

ARGENTINA: LABOUR MARKETS FLEXIBILITY, LIFE CHANCES AND GROWTH

Rubén M. Lo Vuolo¹

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During the last decades, many countries in Latin America have succumbed to the structural reforms of their public policies and markets. Argentina is one of the most extreme cases because of the extent and swiftness of the reforms mostly conducted during the 1991-2001 Convertibility Monetary Regime. Today the country shows impressive growth which began shortly after the maxi-devaluation, and the public debt default at the beginning of 2002.

Changes in the labour market are important elements to consider when evaluating these processes. During the nineties the joint impact of structural reforms, the internationalization of the economy, and the "deregulation" of labour created a variety of channels to facilitate segmentation of the labour market, disqualification of the labour force, underemployment self employment, unemployment and other labour market pathologies. As a result an increasing number of people have fallen out of "normal" (decent, full) work, and the cost of labour decreased sharply. One of the outcomes of these changes is a society in which the most significant division lies where there is a separation between those who hold full-time jobs with social security coverage and the rest of the population.

This paper will examine the role played by labour market flexibility and active labour policies in shaping the new social and economic environment of Argentina, which is one of the pioneer countries in Latin America in establishing labour protection and social security institutions. Most of the analysis could be applied to other Latin American countries; in particular, to countries more developed in relative terms.

First, an analysis of economic and institutional changes during the nineties will be conducted. Here I will point out the role played by macroeconomic settings in pressing labour flexibility, with the example of a country which applied the most extreme recommendations of the Washington Consensus policy package.

¹ Principal Researcher, Centro Interdisciplinario para el Estudio de Políticas Públicas (Ciepp), Rodríguez Peña 557 - 2F (1020) Buenos Aires, Argentina. Tel/Fax: (54-11) 4371-5136/9079 (ciepp@ciepp.org.ar); (<http://www.ciepp.org.ar>).

Second, the analysis will claim that most of the structural changes in labour market still persist with the new macroeconomic policies after maxi-devaluation and default. Even when the Convertibility regime has been abandoned, the institutional reforms done under its rules, including labour market flexibility, continue to be a source of extraordinary profits.

Third, I will argue that labour market flexibility in Argentina and Latin America operates mainly through informality. This can be understood looking not only at the micro level, but at the social protection system. Labour market flexibility imposed in the country is tightly related with the so-called Welfare Retrenchment process.

Fourth, I will discuss how current revision of orthodoxy in terms of social policy is correlated with the prevalence of labour market flexibility and the individualization of labour market risks. In doing so, I will show how policies like workfare programs and micro-finance is recommended as the new panaceas for solving social exclusion and labour market pathologies.

The prevalent thought in this paper is that changes in the labour market during the nineties, and the related retrenchment in social policies have created a new distributional pattern in Argentina which provides an explanation for the new phase of growth and new distribution of life chances in the country. Systemic crisis, like the one of 2001-2002, can be viewed as a means to consolidate new organizational principles for the whole economic and social system since institutions can be adapted to different macroeconomic environments.

1. The nineties: Convertibility Regime, labour markets and social protection

1.1. The macroeconomic environment and the structural reforms

In the last thirty years there have been numerous experiments with exchange rate policies in Latin America. Many of them have been focused primarily on controlling inflation: for example, Argentina and Chile in the late seventies, Mexico in the late eighties-early nineties, and Argentina and Brazil in the nineties. In many cases these modifications were done during the period of “financial liberalization”; however, in all cases, these policies opened room to unsustainable balance of payments’ current account and external debt trends that lead to crisis followed by maxi-devaluations. In turn, during the immediate post-crisis, the balance of payments became the main focus of exchange rate policy. Real targets, such as growth and employment, were never the main focus of macroeconomic and exchange rate policies.

At the beginning of the nineties, in Argentina, the so-called “Convertibility Plan” drastically changed the macroeconomic setting. After a lengthy period of economic stagnation and high inflation that ended in two hyperinflationary crises, one during 1989 and the other during 1990, a comprehensive program of economic stabilization and structural reform was launched by the newly elected President Carlos Menem (1989-1999, Partido Justicialista). The chaotic scenario during the hyperinflationary years opened room for a drastic change of public policies when the country was used as a kind of laboratory

where the most extreme recommendations of the so-called Washington Consensus were put into practice.

Presented with a strongly pro-market rhetoric, the program assumed, among other things, that the country had both to renounce the monetary policy and to adopt severe restraints to fiscal policy as a way to overcome the macroeconomic instability of the preceding phase. The prescription also included a complete opening to the international flows of trade and capital, thus giving credit to the stabilizing role of market mechanisms and expecting a positive effect of this orientation shift on both economic efficiency and growth. The drastic trade and financial opening (including equal treatment for all kind of capital inflows independent of their origin), was complemented by several deregulatory measures in the goods and financial markets.

Within a few years almost all State-owned corporations were privatised ignoring the world-wide more conventional recommendations on the subject matter. There existed a lack of adequate institutional control and in an atmosphere of strong suspicion of corruption (Aspiazu, 1995). The pension system was changed to a "mixed" system where the main component consisted of private accounts under financial management holdings (Goldberg y Lo Vuolo, 2006: Lo Vuolo, 2002). Deregulation of the labour market and an extensive decrease in the contributions made to the social security systems were also applied. This along with deep reforms in education and health provisions resulted in highly segmented service and opened up the possibilities to privatise the most profitable areas of public social policies.

1.1.1. The macroeconomic setting

Under a currency board regime, the stabilization plan was based on the fixing of the exchange rate as an anchor to the price system. The Central Bank was obliged to keep full backing of the monetary base at the adopted parity (established by law). These placed constraints on the Central Bank: it was to be the lender of last resort to the financial system. It also closed access of the public sector to the Central Bank: public budget deficits could not be financed. The autonomy of the Central Bank was also established by law and the chart of the monetary authority was reformed to incorporate the currency board rules. As a result, severe limits to the capacity of the government to apply counter-cyclical policies were established, and the economy became more vulnerable to changes in the foreign environment (particularly changes in capital flows).

The program was launched when a favourable change was taking place in the foreign financial environment. The international interest rates fell drastically from 1989 on². This factor encouraged the flow of funds to countries that begun to be qualified as "emerging markets". In the case of Latin America most of the countries had been rationed in credit markets throughout the whole decade of the eighties.

The fall in interest rates and the regained access to private funds entailed a relaxation of external constraints in the region which had been a serious impediment to economic growth and stability during the previous years. A few years later in countries like

² The 180-days Libor rate, for instance, experienced a sustained decline from 10% in early 1989 to 3,4% at the beginning of 1993.

Argentina, Mexico, and Brazil, these factors made possible the implementation of stabilization programs based on the utilization of the nominal exchange rate as an anchor to the price system (Damill et. al., 2005).

The legalization of domestic transactions in any currency was a key element of the financial deregulation process which set the basis for a progressive dollarization of domestic financial transactions (particularly of bank deposits and credits). This financial dollarization then became an amplifying factor of the cost of the abandonment of the currency board regime. In late 2001 almost 75% of private deposits in local banks and about 80% of domestic bank credit were denominated in US dollars.

1.1.2. The economic cycles and the debt

In 1994 a breaking point was experienced and can be attributed to three things. First, the social security reform that created the Private Pension Funds was instituted. A consequence of the reform was a considerable loss in the contributions to the public pension subsystem and hence more fiscal unbalance. Second, the expansion initiated in 1990 was coming to an end (Graph 1): Argentina would go through the recession in 1995 (Mexico's Tequila effect). And third, the government took several measures aimed at compensating for the negative effects of the combination of commercial opening and exchange rate appreciation. This was accomplished by lowering the tax burden on tradable goods production sectors. Along with the pension reform, all of the aforementioned factors negatively impacted public finances³.

After 1997 the fiscal panorama would change significantly. The impact of the Russian and Brazilian crisis in 1998 resulted in a new jump in the “country-risk premiums” which had already started rising since mid 1997 after the South East Asian crisis. This occurrence, on one hand, negatively affected the internal demand and triggered a new recession trend. On the other hand, it increased the financial vulnerability of debtors, including the public sector as well as many private agents that were in a net debtor position.

The foreign debt played a central role in this scenario (Table 3). Before the financial globalization process – which initial steps can be dated in the early seventies - Argentina showed low and stable debt indicators. The foreign debt, public and private, was mostly owed to multilateral organizations and governments⁴. As in the mid seventies, the confluence of new international and local factors gave birth to a new stage in history markedly different from the previous one. A deep liberalizing financial reform was implemented in 1977 and was followed by the progressive dismantling of foreign exchange controls on capital account private flows in 1978-80. These changes would jointly operate to completely change the country links with international financial markets. As a result, the foreign debt-to-output ratio showed a rising trend between 1976 and 2000⁵.

³ In spite of these negative effects, between 1995 and 1997 the average fiscal deficit was only 2 points of GDP higher than the early nineties deficit. This figure is almost equivalent to the increase in the public pension subsystem disequilibrium caused by the 1994 reform (Table 4).

⁴ It fluctuated in a range of 10% to 15% of GDP from the beginning of the sixties to the mid seventies.

⁵ The ratio measured with the PPP exchange rate grew approximately 3 percentage points of GDP per year in this period (Damill, et. al, 1995). The curve is more volatile when the ratio is measured at current exchange

During the early nineties first economic expansion, private inflows were predominant in spite the fact that the privatization of the most important state-owned companies took place in that period. Capital inflows to the public sector significantly increased during the recession of 1995 thanks to a foreign financial-support package. Since then, capital inflows to the public sector were kept at a high level until the end of the period; thus, the second expansion in the nineties was bolstered mainly by capital inflows directed to the national government⁶. Meanwhile, net capital inflows directed to the private sector recovered only slowly and, from mid-1998 on, they stopped flowing in considerable amounts. Actually an abrupt outflow started in late 2000.

In other words, the public sector played a crucial role in the financing of the accumulation of foreign reserves in the nineties. Certainly the increase in private sector foreign debt was not unimportant, but a significant part of it had a counterpart in private outflows of funds. The private debt experienced a considerable increase, but the external assets of this sector increased as well. Foreign assets increased more than foreign liabilities as in the case of the non-financial private sector.

1.1.3. Relative prices, labour costs and growth

Another contributing factor on the Convertibility Regime's macroeconomic settings is that it was preceded by a sudden and drastic change in relative prices. The national currency appreciated exceedingly throughout the twelve months period before the fixing of the parity. The appreciation process continued during the first few years of the currency board administration with less intensity. One of the results was a high level of wages (measured in US dollars) in comparison to prior periods. These relative prices experienced only minor changes until the end of the monetary regime.

However, this high level of wages measured in US dollars did not mean better welfare for workers, but resulted in pressure placed on enterprises to adjust their labour costs. At the same time a growing deficit in the trade account, amortization of the increasing external debt, and the end of privatization narrowed the degree of freedom enjoyed at the beginning of the plan by monetary and fiscal policies. All these factors put labour costs as the urgent target of the government.

The final economic growth assessment of the macroeconomic regime is, frankly, disappointing (Graph 1). The economy experienced a phase of expansion during the first four years of the decade, which suffered a setback in 1995 together with the "Tequila" effect of the Mexican financing crisis. As a result between 1990 and 1994 an annual growth rate of 7.6% was followed by a 0.8% growth rate in the long 1994-2001 period. The average GDP growth rate from 1990 to 2001 was only 3.18% per year.

A worse scenario is that between the second quarter of 1998 (when the GDP reached its maximum value in the decade) and the last quarter of 2001, the decline in aggregate output was of 15.6%. Two thirds of this fall happened in the second semester of

rates, with sharp rises in the beginning and end of the eighties as well as in 2002, and a strong fall in 1990-93. These jumps are due to the real exchange rate instability experienced in the period. See also Table 4.

⁶ The increase in the foreign public debt is quite close to the increase in the foreign financial obligations of the non-financial private sector.

