both to channel their demands and to demand that the provincial government effectively fulfill its commitments.

Many of the investments came from large companies that did not relocate the totality of the industrial processes in the province, but transferred certain phases of their production. Successive technological advances had allowed the deconcentration of establishments according to the needs of each stage and, in this way, many entrepreneurs developed multi-plant and multi-location strategies to achieve the greatest benefits from the promotion regimes. This was due to the fact that since projects up to a certain amount¹⁷ were evaluated exclusively by the provincial government, bypass intermediaries advised entrepreneurs to fragment the projects to ensure their approval by the provincial government in the shortest possible time.

This fragmented location would act as a catalyst for the relocation of industries in certain sectors, as a result of the agglomeration effects¹⁸. This occurred not only because production costs declined significantly by locating some companies in the vicinity of others, but also because the magnitude of the tax benefits was such that it allowed those who relocated to set more competitive prices¹⁹. This forced companies in the same sector to consider relocation as an alternative to be able to compete with industries located in the promoted provinces. At this point, the speed of the bureaucratic bypass strategy allowed the government of San Luis, due to the effects of economic agglomeration, to attract leading industries in sectors that ended up acting as decoys for many other smaller companies.

¹⁷ Approximately one million dollars.

¹⁸ Agglomeration economies" refer to the benefits obtained by firms from locating in the vicinity of other firms. The more firms in related fields establish themselves in contiguous areas, the more significantly their production costs can decline (firms have to compete for multiple suppliers; one result of agglomeration would be a greater division and specialization of labor).

¹⁹ This was the case, for example, of the paint industry, where the main manufacturer in the country (Sintoplast SA) argues that "the benefits that companies were of such magnitude that those who did not relocate ran the risk of being left out of the market because they could not compete with your prices." Interview with Eduardo Mirengo (2019).

8. State capacity

The use of the bureaucratic bypass did not mean that the state did not require the development of state capacities to promote the economic development of the province, but rather that some specific functions were temporarily supplied in the absence of certain bureaucratic conditions. At this point, the key factor in determining the proper functioning of the bypass was given by its temporariness: the dense networks of connection without a solid and robust internal structure would have left the state incapable of solving collective action problems, of transcending individual problems and overcoming the individual interests of its private counterparts. Therefore, the bypass could not extend over time but functioned as an efficient instrument to drive industrial capital accumulation and then transform itself to address the problems and opportunities generated by the success of its operation.

Therefore, in addition to the tax benefits, businessmen were interested in some key issues for the relocation of their industries, which, to a large extent, depended directly or indirectly on the provincial government: the infrastructure available for installation and production, the level of workers' qualifications and salaries, the degree of union conflicts and the local tax burden. The linkage mediated by consultants and studies that enjoyed the confidence of the businessmen gave them greater certainty regarding the commitment of the provincial authorities.

In that instance, in order to achieve a greater number of factory relocations, it was necessary that, once the businessman decided to relocate, the state agencies in charge of the approval of the relocation decrees were set in motion. For this purpose, as soon as the government of Rodríguez Saá took office in 1983, the Ministry of Industry was created, in charge of the approval of the procedures for relocation²⁰. Simultaneously, in the public administration, an aggressive strategy was deployed to balance the workforce, which included actions ranging from mandatory and voluntary retirements to the creation of commissions to hinder the reinstatement of employees dismissed during the dictatorship (Samper, 2003). By 1991, the number of public sector employees in the province had been reduced by more than 33% while the number of workers in the private sector increased by 17.2%, domestic service by 3.6%, self-employed workers by 9.5% and those who had become employers by 47.4% (see Table 3).

²⁰ Alberto Rodríguez Saá -at that time national senator and current governor of the province- stated: "The reform of the State partly explains the success of industrial promotion. As soon as we took office, we created the Ministry of Industry, something that other provinces did not do. In the ministry, businessmen negotiated with the government, thus avoiding bureaucratic delays in the project approval process" Former national senator, brother and main advisor to the then governor Adolfo Rodríguez Saá. He is the current governor of San Luis. In an interview with Guiñazú (2003).

Table 3: Employed population in San Luis. Variation by sector 1980- 1991 (%).

Sector	1980		Variation
In a dependent relationship	73,5	68,6	-6,7
Public sector	33,2	22,1	-33,4
Private sector	34,8	40,8	17,2
Domestic service	5,5	5,7	3,6
Account Ownership	18,9	20,7	9,5
Employer/Employer	3,8	5,1	34,2
Unpaid family work	3,8	5,6	47,4

Source: INDEC, San Luis. 1991 Census

9. Conclusions

The four provinces that benefited from the industrial promotion regime had the same powers of application, the possibility of granting the same benefits and, although they underwent important changes in their productive structure, they obtained different results in the implementation of such policy. The data on the fiscal cost of the regime show that the four promoted provinces concentrated 98.0% of the incentives granted but that, among them, San Luis captured almost 70% of those benefits. This would result in a radical transformation of the provincial economy when the secondary sector went from representing 27.4% of the GGP in 1980 to 68.1% in 1990. Thus, the industry of San Luis today shows a considerable degree of diversification, ranging from the processing of agricultural products to industrial manufacturing with a higher technological content and levels of industrial salaried employment well above those of the main urban centers of the country.

This research shows how the difference obtained by the province of San Luis is explained by the bypass to the public administration that allowed the provincial government, in addition to obtaining greater investments, to form a new governance to sustain itself over time and project itself at the national level. This is due to the fact that the provincial government encouraged a group of private operators to search for investments and to articulate the granting of the

settlement decrees. This implied taking advantage of the expertise of the intermediaries (generally accountants and lawyers specialized in tax matters) to prepare the location projects at no greater cost than the fees paid by the companies and to accelerate the time required for the location without increasing the administrative staff of the state.

This strategy was based both on the need to make up for the low technical capacity of the provincial bureaucracy and to take advantage of the interactions with market agents provided by the network of professionals. The link was channeled through this informal network in such a way that the government obtained greater investments in the territory at no greater cost for the intermediation work, the businessmen obtained the rapid approval of tax benefits and the consultants received payment -from the companies- for the preparation of the projects for their establishment. In addition, given their close ties with the business world, the network operators provided the process with reliability, predictability, minimum guarantees of competence and commitment so that relocations in the province seemed less risky. In this way, this informal network of professionals functioned - in a first stage- as a bridge between a small group of high-level provincial officials and the owners and managers of atomized industrial companies.

In this sense, given that the regional industrial promotion policy was a dispute over the relocation of existing industries in the country, the aim was to convince businessmen of the possibility of settling in a new territory. To this end, the government of San Luis decided to use a strategy that involved bypassing its bureaucracy and using a group of intermediaries to offer the province as the best possible option for relocating an industry. Without having an industrial trajectory, nor strategic plans that went in that direction, the industrial promotion constituted a real window of opportunity that the government of the recently recovered democracy knew how to take advantage of. An opportunity that, unlike the conventional idea of economic development, was not based on the increase of productivity through technological progress, or on the training of workers, but was organized around the government's capacity to attract and manage the relocation of industries in its territory.

In conclusion, while the idea that capitalist growth required a state with rooted autonomy became common, in Argentina, a peripheral province was able to attract investments, establish industries and even transform its productive structure. In other words, the need for a qualified bureaucracy was pointed out, but what developed was the economy of a province with relative compliance with formal rules, a public administration that did not distinguish between personnel and position, and a low level of professional training of its civil servants. This contrast is of interest because a potential deviation of strategies for attracting investment (or other policies that require public-private articulation) could point to more efficient alternatives in the implementation of public policies not only at the subnational but also at the national level.

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