2001, before the depreciation of the peso and the breaking of nominal contracts, factors that for some orthodox economists are often interpreted as the main cause of the output fall. After the devaluation the contraction continued for only one quarter, the negative trend inflexion took place in the second quarter of 2002.

The cost of the experiment was quite high in the labour market. One impressive feature of the Convertibility Regime was the abyssal fall in full-time employment and rise in the unemployment and underemployment rates (Graph 2). In the last months of the Regime before the devaluation, the unemployment rate reached 18.3%. The worsening in income distribution and the increase in poverty under the Convertibility Regime are also clear results of experiencing Washington Consensus policies in Argentina (Graphs 8, 9 and 10). The powerful combination between the macroeconomic regime, changes in the labour market rules and the institutional reforms in the social protection system explains these results.

1.2. Institutional changes in the labour markets: flexibility and workfare

The new macroeconomic settings and the related volatility of the economy explain drastic adjustments in the labour market. It is a well-known fact that labour market policies and institutions affect whether economic reform is successful. However, the policies and institutional developments and changes are implemented more so for political reasons than economic reasons. The governments' commitment to full employment is a crucial factor in explaining the labour market situation in a particular case (Therborn, 1986). The government headed by President Menem did not have such a commitment. On the contrary the government imposed deep reforms driven by the belief that high labour-cost was the main cause of economic problems in the country.

A variety of measures imposed flexibility of labour relations in the formal sector. In 1991 a new law established different forms of "promotional" employment and part-time jobs even for public employees. The so-called promotion rested mainly in payroll taxes exceptions and less social security coverage for new entrants into the labour market, thus creating precarious and unstable jobs. Other "rigidities" of labour regulations were removed as it relates to worker rights. For example, in case where there is company bankruptcy, employee seniority does not terminate or is suspended if the company is sold to another owner.

The trend was intensified during the decade. There were changes in licensing and overtime pay policies. Also, collective bargaining agreements allowing workers to negotiate working terms and conditions more disadvantageous to workers than the ones contemplated by the general legislation. Less expensive indemnity policies in case of layoffs were constructed under collective bargaining.

Other changes of the labour market included wage adjustment based on productivity rather than, in the case of past policies, adjustments based on the cost of living. This measure transfers capital-labour negotiations to a more decentralized arena. Two criteria were established for these negotiations: one related to past productivity and the other to increases in future productivity. The evidence shows that few agreements compromised on investment or training of the labour force. This fact explains the type of productive reconversion applied in Argentina during the nineties: "soft" innovations in organization,

reduction of the number of employees, and more working-hours. When negotiations refer to the future, interests shift to innovations and changes in technology and organization.

In 1991, during the same timeframe as the above mentioned reforms, the National Unemployment Fund was created. Access to the funds was (and is) very restrictive. For example, the unemployment insurance coverage fluctuated between 6% and 10% of the total of the unemployed urban individuals. In addition, employees were required to prove one year's of work at the terminated job location. The Fund did not cover public employees (construction and rural workers). The benefit coverage period was between three to twelve months. The replacement rate was progressively reduced until it reached values lower than 27% of the average wages paid by the private sector.

In terms of “active” employment policy, Argentina appears as a pioneer in the region. Its most symbolic policy was the establishment of workfare programs (Baker, 2000). These assistance programs were temporary, inadequate, and extremely selective. The motive behind the programs was politically driven and program coverage accounted for a negligible unemployment amounts⁷.

Advocacy of such programs is based on a well-known argument: to encourage individual responsibility without introducing negative stimuli for seeking a paid job. The idea is based on the belief that unemployed people who are willing to work deserve assistance. This dogma was applied in a country where unemployment was growing fast attributed to structural reforms mandated by the government and without accountability.

1.3. Informality as structural labour market flexibility in the region

These changes do not account for the whole process of labour market flexibility. In Argentina, and throughout Latin America, informal work is the main factor to explain how labour flexibility works in practice. Since the 1980s the informal labour sector has increased steadily in the region. It augmented from a regional average of 43% of urban employment in 1990 to 47% in 2002. The main reasons are the reduction of formal public employment, growth of employment in large enterprises at a slower rhythm than the labour force, expansion of jobs in microenterprises, domestic service and self-employment, increase in labour “flexibilization” in the formal sector, subcontracting part-time work or jobs without contract (ILO 2003)⁸.

This phenomenon changed the labour market environment in the region along with other two facts. Compared to developed countries, Latin America is undergoing an accelerated demographic transition. The pronounced decline in fertility rates is the driving

⁷ Here workfare refers to those policies that, instead of emphasizing *incentives* and *rights* to have a job or receive benefits, put the worker in the *obligation* of getting a job as the price to pay for receiving a subsidy.

⁸ This document evaluates the level of social protection in the region labour market, based in household surveys taken between 1992 and 2002 in seven countries: two in the pioneer-high group (Argentina and Chile), three in the intermediate group (Bolivia, Ecuador and Peru) and two in the latecomer-low group (Guatemala and Nicaragua).

force behind these changes⁹. In addition, the rising economic activity rates among women ensure sustained change in household size and composition¹⁰.

The structural informal sector acts as a permanent buffer for labour market flexibility allowing workers to enter or exit formal jobs depending on the labour market's expansion or shrinkage. The informal workers do not compete with formal employment; but since they provide goods and services as inputs, they do lower the costs of formal enterprises. A strong evidence of this fact is the growing gap in the relationship between the informal and the formal wage (Graph 5).

The informal sector is heterogeneous but normally involves unskilled workers with low productivity; such as, self-employed workers, domestic servants, and employees in microenterprises, etc. Even when Argentina is among the groups with a lower percentage of informal workers in the region (Table 1), its presence peaks to more than 40% depending on the estimation criteria¹¹. Being excluded from social insurance, these workers are exempt from minimum wage laws and wage adjustments under capital-labour negotiations for the formal sectors.

Contrary to the urban informal sector, the rural percentage of the total labour force has diminished in the region, but still fluctuates between 29% and 55%. Furthermore, self-employed and unpaid family workers average 56% of the rural labour force and reach 69-86% in three countries¹².

Self-employment is the largest segment of the informal sector in the region averaging 30% of the employed urban labour force in 2001-2004¹³. Albeit there is significant variety among the self-employed, the large majority is very difficult to grant social insurance because of the lack of employer unstable and low-paid jobs, and obligation to pay a contribution equal to the combined percentages charged to salaried workers and employers.

Self-employed is one of the most important groups nourishing the buffer of flexible work in the region. The situation is so complex that 14 countries in the region have voluntary legal pension coverage of the self-employed, and two countries exclude them (Table 2). Also, the self-employed have mandatory legal social insurance health program coverage only in Colombia and Costa Rica. In Argentina only the tiny entrepreneurs who pay taxes are compulsorily covered. The rest have optional affiliation and only 15% are covered versus 30% in pensions with mandatory coverage.

⁹ From Latin America as a whole the fertility rate fell from 5.9 in 1950-55 to 2.66 in 1995-2000 and is forecast to decline more gently to 2.1 by 2050.

¹⁰ The estimation goes up from 34 per cent in 1990 to 44 per cent in 1998.

¹¹ According to Mesa-Lago (2007) the informal sector as percentage of the employed urban labour force averaged 47% in 18 countries (data are not available for Cuba and Haiti) in 2001-2004 and ranged (lower to higher) 29-43% in Chile, Costa Rica, Panama, Argentina, Brazil and Uruguay—pioneer-high group and one country in the intermediate group, and 50-63% in El Salvador, Ecuador, Paraguay, Venezuela, Guatemala, Honduras, Nicaragua, Peru and Bolivia—countries in latecomer-low group and less developed in intermediate group.

¹² The lowest percentages are in Costa Rica and Chile, 26% and 32% respectively in the region (Table 1).

¹³ It ranges from 15% to 24% in Chile, Argentina, Costa Rica, Mexico, Panama, Uruguay and Brazil; and from 32% to 46% in El Salvador Ecuador, Nicaragua, Guatemala, Honduras, Colombia, Venezuela, Peru and Bolivia (Table 1).

Domestic servants are another important group among informal workers, although they accounted for a smaller proportion than that of self-employed¹⁴. These workers have an employer but many of them lack a labour contract. In absence of a contract, it is difficult for the workers to demand the employer's contribution. Another consideration is that we often find that the wage is so low that the worker collaborates with the employer to evade affiliation to social security institution in order to avoid payroll taxes.

Employees in microenterprises are another important group¹⁵. Other informal workers are home, seasonal, part-time and unpaid family workers, all of them without a labour contract.

Rural workers are a special sector in the region. The majority of them are peasants, seasonal workers, self-employed, sharecroppers or squatters. The majority of workers in this category are employed in subsistence agriculture. The employees either lack an employer or work for a few months out of the year with meagre wages. Rural population coverage usually is one-third to one-sixth that of the urban population¹⁶. Only three countries have introduced special social insurance pensions for rural workers or peasants¹⁷.

Agricultural workers are legally excluded in health coverage in half of the countries. The other half covers mainly wage earners in large plantations and members of cooperatives in some countries. Self-employed peasants, sharecroppers, squatters and similar workers are excluded with three important exceptions: the already noted peasant schemes of Ecuador and Mexico, and the agrarian insurance in Peru that covers self-employed rural workers¹⁸.

Informality is a special form of labour market flexibility with a growing presence in Argentina. Its persistence reflects a structural form of economic functioning and profit generation which has been accentuated during the era of Washington Consensus policies. The negative impacts on life chance coming from informality are not evident on the open unemployment or underemployment rates but in multiple forms of labour precariousness and lack of social protection coverage.

1.4. Welfare State Retrenchment

¹⁴ In the region, 3% to 10% of the urban employed labour force in 2001-2004 was domestic servants. In Argentina, they accounted for 23% of the total female salaried labour force.

¹⁵ Excluding professionals and technicians, this labour group ranged from 7% to 16% of the urban labour force in 2001-2004 for the whole region (ECLAC 2005). Probably this figure is underestimated because many of macroenterprises also hired informal workers.

¹⁶ Just to give an example, the proportion of the agricultural labour force that is insured in pensions oscillates between 4% and 12% in five Latin American countries (Mesa-Lago 2007). Their dispersion is a barrier to healthcare provision. Five countries in the region grant full legal pension coverage to agricultural workers. The rest have special regimes or impose restrictions.

¹⁷ They cover 18% of the rural labour force in Ecuador, 29% in Mexico, and 50% in Brazil in 2004-2005. In the first two countries coverage has declined in recent years while in the third has increased.

¹⁸ There are very few figures on coverage of agricultural workers: 1.5% in Ecuador (but 18% of the rural population covered by peasant insurance), 2% in Honduras and 6% in Mexico (but 29% of the rural population covered by peasant insurance).

The social protection system in Argentina was founded on universalistic aims and followed European models¹⁹. In fact, despite these universalistic aims, Argentine social protection systems developed in a fragmented and unequal manner with severe limitations to expand coverage (Mesa Lago 1978, 1989; Lautier 2006)²⁰.

Social insurance has always been the most important institutional arrangement. Social insurance institutions were strengthened based on a wide net of “labour security”. Consider the following: a full employment of the labour force, employment stability, and fixation of minimum wage, severance pay or accident compensation, and voice and representation of the workers’ interests all played a role. Salaried employment and membership to a particular trade union constituted the natural way to have access to public insurance coverage for social hazards. (Barbeito and Lo Vuolo, 1998).

The guiding economic principles to build the social protection systems were similar to those that guided most Western European governments. First, resources used to cover social risks were part of actual earned wages. The premise was that social protection can actually be sustained by earned income. It was a matter of the government intervening and mandating the withholdings. The implementation of a social protection system is not an economic matter, but rather, a political decision whether to create or not to create the so-called “social wage”.

Second, three variables were identified as impacting the level and evolution of resources: the evolution of the number of wage-earners; the evolution of wage levels; and the share of wages reserved for the social wage.

And third, the relative evolution of these three variables is likely to be that at the onset, there tends to be a rapid increase in the number of wage-earners; afterwards, the increase takes place at a lower rate. At the same time, wage increases are regular and self-sustained. As the number of wage-earners and the level of wages increase, social wages steadily increase.

In the public policies tradition of Argentina, the rights to work and labour ethics have always been the prevailing values. Traditionally, poverty was seen as a temporary problem resulting from the lack of employment. There was neither policy for income transfer capable of assisting the working poor, or programs for employment assistance or unemployment insurance. The population’s income level was supported by fixing universal minimum wage and basic wage indexes agreed on with the trade unions. The scarce assistance policies distributed goods and services but no money.

From the previous framework it was concluded that the social protection system sustained itself based on implicit trust in a virtuous circle. That cycle being social protection increases productivity, productivity increase wages and wages increases social

¹⁹ Those of Germany and Italy have probably been the most highly influential ones.

²⁰ Even when in the 1970s the country exhibited a fairly extensive social protection system (in Latin American relative terms), it was ‘hybrid’ in comparison to the traditional European Welfare State (WS) regimes. The experience of Argentina, and other LA countries reveals the limits of comparative studies that are based on stylized WS regime typologies (Esping-Andersen 1990), and the need to analyze each social protection system more holistically. For a critical view of the use of WS typologies for comparative purposes, see Théret (1997). Also Goldberg and Lo Vuolo (2006, chapter 1); Gough and Wood (2004); Ferrera (1996); Hicks (1991).

protection. Trust is, simultaneously, placed and relied upon in both economic and political aspects. The economic aspect implies that there is an economic cost associated with social protection, but there is also an economic benefit: an increase in worker productivity. The political aspect means that a political commitment can be made regarding how the increase in productivity is further translated into a stable distribution of wages and benefits, and into an increased participation of social wage in total wage. What is essential is to determine whether the commitment should be made after the compulsory establishment of social protection mechanisms or whether prior to this establishment.

The problems of this virtuous circle in Argentina became evident in the 1970s and 1980s. The supporting foundation of this system became more and more eroded during the seventies and particularly during the 1976-93 military dictatorship. This administration was able to keep up its economic model by making deep wage-adjustments and by an exchange rate overvaluing. All of this was accomplished within a context of commercial and financial opening which led way to an explosive increase of the external debt. The democratically retrieval under Raúl Alfonsín's government (Unión Cívica Radical, 1983-89) was strongly determined by the crisis provoked by the debt (1982) and its correlation with stagnation, inflationary acceleration, fall of the real wages and income concentration.

During this period the negative impacts on the labour market did not become extremely evident on the open unemployment rate as it's evident impact on labour precariousness (self-employed with low skills and income, feminine employment in domestic services and non-registered wage-paid workers within an increasing informal sector).

The structural reforms encouraged by international financial institutions (IFI) and adopted in most Latin American countries, neglected the tradition of the original social protection systems. Under the inspiration of a sort of *Social Liberalism* (Abel and Lewis 2002) a generalized process of *Welfare State retrenchment* occurred (Pierson 1994, 1996). It was through this process that most of the public institutions were reformed in the region including pension systems which were marked "difficult to reform" in the European case studies.

During the era of Welfare State retrenchment in Argentina (Lo Vuolo, 1998), the social protection systems were confronted with the argument that it did not serve in the best interest of the poor. It was believed that in order to be effective in the struggle against poverty, social policy makers should set aside this universalistic aim and strengthen the relationship between benefits and contributions preferably through private insurance. The poorest groups, selected by social management experts, would receive direct subsidies from social assistance programs. Public institutions' recognition of the income differences in unequal social sectors turned to be a dogma that guided administrative management.

The reforms to the social protection systems exacerbated the problems of labour markets for two reasons: (i) concentration of social security coverage on formal groups with stable contributory capacity (ii) pro-cyclic behaviour of social expenditure. The occasional improved conditions that benefited the most impoverished sectors during short periods of economic boom were worn out by recurring financial crises that had greatest impact on the largest countries (precisely, those which firmly relied on economic

liberalization). Labour flexibility enhanced the negative impact of the volatile economic cycle on the population.

1.5. The social results of labour flexibility

After decades of a continued trend in labour flexibility, the results leave serious doubt to whether its potential power will create employment. Instead of creating more employment flexibility acts as a complement of macroeconomic policies to lessen labour costs, the results yield an increase in the profit share (Graph 6) and worsened working conditions of the whole labour force. In Argentina by the year 2000, more than half of the labour force was estimated to be in a situation of "labour vulnerability", and poverty had remarkably grown (Rodríguez Enríquez, 2000).

The problems clearly existed since the very beginning of the nineties. Even when the economy was growing fast, problems in the labour market became more and more evident. Between the beginning of the Convertible Plan and the end of 1993, the GDP increased 25% while employment grew only 5.5%. The number of urban unemployed grew more than 20%. Moreover, within the group of "employed" the number of those "fully" employed remained the same. The underemployed grew remarkably fast: hourly underemployment grew 25% and informal urban underemployment grew around 8%²¹.

At that time one of the reasons phenomena occurred was the increasing rate of EAP growth in contrast to previous years (MTySS, 1994)²². On the contrary since 1990, the EAP grew at an average rate of 2%, (more than employment and the total population rates). At that time some orthodox economists argued that a new labour force would enter the market due to better terms and conditions of employment. However, there is evidence to sustain the "additional worker" hypothesis; meaning there was an entrance of secondary labour force searching for a complementary income, because the main worker of the household has lost his job or his salary is not enough.

This result is clearly supported when one looks at the relative change of those unemployed coming from inactivity. Part of the increase in this group of unemployed workers consists of older people and women. Older people went back to the labour market or remained there after legal pension age as a result of the fall in the purchasing power, and the minimum coverage of pension benefits in the previous years following the privatization of the pension system²³. In the case of women, they look for a supplementary income to the one of men in the family, or a principal income when men lost their jobs.

Great differences in productivity and large variances in the distribution of employment among enterprises are other results of the structural reforms during the

²¹ MTySS (1994). Here, underemployment refers to those people working less than the number of hours considered as "normal". Informal employment designates those working in low-productivity or overqualified activities.

²² During the seventies, the EAP grew around 1% a year, less than the rate of population growth, showing a declining trend in the second part of the decade. In the eighties, EAP grew at an annual rate of 1.4%, similar to the rate of population; this was justified by the increasing rates of older and young people in economic participation.

²³ Minimum real pension benefits fell more than 50% between 1986 and 1993, while average pension benefits fell 10%.

nineties. The number of workers in those companies with less than 15 workers grew but those of the rest fell. Most of the increase took place in commerce and personal services. In manufacturing industry, while GDP grew almost 25% in the first three years, the number of employees fell. However, employee work hours remained constant and productivity increased. Simultaneously, surveys registered an increased dispersion in the market-clearing pay rates for different kinds of workers (MTySS, 1994).

Also, public employment participation dropped and low productivity services increased. Along with the lack of social security coverage, excessive working hours, etc., two thirds of the employment generated during this period was informal (including micro-enterprises) enforcing the widespread unstable labour relations. Precarious employment conditions increased for both men and women.

Changes in relative prices under the Convertibility Regime explain most of the adjustment in manufactures. The striking fact is that even when real wages in manufactures fell, labour costs grew when adjusted by the value of exchange rate. Considering the growing import competition in many sectors, it is easy to understand why the burden of the adjustment is placed over the number of employees, productivity and wages.

In other words, the set of relative prices fixed by the Convertible Regime requires "subsidies" from some prices to others. Clearly, labour costs subsidize the interest rate and the overvalued currency.

In this scenario, the backward trend of the population income distribution became more acute. Between the years 1994-2000, the participation of the family income lowest quintile was reduced from 7% to 6,2% and the gap between the average income of the richest decile compared to the poorest one grew from 21 to 30 times (Graph 8). Between 1992 and 2000 the proportion of households under the poverty line grew more than 50% (Graph 10). During the last year income received by 20% of the households and by more than 30% of the individuals living at the Gran Buenos Aires (the most populated urban area of the country) could not reach the poverty line.

The increasing evolution of the Gini Index for household *per capita* income mirrors the social deterioration of the country during the nineties (Graph 9)²⁴. The economic and social costs of this process worsened with the lasting economic depression and particularly with the breakdown of the Convertibility Regime at the end of the year 2001.

Clearly, the macroeconomic settings of the Convertibility Plan and the labour market policy prescriptions lead the society to a critical situation. The efficiency gains in the economic arena were short term in nature while the social costs were pervasive and far reaching. Besides open unemployment, underemployment and informality multiple social costs were paid such as the weakening of communities and of social networks, the dilution of skills, the hollowing out of various forms of social service protection and pension rights just to name a few.

²⁴ During the 1990s the Gini index increased in almost every country in the region (except for Colombia and Uruguay), ranging between in the 0.45 (Uruguay) and 0.65 (Brazil). At the beginning of this decade open unemployment in the region averaged 9 per cent, showing a marked growing tendency with peaks of 20 per cent in Argentina and 16 per cent in Uruguay, Colombia and Venezuela.

2. A new miracle? The economic *boom* in the post-Convertibility era

2.1. From the economic crisis to the political crisis

The acceleration of the financial crisis of the Convertibility Regime and the struggle among different sectors of several interest groups led way to the bank deposits blockade, and afterwards to President Fernando de la Rúa's resignation (Unión Cívica Radical, 1999-2001). Fernando de la Rúa was harassed by an expanded wave of protests and social riots. The new government, elected by the Legislative Assembly, was headed by Eduardo Duhalde (2002-2003, Partido Justicialista) who enacted maxi currency devaluation in a context of State debt *default*.

The economic, political and financial crisis feeds itself within a systemic spiral and nobody seems capable of stopping it. Argentina, somewhat, ceased to be an "example worthwhile of imitation" and turned to be an instance rejected by everybody and whose responsibility no one acknowledges.

The clearest lesson of the Convertibility Regime experiment is that, as in the past, the economic crises transferred both to social and political areas. The recent experience in Argentina and Latin America is that Social Liberalism does not differ from other experiences of purest market liberalism. Sooner or later it shows an inability to fill in the gaps between the government and the governed, between rhetoric and action. This environment renews contradictions and confrontations that threaten social integration (Abel and Lewis 2002, 51). This, in part, explains the loss of electoral support experienced by the local representatives of this paradigm and in the case of Argentina, the popularity of current President Néstor Kirchner (in power since 2003).

Nevertheless, it is still unclear to what extent the ideological matrix, and especially the institutional matrix built in the country during the 1980s and 1990s, are nowadays being modified. This doubt is based on three fundamental elements. First, if we look mainly at the social protection system, it is hard to see substantial modifications to the institutions created during the retrenchment period. Second, international organizations' orthodoxy intends to lead the way for the critical revision of their own recipes, promoting with equal audacity, a new *generation* of alternative reforms to correct some of the alleged "mistakes".

The official optimistic view indicates that social problems will be solved by maintaining the new macroeconomic settings which guarantee high economic growth rates and a positive impact on the labour market. In addition the welfare of the most vulnerable groups will be improved if social programs are reformed under renewed orthodoxy guidelines. The new political environment, with a government with more popular roots, is seen as the perfect complement for these policies.

2.2. New macroeconomic settings

Much has been written about Argentina's recent, spectacular crisis and default and why it occurred. Despite overwhelming empirical evidence contradicting this belief, the IMF and the financial establishment still claim that the root cause of Argentina's crisis was

the public sector's inability to reduce its deficit.²⁵ Other explanations have included the more esoteric "debt intolerance" concept (Reinhart et al. 2003, Reinhart and Rogoff 2004), or that the default itself was the cause of Argentina's 2002 economic collapse.

None of these explanations hold up under scrutiny (Cibilis and Lo Vuolo, 2005). Rather, the December 2001 default and economic crisis were the logical outcome of a massive debt accumulation which resulted from the combination of inconsistent macroeconomic policies and exogenous shocks. While the Argentine fixed-exchange rate regime had managed to survive the Mexican and Asian financial crises, the Brazilian crisis proved too much for an economy straining under the effects of an overvalued currency. A recession set in during the last quarter of 1998 which was to become a depression. By the end of the depression in the second quarter of 2002, Argentina had lost almost 20 per cent of its GDP.

At the end of 2001, the payments chain collapsed. The output and employment followed the abrupt contractive trajectory showed by the reserves and liquidity. Social indicators such as the unemployment rates and the poverty and indigence indexes, which had considerably worsened along the nineties, suffered from an additional deterioration, adding to the social tensions and the politic crisis that brought the government of Fernando de la Rúa to an end.

Under these conditions and as a result of the exponential growth of Argentina's public debt, sovereign default was not only a logical consequence; it was also a necessity. Given the three year long economic recession, economic reactivation would have been uncertain and perhaps impossible in the absence of such a default. Also fundamental to economic recovery was abandoning the fixed exchange rate regime, allowing for a more realistic set of relative prices.

Second, the abrupt end of foreign credit in late 2001 resulted in the much publicized default and sealed the fate of the convertibility regime. Third, exit from the convertibility regime in early 2002 was unplanned and disorderly. The currency was initially fixed at a higher value vis-à-vis the dollar and eventually allowed to float freely, causing substantial dislocation in the economy. When, contrary to IMF prescriptions, a managed float was adopted for the exchange rate in late April 2002, the economy began to emerge from the crisis.

It is important to remember that the Argentine government received absolutely no outside assistance during the entire crisis. It was quite the opposite; in fact, there was a very large net drain of money out of Argentina to multilateral creditors²⁶. Shortly thereafter, in spite of these payments, the bottom of the Argentina's crisis registered a new phase of

²⁵ "In our view, failures in fiscal policy constitute the root cause of the current crisis," declared Anoop Singh, IMF Director for Special Operations, in Buenos Aires on April 10, 2002, four and a half months after the default. This view is repeated by IMF officials to this day, and is a central part of the IMF's Independent Evaluation Office's report (IMF 2004).

²⁶ In 2002, as poverty and unemployment reached record levels (51% and 22% respectively) and as the recovery was just getting under way, the country made net payments totalling \$4.1 billion dollars, or more than four per cent of GDP, to the multi-lateral creditors. For 2003-2004, there were further net payments of 5.9 billion. Moreover, at the end of 2005 the country paid the whole debt to the IMF, draining 10 billion dollars from Central Bank reserves.

economic growth which is taking place in a very favourable international context²⁷: a growing global economy, low interest rate and favourable conditions with commodity-producing countries. The Argentine economy grew by 8.8 per cent in 2003, 9 per cent in 2004 and 2005, and 8.5% in 2006 (Graph 1).

So if we look at it from the perspective of "shock therapy" -- a harsh adjustment necessary to get the economy back on a sustainable growth path -- the post-default adjustment was successful and brought quick results. Furthermore, the country's economic recovery did not depend on the good graces of international financial markets. Official creditors were not necessary--and neither was their capital.

The expansive factors were mainly the international trade variables, exports and imports, and especially the latter. Then, local production started to provide an increasing proportion of the aggregate demand. This imports substitution particularly favoured the manufacturing sector. After that short initial stage, the activity level recovery was led by the increase in the domestic demand components, especially by the investment –that grew at an annualized rate close to 40% between 2002 and 2004- and by the private consumption (Damill et. al. 2005). The favourable external context (in particular some commodities' high prices) is an important element behind the economic recovery.

The abrupt contraction that characterized the end of the convertibility generated an important trade surplus²⁸. The trade surplus caused the change of sign in the current account balance. The macroeconomic policy has recently faced the problem of sustaining real exchange parity in order to preserve the incentives of investment in the tradable goods sector.

A strong adjustment in the public sector accounts has been taking place together with the just mentioned external adjustment process. The Consolidated Public Sector global result passed from a global deficit of 5.6% of GDP in 2001 to a 3.5% surplus in 2004 which raises the question, what factors explain the adjustment in the fiscal cash flow results? More than a third of it derives from an improvement in the provinces' balances. This improvement comes from the increase in tax collection facilitated by the recovery and the rise in nominal prices together with the restraint in expenditure. Which expenditures? Since provinces are responsible for the majority of health and educational public services, mainly wages in social sectors.

The rise in the national primary surplus is mainly explained by an improvement in tax revenues (+4.9% of GDP). It is interesting to observe that although the receipts from traditional taxes such as the VAT and the Incomes Tax rose significantly, they did not increase substantially when measured as a proportion of GDP²⁹. The tax on growing exports mostly explains the rise in tax revenues (+2.3% of GDP). Hence, the public sector absorbed part of the effect of the devaluation on the profitability of the tradable goods

²⁷ According to CEPAL estimations, growth in Latin America and the Caribbean was 1.9 per cent in 2003; 5.9 per cent in 2004; 4.5 per cent in 2005. Projections for 2006 are over 5 per cent (<http://www.eclac.cl>).

²⁸ The trade balance exhibited a deficit higher than 3 billion dollars in 1998. It rapidly decreased from then on and turned into surplus, due to the reduction in the volume of imports. In 2002 the balance was higher than 17 billion dollars, and even when it is falling it remained over 12 billion in 2004 (Damill et. a., 1994).

²⁹ Between 2001 and 2004 they made up 1.3% of GDP as a whole.

sector, and was benefited by the high prices reached by some of the exportable goods, such as soy and oil³⁰.

However, the fiscal effects of the suspension of part of the debt services payments were significantly higher than what is shown in the mentioned account. It cannot be calculated with precision because a significant amount of new debt was issued after the suspension of debt payments as described in the following chapter. It can be estimated that the amount of interests on the public debt –valued at the 2004 exchange rate- would have represented in that year between 9 and 11 points of GDP. This is approximately equivalent to one half of the total tax collection of the year. These payments would have been certainly incompatible with the economic recovery.

As it was pointed out above, a crucial aspect of the fiscal financial vulnerability derived from the extremely high proportion of debt in foreign currency, with the consequent exposure to the impacts of the exchange rate variations. The 2002 substantial exchange rate depreciation would have had a harsh impact on the public sector's financial equilibrium. Taking this aspect into account, it can be said that the payments suspension and the following debt restructuring enabled a considerable amount of fiscal savings –either measured in domestic currency or as a proportion of GDP.

After maxi- devaluation the balance of payments became the main focus of exchange rate policy. The idea is that the competitive real exchange rate affects employment in the short run by its contribution to determining the activity level. However, less clear is how this variable affects the rate of growth of employment in the long run, for instance as a consequence of its influence on the rate of output growth promoting investment in tradable activities. Anyhow, in both cases, the effects of the exchange rates on employment (and welfare) derive from the exchange rate effects on the level and rate of growth of output.

Another idea is that the competitive exchange rate will influence employment throughout the labour intensity of output, mainly –but not only- in the tradable sector. This effect will result from the role played by the competitive exchange rate in the determination of relative prices. For instance, through the labour/capital goods relative price, because capital goods have a significant portion of imported components. Also, the high exchange rate determines the value of wages measured in international currency, which is the most relevant labour cost in tradable activities.

However, there is strong evidence to show that the key of the growth and employment recovery lies in the fall of labour cost mainly in the informal and public sectors (Graphs 4 and 5). Since wages were not adjusted to inflation after the devaluation, a kind of “profit-led” growth system seems to be the explanation of current performance in Argentina. The flexible labour market inherited from the nineties is in the core of these extraordinary profits. The abrupt change in relative prices against wages (measure both in local and foreign currency) created a huge financial capacity in the firms, which permit to supersede the credit rationing of the financial system in crisis.

2.3. Growth, distribution and labour flexibility

³⁰ The soy and derivatives industry generated almost one half of the taxes on exports.

Evidence indicates that the recovery was triggered by the sudden change in the relative prices in favour of the tradable goods sectors and extraordinary productive profits thanks to a new fall of labour costs after devaluation. It should also be stressed that the consumption and investment recovery took place in a context of accentuated credit rationing both external and internal. The investment was apparently financed by higher profits retained by firms, although the ‘wealth effect’ resulting from the significant external assets holdings of the private resident sector surely contributed as well.

However, it is not clear if the structure of output – among firms and sectors – is adapting to the new set of relative prices or if we are seeing only a phase where the same firms are taking advantage without engaging in investment. Evidence raises serious doubts because investment is not reacting with the same intensity to the extraordinary profits created after maxi-devaluation (Graph 7).

The impact on labour was not homogeneous. Incomes of the informal groups lost in relative terms, showing again that they are the bulk of labour market flexibility in the country (Graphs 4 and 5). The same can be said about public wages, which correspond in a great percentage to social services. So, even when employment is growing fast following the economic recovery, this growth does not guarantee the restoration of pre-crisis welfare.

After years of increasing steadily unemployment fell from 21% at the peak of the crisis to around 10% at the end of 2006 (Graph 2). However, future trends are not clear. For instance, employment elasticity is fallen from 0.53 in 2004 to 0.38 in 2006. Meanwhile, the EAP is growing faster than the employment creation. In the latter years unemployment decreased at a low rate while informality, precarious labour conditions, difference in wages between formal and informal sectors, increased. Other social indicators like poverty and indigence reveal clear improvements, but mainly if the point of reference is the bottom line of the last crisis not past periods of economic growth. The increase in productivity and competitiveness in current bonanza years are not benefiting workers to the same extent as capital owners.

The combination of these and other elements result in a less improvement in income distribution than expected from the rates of growth. The best results appear when compared with the bottom of the 2001-2002 crisis (Graphs 8 and 9), but the relevant comparison is the year 1998 (the peak of the last phase of growth). In the last case, it is clear that even when the economy reached higher values (even measured in per capita terms) the social indicators did not. The explanation is the persistence of a flexible labour market and the social protection system re-built during the past decade.

Even when there is a clear questioning of the economic rules of the nineties there is a wider acceptance of the role played by labour market segmentation and the social protection system built during these years. At the end this though shares the orthodox distributional trust between the accelerated economic growth and the spilling over impact on employment, wages and population’s welfare.

The criticism of the so-called *Neo Structuralism* to the policies during the 1990s is focused on the macroeconomic unbalances attached to *market* imperfections; again, the distributional issue is a dependent variable of a sound macroeconomic policy (Marques-Pereira 2006; Bresser-Pereira 2002). As in the original Washington Consensus the view of Latin American neo-structuralism places distribution and social protection institutions at a

subordinate position in relation to the adequate economic policies that guarantee growth. Original structuralism thought in Latin America is thus dissolved in a utilitarian view of institutions: they must serve to guarantee proper market functioning.

In fact, this position is opposed to the original structural economic thought in the region³¹ which puts emphasis on the key role of distribution to define the pattern of economic growth in the region. For the original structuralism little distribution is to be expected as a consequence of *spilling over* of productivity profits in a growing economy and, if sound distribution is pursued, the social and economic institutions should not be organized based on utilitarian criteria of proper functioning of the market.

Today, in Argentina and most countries in the region, the prevalent thought is what could be referred to as the “revision of orthodoxy”, even if the official discourse claims to be against reforms applied in the 1990s. In fact, the current situation is paradoxical: the economic growth environment that followed the crisis of 2001-2002 serves to legitimize the institutional order built during the welfare state retrenchment of the nineties. Although the macroeconomic rules changed, the main social policy institutions built under the protection of Washington Consensus have not changed. This is clear when we look at the approach to the “active policies” directed to alleviate unemployment and social exclusion.

2.4. The revision of the orthodoxy: Workfare Programs

Among the orthodox revision of social exclusion programs, *workfare* and micro-credit programs are put in a central position³². Advocacy of this type of programs is based on arguments similar to those previously mentioned: to encourage individual responsibility without introducing negative stimuli for seeking a paid job. The idea is neither distributing goods nor giving money for nothing in return, but demanding work done in consideration of the benefit received to justify that unemployed people are willing to work and therefore deserve assistance.

Argentina is pioneer country with large-scale experiences of this kind of programs (Baker 2000). Since 2002, one of the most extensive programs in the region has been implemented in the country: *Programa Jefes y Jefas de Hogar Desocupados (PJyJHD)* (program for unemployed heads of household).³³

Financially supported by the World Bank, the program was launched after the hyper-devaluation of the *peso* (Argentine currency) which put an abrupt end to the convertibility regime that had been in force for a decade in Argentina. The PJyJHD was first designed as a transitory measure, but then extended (though enrolment closed in May 2002). The requirements for qualifying for the program are: (a) being an unemployed man or woman in charge of a household; (b) having children under 18 (a pregnancy would have to be medically verified); (c) presenting certificates of regular school attendance and updated vaccinations of minor children; and (d) not included in any other social program.

³¹ To this respect, it is worth recalling the classic work by Furtado (1964).

³² The term *workfare* has become an opposing emblem alternative to the traditional word *welfare*. Workfare refers to those policies that, instead of emphasizing *incentives* and *rights* to have a job or receive benefits, put the worker in the *obligation* of getting a job as the price to pay for receiving a subsidy.

³³ Galasso and Ravaillon (2003) offer the WB point of view regarding this program. For a critical analysis see Barbeito et al. (2003).

In 2005 the beneficiaries peaked to 1.8 million (67 per cent of urban unemployed). This amount has been reduced due to beneficiaries' transfer to other programs and to labour market recovery resulting from high economic growth in recent years. A fixed amount of money is paid (equivalent to 20 per cent or less of the poverty line for a family of four: parents and two children). Beneficiaries are given a part-time job in projects approved by municipal authorities. If they get a job in a private company, the benefit is maintained for a short time complementary to the salary.

The results of the PJyJHD have aroused controversy starting from conception posing the question, is it an income or an employment program. Since it questions the link between poverty and unemployment, this is not a minor dilemma. A peculiar feature of Argentina (and the region) is precisely the existence of poor workers as a result of labour informality and labour flexibility legislation. The political strategy that is being used by means of PJyJHD is a key aspect. The program intends to strengthen the idea that incomes can only be guaranteed by means of employment, thus the program becomes an employment-fostering and income-sustaining plan at the same time.

In this sense, PJyJHD did not represent a modification to the general logic behind social policies applied in last decade. The main innovation was realizing that cash benefits are more efficient than in-kind benefits. Another innovation is since beneficiaries acknowledge themselves as eligible program participants, this plan promotes self-targeting. Once the required application procedures are met, household heads are assigned a task, whether in-service training or in-job assignment, in a productive activity. Unlike other temporary employment programs, the task demanded in return is not previously defined but is assigned after the beneficiary is admitted to the plan.

In practice the program has a very low impact on poverty³⁴. This is explained by a combination of several factors: how beneficiaries are selected, an equal benefit for households of different size, and the exclusion of the working poor.³⁵ Furthermore, the overall budget of the program is very low in relation to the *poverty gap*.³⁶

Impacts on unemployment are not important (Graph 2)³⁷ because the program excludes groups that have greater difficulties finding a job (young people without children or elderly adults who do not have underage children are not included). In addition the PJyJHD has control failures³⁸ allowing for *unemployment trap* (beneficiaries who perform non-registered work). Simultaneously, the program stimulates engagement of non-working

³⁴ Without including the benefits from the program, in May 2003 poverty rose to 43.2 per cent of households and 55.3 per cent of the population; including the benefits, poverty was only reduced to 42.6 per cent of households and to 54.7 per cent of the population.

³⁵ In Argentina, almost 40 per cent of wage-earners in the private sector live in poor households, including 25 per cent of full-time workers.

³⁶ This gap is estimated in 2.6 per cent of GDP, while only 1 per cent of GDP is invested in PJyJHD.

³⁷ In May 2003, almost 3 million unemployed workers accounted for 21.4 per cent of economically active population. If 1.8 million beneficiaries of PJyJHD were considered employed workers, the rate would go down to 15.6 per cent; if beneficiaries actively seeking jobs were considered as employed, and if those who do not seek employment were considered as non-working people the rate would only be 19.7 per cent. By the third trimester of 2006 open unemployment rate would increase from 10.2 to 12.1 per cent if beneficiaries of PJyJHD that render a service are not considered employed workers.

³⁸ In some regions of the country, the number of benefits granted by the PJyJHD plan is greater than the number of unemployed workers recorded in statistics.

people and substitution of public employment. This effect is also observed in private employment since it is used as a subsidy. Finally, the program has had a debatable impact on male and female division of roles both in the labour market and the family. (Rodríguez Enríquez 2005; Pautassi 2004).

In conclusion the impacts of this workfare program are controversial in terms of employment creation, poverty reduction and its potential for effectively solving social exclusion. Overall the PJyJHD proved to be an effective political instrument to take advantage of the 2001-2002 crisis. Since it turned into a central element in the surviving strategy of many low-income households, in practice the two most evident impacts of this program are: (i) it encourages and becomes functional to the generalized environment of precarious labour conditions and (ii); it works as a mechanism for attracting political loyalties and capturing votes (Auyero 2004).

The problems detected in PJyJHD are similar to those found in assessments of other workfare programs:³⁹ they appear to be unresolved hybrids between income sustaining and employment assistance, consequently generating the perverse effects of *poverty trap* and *unemployment trap*. These effects are exacerbated in the precarious labour environment in the country, because the labour market does not represent a stable solution that guarantees substantial improvement in people's lifestyle. In fact, many beneficiaries of workfare programmes seek complementary incomes in informal labour markets.

In practice these programs contribute to making the labour market even more fragmented which is contrary to WB's alleged aim of increasing formality and effectiveness in social security. The facts demonstrate that workfare programs consolidate social fragmentation by discriminating between those who deserve assistance and those who do not. The real impact is placing the blame of being unemployed and poor focusing on the personal incapacity to get a formal job in the market. These types of programs also distort political practices as they enhance the power of the authorities who have control over assignment of benefits and favours political clienteles.

With the implementation of these programs, employment is no longer viewed as a problem economic in nature, but one that belongs to the field of social policy dealing with crisis. In a sense workfare programs legitimize a particular class of citizenship. This way of activating social policies increases individual's dependence on the selection criteria of the bureaucracy, thus promoting political indifference which erodes the basis of citizenship (Habermas 1994).

2.5. Microfinance Programs

Microfinance is also advanced as a proposal of the orthodox revision in the region (Goldberg 2006). According to the most widespread definitions, microfinance consists of providing financial services to low-income population or to economic agents excluded from the formal financial sector. While micro-credit is the most renowned instrument, in theory microfinance includes the provision of other financial products such as savings facilities and insurance. The subjects of microfinance would be economic agents who, besides having insufficient income, are excluded from the formal financial system, due to a lack of

³⁹ See Rocha (2001) for Brazil and Standing (1999) for the United States.

guarantees, the high repayment risk attributed to them or the small dimension of the economic activity they perform.

With a general purpose of correlating microfinance with productive undertaking, the aim pursued in theory is that self-employed workers start a micro-enterprise that increases in capacity and size over time until it consolidates in the market and becomes a self-sustained productive activity. Thus, poor people do not regard themselves as *beneficiaries* but as *clients* and *debtors* of the microfinance institutions. Based on this central idea, two prevailing approaches stand out (Robinson 2005): *loans to poverty* and *financial systems*.

The first approach aims at reducing poverty by means of loans granted by institutions financed through subsidies from donors, governments or other funds. From this original approach encouraged by social solidarity movements, saving is not an instrument specially promoted except when it is a necessary condition to receive a loan. This approach prevailed in Latin America in former credit cooperatives established during the 1950s and 1970s – many of them organized by catholic movements, volunteer organizations and the United States Agency for International Development (USAID) – in general lacked professional managing, operated at low and subsidized interest rates and demonstrated to be inefficient in recovering loans and retaining incomes for further expansion.

Since the mid 1980s largely because of debt crisis in LA, many donors' funds disappeared and the credit cooperative movement receded. Based on this experience criticism advanced on poverty-focused institutions pointing out that if they continue to be managed this way, they will become unsustainable. Alternatively, the orthodox revision proposes a different financial systems approach whose emphasis is put on the sustainable growth of institutions. The argument is that if an institution has a good performance and loans obtain high repayment rates, it can concluded that clients are improving their well-being and overcoming poverty (Garber y Beard 2003).

This claim corresponds to a particular conception about the causes of poverty in the region: the poor has a problem of *self-confidence* or lack of *enterprising spirit* that would prevent them from overcoming the situation (Robinson 2005). Access to financial systems would allow the poor to demonstrate that they are capable of borrowing money and paying it back in due time; thus, by being incorporated in the competitive logic of market their income would increase, which would make them gain self-confidence.

By the early 1990s institutions that had achieved the so-called *full financial sustainability* through this new modality already existed in Latin America⁴⁰. Simultaneously, *downscaling* processes are observed by which commercial banks or traditional financial entities enter the field of microfinance; in many cases, the

⁴⁰ For example, in 1992 PRODEM from Bolivia was the first NGO in the region to become a regulated commercial bank (Bancosol). Since then regulated microfinance institutions have spread: (i) Cajas Municipales in Perú, in 1993; (ii) in 1994, Corposol NGO from Colombia (member of Acción Internacional) became a regulated commercial bank (Finansol). Later in 1995-96, this bank faced the greatest bankruptcy in the history of microfinance in LA; (iii) in 1995, NGOs from Bolivia (Caja Los Andes) and El Salvador (Financiera Calpiá), affiliates to the German group IPC, became regulated institutions entitled to capture deposits.

transformation process was supported by the *Microenterprise Global Credit Program* of the Interamerican Development Bank-IDB (Berger et al. 2003)⁴¹.

The orthodox revision on this topic has clearly privileged the financial systems approach: regulated NGOs have the major share (53.4 per cent) followed by Commercial Banks that participate with 35.4 per cent of total portfolio in dollars (Marulanda and Otero 2005, chart I.1.). Regulated microfinance institutions also absorb the greatest number of customers (47.3 per cent) followed by non-regulated ones and banks that equally share the rest of customers' portfolio. These institutions have not developed homogeneously in the region. If microfinance coverage relative to the size of micro-enterprises sector is considered, small and medium-sized countries in Central America (headed by Nicaragua) and to the Andes region (especially Bolivia) are the countries of greatest penetration of microfinance.

Argentina is a late-comer on the field, but micro-credit is gaining grounds as the new paradigm in social policies. What can be expected? Not much. The advocates of microfinance assess its impact on the basis of repayment rates, risk portfolios, and other typical indicators of the financing sector. These indicators are used not only to determine the success of institutions, but also the beneficiaries of the programs. Such a criterion leads to a biased analysis of the effective impact of these programs (Mac Isaac 1996).

Thus, the (apparent) high rate of credit repayment conceals the fact that many customers take loans from diverse institutions to settle previous debts with no necessary improvement in their social situation. Repayment also may be financed by savings or other incomes from activities other than the ones that generated the credit. The criteria used for defining delays or lack of payment are also questionable (for example, long-term standards for classifying a credit as unpaid).

In contrast clients are not able to operate a business or do not have access to a potential market to take advantage of credit in order to increase their incomes. Repayment is often not related to the borrower's capacity to pay and debts are often paid by selling the few family assets or with money coming from abroad. This complicates the matter more so when high repayment is considered as an indicator of increased family well-being. Sometimes the need for obtaining incomes to comply with repayment implies increased hours of work of spouses and underage children.

In fact micro-entrepreneurs seldom have developed into large-scale business due to the urgent need to use generated capital to satisfy extra basic needs (school tuition, clothing, medical emergencies, etc). Market limits and borrowers' lack of an enterprising spirit have also played important roles. The deficiencies of credit programs mainly oriented to finance working capital have also hindered providing projects with the fixed assets needed to achieve sustainability and development. This is evident in the strong rotation of clients of microfinance institutions; hence, good technical relations may be established

⁴¹ For instance, starting with a loan of this type and with the technical assistance of IPC, five financial institutions engaged in microfinance in Paraguay. In Chile three commercial banks downscaled and currently dominate the microfinance market in the country. More recently, Banco Solidario in Ecuador and Banco de Trabajo and Banco de Crédito in Perú have engaged into large-scale microcredit activities, while two commercial banks in Guatemala (Bancafé and Banrural) have become pioneer banking institutions by incorporating micro-credits with the modality of *community banks*.

between financial institutions and clients but with low impact on the latter's poverty condition.

Success and self-sustainability of beneficiaries of financial assistance is not part of the evaluation leaving many questions remaining with no adequate answer. Among the most important questions are the following: What is the history of development and performance of micro-enterprises before and after becoming micro-credits borrowers? What activities are most frequently financed and how do they perform? What do beneficiaries use micro-credits for? To what extent do micro-enterprises succeed in developing their business and becoming self-sustained or growing to have access to traditional financing services at lower interest rates? To what extent are circles of micro-indebtedness created? Do micro-credit borrowers change or are they always the same clients that are not able to get out of the system?

These questions are the basis for the following hypothesis about micro-finance in the region (Pauselli y Villagra 2006): microfinance is a *financial industry* whose clients have changed in the last years. They are not micro-entrepreneurs who are trying to develop income strategies by means of self-employment; instead, the real clients are the *investors* providing funds. Micro-entrepreneurs have become the necessary component for these investors to recover investment with a proper profit through organizations specialized in obtaining financial rent from traditionally *non-bankable* segments of market. The high price of borrowed money –interests and expenses– in fact masks the situation. Instead of reflecting the high risk and administration cost of the activity, the price is what justifies investors' business.

Overall, many doubts arise regarding the real impact of the present microfinance approach in LA, particularly regarding the main objective of democratizing and providing massive access to finance services in order to reduce vulnerability and poverty in the region. The problem is not only functional but mainly conceptual. For example, to put the blame of poverty condition on the poor's lack of an enterprising spirit is groundless in a region with such unequal life opportunities. This thought begs the question, why should the poor have an enterprising spirit that qualified wage-earners lack? Or, if they do have this spirit, why is micro-credit the best way to guarantee the success of a new enterprise? What is really occurring is an effort to place the blame of the social and economic ills of the society on the affected people, thus avoiding society's responsibility to offer the most vulnerable groups formal employment and full insertion in social protection systems.

Another misconception is associating *access to income* with *access to credit*. The latter is the result of access to income only if other conditions are met. For instance, a certain level of income has to be guaranteed to people in order for them to devote credit to productive activity and not to urgent consumption. Access to markets, training, etc. must also be guaranteed. Also, micro-entrepreneurs must have organizational capacities as well as appropriate technologies to be able to become inserted in the corresponding field (Pauselli 2005). Since these elements are not guaranteed, the success of financial institutions does not imply the success of their clients.

Microfinance institutions lack the knowledge about the special features of the clients, and their economic behaviour performance once they have acceded to microfinance products. Under this model they elude addressing the above problems. Those problems put

serious doubts on the paradigm that “if the poor are provided loans and adequate training, they may become an entrepreneur”. This paradigm is not applicable in Latin America for the majority of social vulnerable groups (Pauselli 2005). In practice this paradigm is useful for a lucrative industry that captures financial resources from different parts of the world while, at the same time, it absorbs huge resources coming from incentive credits and subsidies granted by the State and by IFI. These resources could be devoted to other programs with higher impact on vulnerable sectors that remain outside the scope of debate.

In brief microfinance is more related to the logic of financial globalization than to the struggle against poverty. Instead of promoting higher incomes and savings, microfinance industry encourages poor people’s indebtedness. It supports strong rejection of interest rate ceilings or subsidies imposed to micro-loans. The emphasis they put on profits obtained by financing credit institutions are then not surprising.

The difficulties of microfinance devoted to poor sectors have the same roots as the problems inherent to these sectors: in the majority of cases the poor have access to a domestic market that has been impoverished by regressive distribution of income in the region. It is a market of poor people selling low-quality products and services to poor people. This circumstance has little to do with development, social inclusion or poverty elimination.

3. Concluding remarks

The above analysis questions the wisdom of efforts to deregulate the labour market. The supposedly efficiency gains from removing or bypassing those regulations are not sizeable and do not contribute too much to economic performance, if at all. In contrast, the huge social costs paid cannot be recuperated even with high economic growth.

In Argentina, and in most Latin American countries, the joint impact of structural reforms and the internationalization of markets during the nineties make it increasingly difficult for labour markets to generate a sufficient number of full and decent jobs. Employment, unemployment and underemployment have risen during the “flexible” nineties, and an increasing number of people have fallen out of “normal work”. The outcome of this process is a society in which the most significant division, as far as material welfare is concerned, could be the one that separates those who hold proper jobs from the rest of the population.

There is little evidence to support the "technological" explanation of problems created in the labour market. In Argentina there are serious doubts whether changes in production technology explain increases in productivity. Those increments seem to emerge more from changes in the "organization" of firms and pressures of a new set of relative prices imposed by the Convertible Plan. Labour market problems are more related to macroeconomic settings, labour flexibility (including informality) and the Welfare State retrenchment policies.

On the supply side important changes can be seen in labour supply partly due to the increasing numbers of women, young and elderly people entering the workforce. Nevertheless, it must be taken into account the fact that the rate of female economic

participation in Argentina (40%) is much lower than in developed countries; hence, an increase can therefore be expected.

In the post-Convertibility years, even when unemployment has fallen sharply, thanks to the rapid growth, there are many doubts about the impact on welfare. In the labour market scenario inherited from the nineties, one can expect a very unequal distribution of the risk of unemployment since an overwhelming proportion of the unemployed will become long-term unemployed without any chance of returning to the employment system.

The segmentation and disqualification of the labour market prevent people from selling their labour power even at a low price. Labour market flexibility weakens the bargaining position of both the employed and the unemployed while a direct exclusion of the "dual" type could be the result.

However, wage work continues to be the key factor in organizing life around certain "normal" standards. Traditionally in Argentina, wage work had two functions: it provides direct access to income, and it was the prerequisite for the access to the most important social benefits within the system of wage-work centered social policy.

The permanence of a flexible labour market and social policies institutions of the Welfare State retrenchment era are the main explanation of this scenario. This scenario creates a variety of channels to facilitate shifts between wage-work, unemployment, and self employment and other precarious labour relations. The deregulation of labour markets generates a widening of social divisions and a wider range of working opportunities, income and career.

As all the risks of technological innovation and social changes would become personal risks, this scenario could increase the danger of renunciation circles. . People do not accept low-paid "junk" or senseless jobs voluntarily; they do so because they have no other choice.

In Argentina, and Latin America, the "outsiders" are either unemployed or those working at a wider range of jobs in the "informal sector", which offer little, if any, job security. This distinction may not always be sharp in practice because there will be a porous threshold between these two groups of potential workers. These peculiarities on one side create a new "profit-led" regime of accumulation; on the other side, they modify the foundations of the social protection system.

In any case most of the predictions are subordinated to the continuation of high rates of growth. The experience in Argentina teaches that, after a period of price distortion, economy explodes searching for an abrupt adjustment. The question is to what extent the current scenario can be considered the end of the stop-go pattern of growth.

Current revisions of social policies brought by the orthodoxy of IFI do not support plausible solutions to these problems. Revisions of orthodoxy claim that the essential conception of the Washington Consensus is right. For them only some technical corrections are to be made in order to ameliorate market functioning which is considered the institutional side of the matter. Policy advisers point out the need to improving focalization, better regulating private insurance, and designing new programs of workfare and micro-

credits. The aim is to place the blame on unemployment and to compartmentalize beneficiaries into those who deserve and those who do not deserve assistance.

Experience reveals that the spreading of targeted programs is usually an excuse to justify the dismantlement of universal social policies. In actuality economic and social vulnerability increases not only for those who are not the target of social assistance policies, but also for those who really are. Besides the highly pro-cyclical nature of targeted policies and the low public expenditure devoted to them tend to contribute to the instability of internal demand. Consequently fighting poverty augments vulnerability and even poverty itself. It is not an unexpected effect, but a logical consequence of the mechanics of those policies.

It is worth remembering that social protection systems were not conceived to assist the poor, but to struggle against social vulnerability by devoting part of the incomes of the population to the social wage. More precisely, this is not about *giving* resources to poor people but about driving up the social wage and allotting that amount to cover risk. The aim of social protection systems is, as its name suggests, to *protect*; that is, to prevent and reduce vulnerability. The distribution of income is a means to achieve such protection.

Employment creation is not a matter of assistance programs. It requires multiple integrated economic policies. To begin, macroeconomic policies that coordinate monetary and fiscal policies simultaneously while being attentive to effective demand are necessary. In addition recovering the public sector role as employer is essential. There is an increasingly abandonment of public service institutions as employers: health, education, community service, social infrastructure, etc. These activities are all labour intensive and are not significantly dependant on foreign inputs, thus fostering economic recovery without strong pressure on money market.

Policies that foster the establishment of new enterprises and the support of already established small-sized ones are relevant to promote employment creation. As a result, incentive policies need to require an explicit generation of job opportunities in return. Incentive policies should not be based on reducing taxes that finance social insurance, but mainly on financial, administrative and commercial support so that companies have well-grounded expectations in creating their own development capacities once the incentive program is over.

Structural reforms imposed in last decades were found to be more destructive than constructive. They caused a great damage, including an environment of corruption in the classical meaning of the word: citizens' inability (especially government's inability) to recognize and give answer to public claims made by the community always opting to favour individual and corporate interests instead.

After the labour flexibility era, more than ever social and economic inheritance is the most valuable asset to confront a changing world while equity and social justice seem to be out of the agenda. The current macroeconomic scenario gives ample room for change but needs to be accompanied by an adequate revision of the institutional system built in the previous years. The answer to this is not a revision of orthodox policies but to rebuild the institutional setting of a social protection system, including labour regulations, on the basis of identifying general interests which contribute to the consolidation of a more equitable distribution pattern.

TABLES AND GRAPHS

Table 1
Population Groups Difficult to Cover by Social Insurance in Latin America, 2001-2004 (in percentages)

Countries ^a	Informal/ Urban Employed Labour ^b Force	Self- employed/ Urban Employed Labour Force	Self-employed & not Salaried/Rural ^c Labour Force	Poverty/ Total Population
Argentina	37.0	17.1	n.a.	29.4 ^d
Bolivia	62.8	45.7	86.0	62.4
Brazil	41.9	23.6	64.7	38.7
Chile	28.6	15.0	32.0	18.7
Colombia	44.4	38.5	54.8	50.6 ^d
Costa Rica	31.4	18.1	26.4	20.3
Dominican Rep.	43.0	30.6	55.1	44.9
Ecuador	52.4	34.2	60.4	49.0 ^d
El Salvador	49.5	32.4	40.5	48.9
Guatemala	54.1	36.0	62.3	60.2
Honduras	54.2	36.7	63.0	77.3
Mexico	41.4	19.0	35.4	37.0
Nicaragua	55.6	35.4	57.2	69.3
Panama	34.5	21.0	56.3	34.0
Paraguay	53.8	30.1	69.4	61.0
Peru	60.0	42.0	80.5	54.7
Uruguay	42.6	21.8	n.a.	15.4 ^d
Venezuela	53.9	39.6	44.9	48.6
Regional Average	46.7	29.8	55.6	41.7

Sources: Mesa- Lago (2007).

^a There are no statistics on Cuba and Haiti.

^b Percentage of the urban labour force employed that is either unskilled self-employed, domestic servant or employed in microenterprises (Colombia excludes the latter), all with low productivity.^c

^d Percentage of the rural labour force that is self-employed or unpaid family worker. Only urban.

Table 2
Proportional Size of Groups Difficult to Incorporate and Legal and Statistical Pension Coverage in Selected Countries, 2000-2004

Groups/ Countries	Group/Employed Labour Force ^a (%)	Legal Coverage	% of the Group Covered
Self-employed			
Argentina	24	Obligatory	30
Brazil	26	Obligatory	23
Chile	15	Voluntary	5
Colombia	39	Voluntary ^b	10
Costa Rica	21	Voluntary ^c	24
Mexico	19	Voluntary	0.1 ^e
Nicaragua	35	Voluntary	0.2
Paraguay	30	Voluntary ^d	0.2
Uruguay	22	Obligatory	29
Domestic Servants			
Brazil	9	Obligatory	27 ^f
Costa Rica	3	Obligatory	39
Paraguay	10	Voluntary	3 ^g
Agricult./Peasants			
Brazil	65	Special Regime	50
Chile	32	Obligatory	41
Costa Rica	26	Obligatory Salaried	44
Ecuador	60	Special Regime	18
El Salvador	41	Large Farms Only	6 ^h
Honduras	63	Oblig. 10+ Employees	2 ^h
Mexico	35	Special Regime	29

Sources: Mesa-Lago (2007).

^a Urban labour force for self-employed and domestic servants; rural self-employed and unpaid family workers in agriculture; data corresponds with the same year of coverage. ^b The reform stipulates obligatory coverage but it has not been implemented. ^c Until 2006 when it became obligatory. ^d Legally obligatory but not enforced in practice. ^e Percentage of informal sector covered. ^f Without a contract raises to 100% with a contract. ^g In health program. ^h Year 1997.

Table 3: Evolution of Argentina's Public Debt Stock (1990-2001)
 (in millions of period-end dollars)

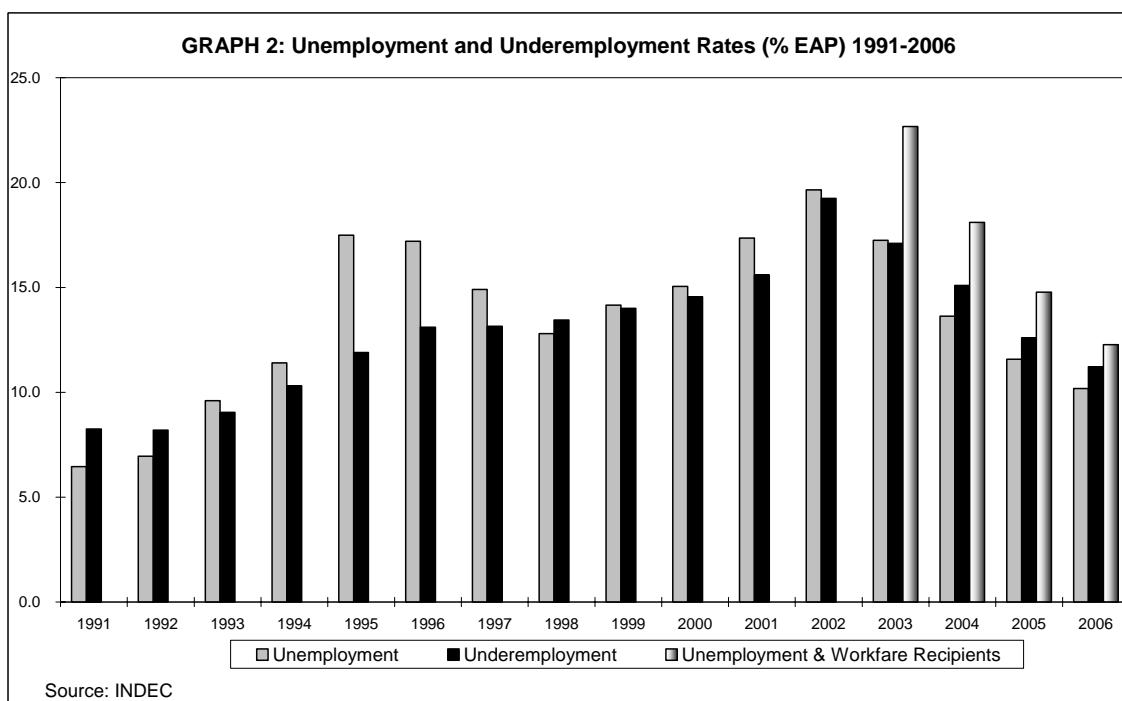
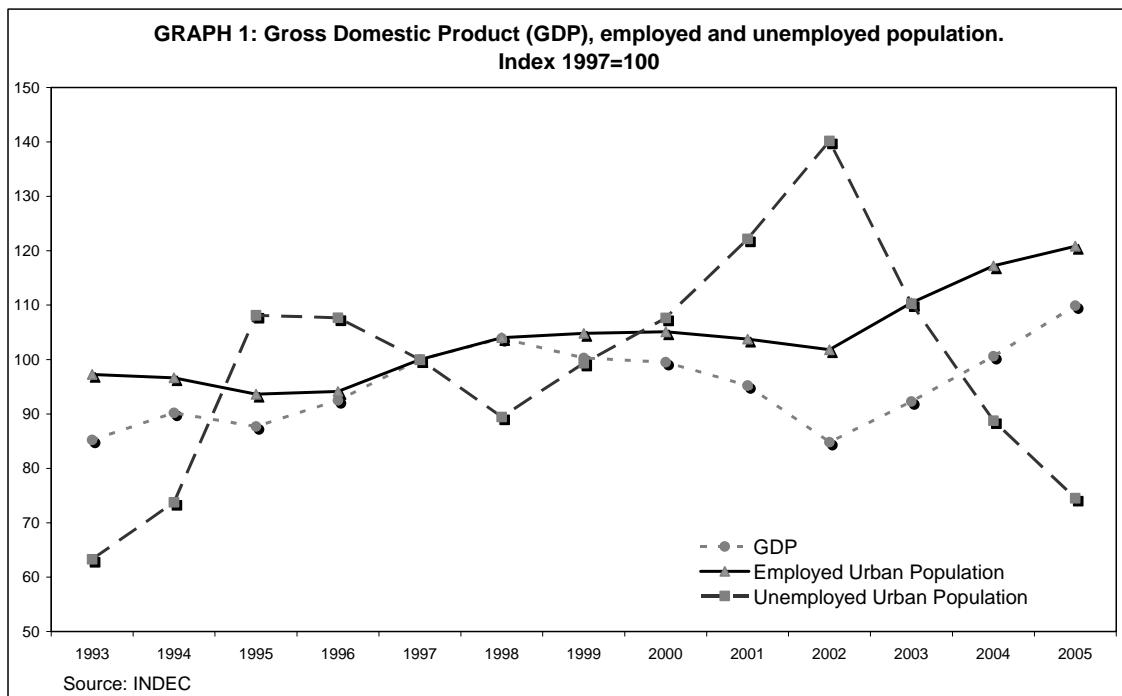
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Bonds	8,406	7,378	11,292	41,926	47,421	58,341	68,841	74,054	78,212	85,804	93,079	97,315
as % of total debt	14.6%	12.5%	19.2%	65.8%	65.7%	66.5%	70.9%	73.2%	69.6%	70.4%	72.7%	67.4%
IFIs	8,222	7,962	7,104	10,501	11,894	15,384	16,367	16,790	19,122	20,311	21,764	32,362
as % of total debt	14.3%	13.5%	12.1%	16.5%	16.5%	17.5%	16.9%	16.6%	17.0%	16.7%	17.0%	22.4%
Bilateral debt	8,159	8,816	9,001	9,559	10,731	11,614	10,162	8,104	7,455	5,918	4,561	4,477
as % of total debt	14.2%	15.0%	15.3%	15.0%	14.9%	13.2%	10.5%	8.0%	6.6%	4.9%	3.6%	3.1%
Commercial Banks	30,944	32,874	30,265	1,180	1,567	1,816	1,452	1,423	3,646	5,029	2,461	2,015
as % of total debt	53.7%	55.9%	51.5%	1.9%	2.2%	2.1%	1.5%	1.4%	3.2%	4.1%	1.9%	1.4%
Short-term debt	0	3,295	4,174	5,108	6,746							
Other creditors	1,851	1,811	1,083	580	587	617	283	731	628	641	1,045	1,537
TOTAL	57,582	58,841	58,745	63,746	72,200	87,772	97,105	101,101	112,358	121,877	128,018	144,453

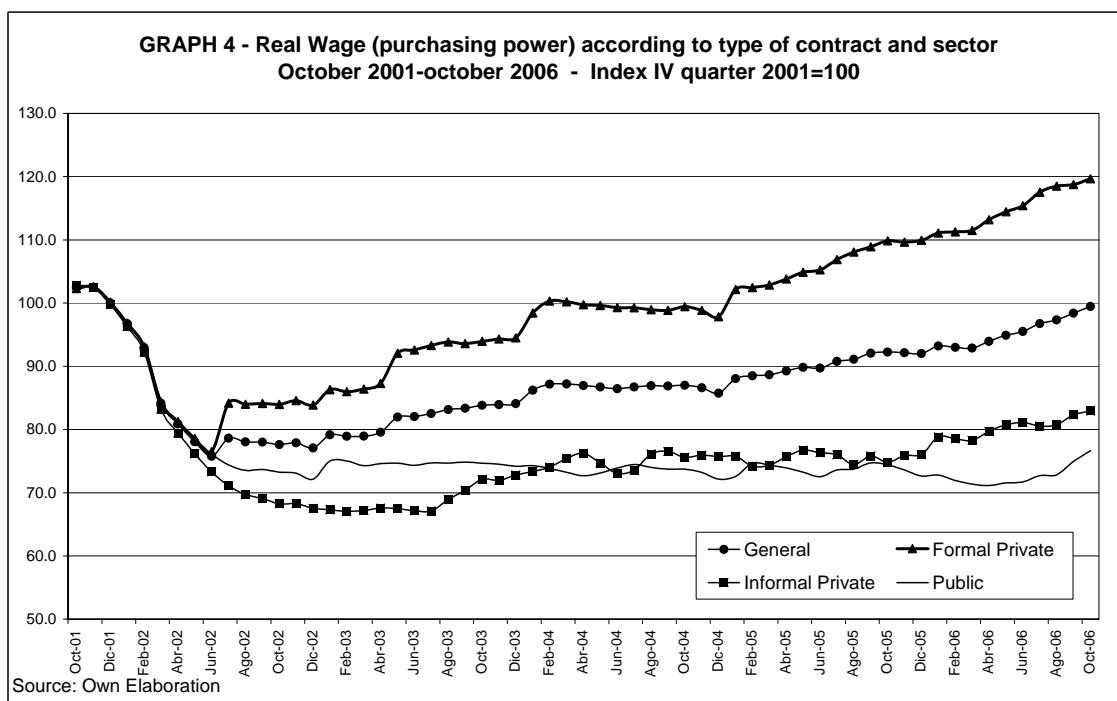
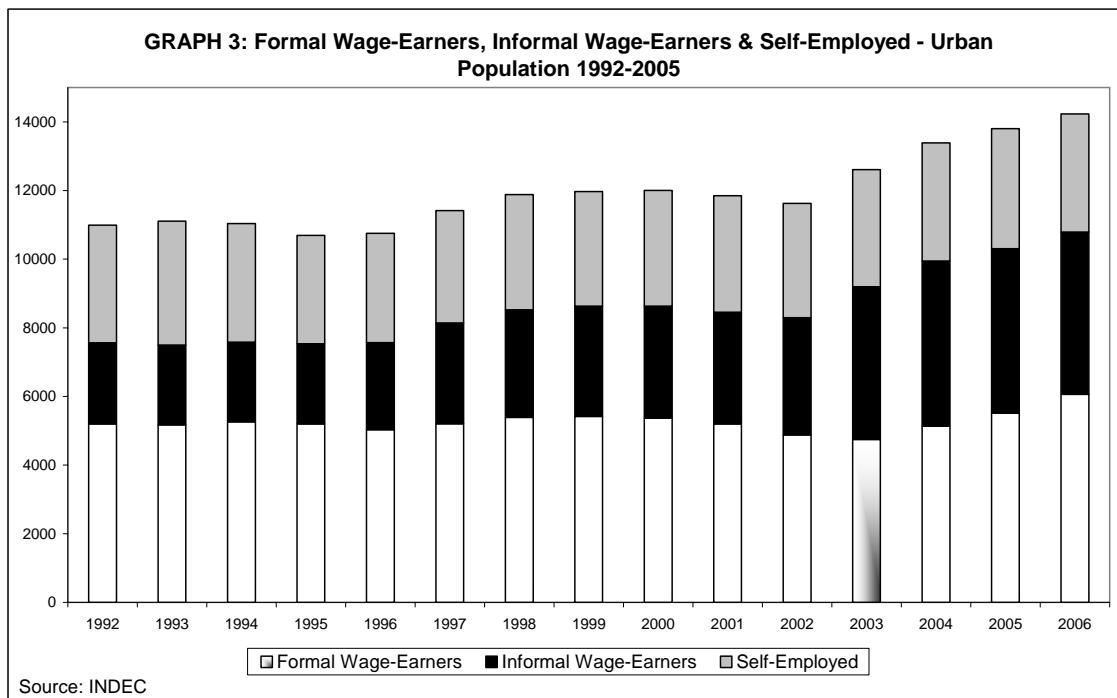
Source: Kulfas and Schorr (2003)

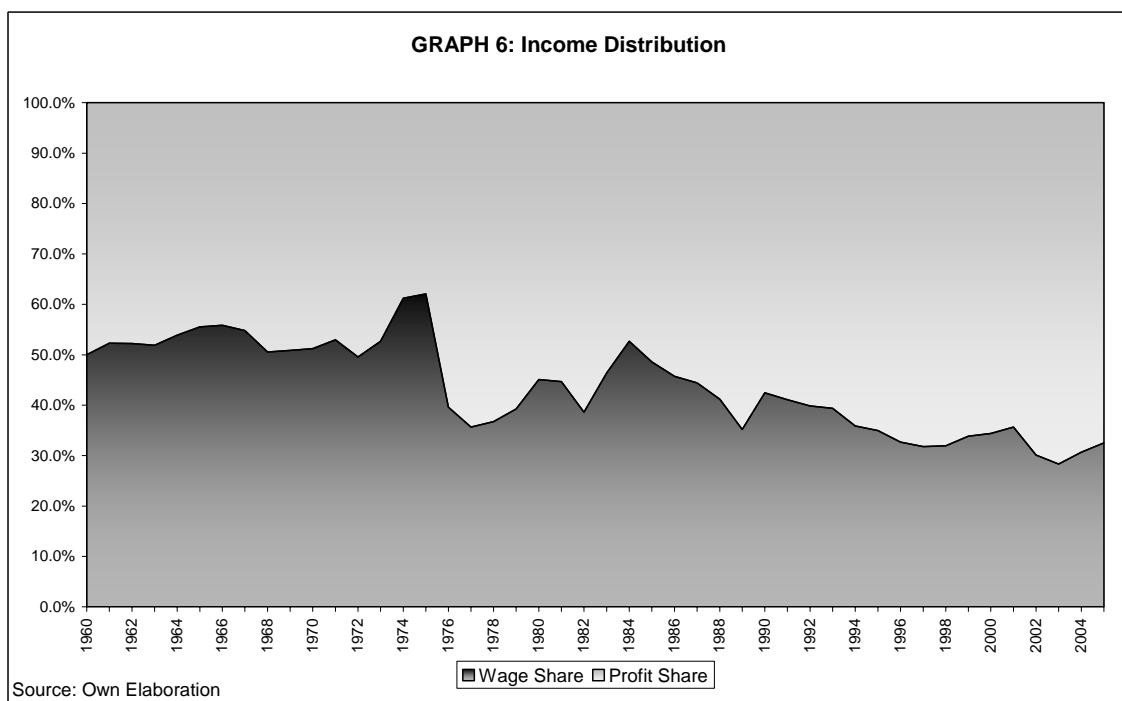
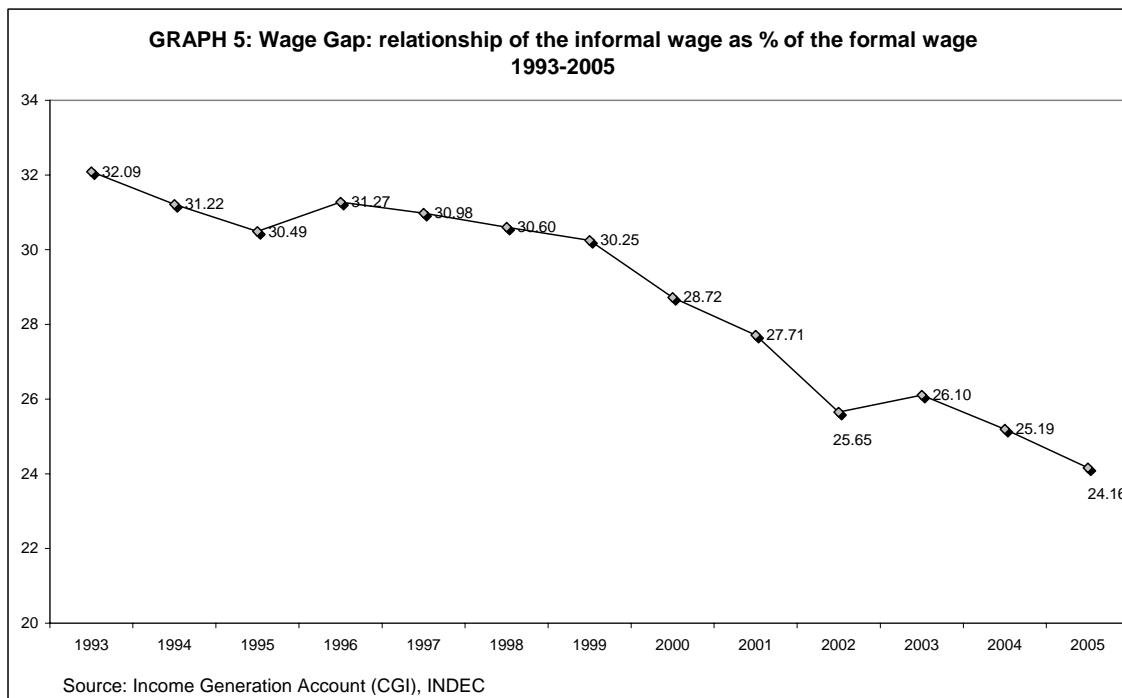
Table 4: The Fiscal Impact of Social Security Privatization
(per cent of GDP)

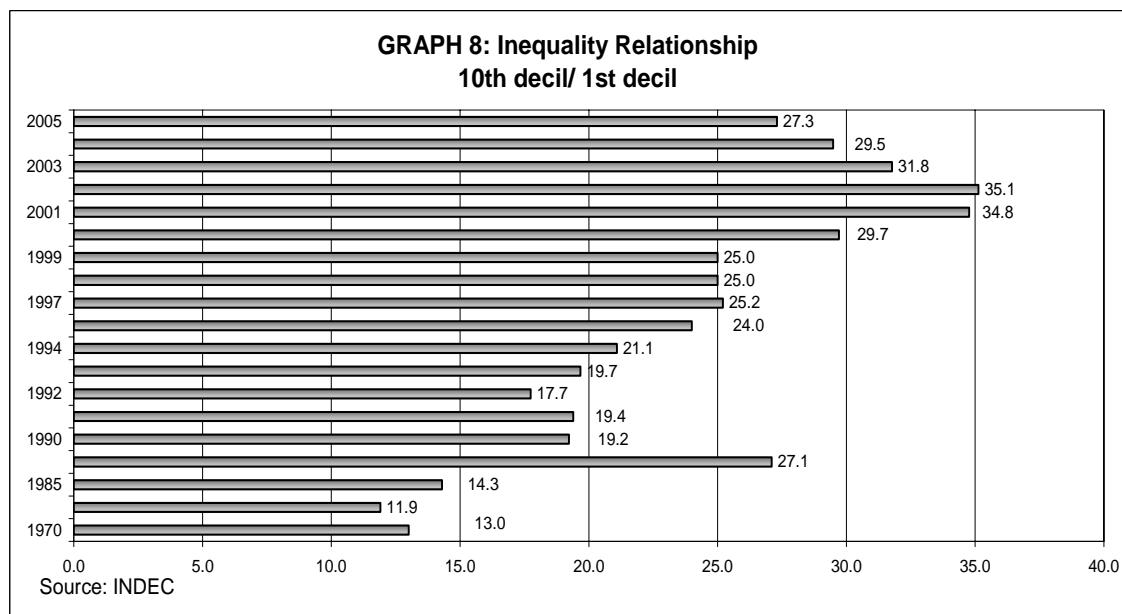
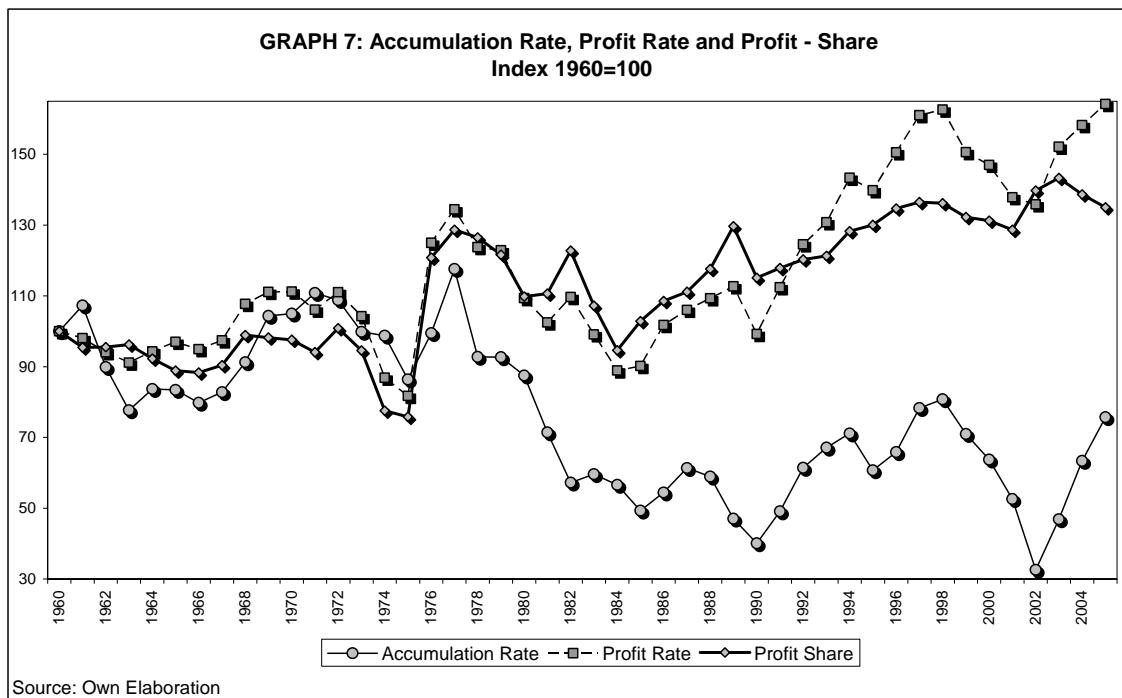
	1994	1995	1996	1997	1998	1999	2000	2001
Lost Soc. Sec. Rev	-0.5	-1	-1	-1	-1	-1	-1	-1
Interest Rate	10.0%	10.0%	10.0%	10.0%	14.0%	14.0%	20.0%	20.0%
Interest Costs	-0.01	-0.1	-0.2	-0.3	-0.6	-0.86	-1.59	-2.16
Additional Deficit	-0.51	-1.1	-1.2	-1.3	-1.59	-1.86	-2.59	-3.16
Cumulative Debt	-0.51	-1.62	-2.72	-3.83	-5.35	-7.5	-10.05	-13.49

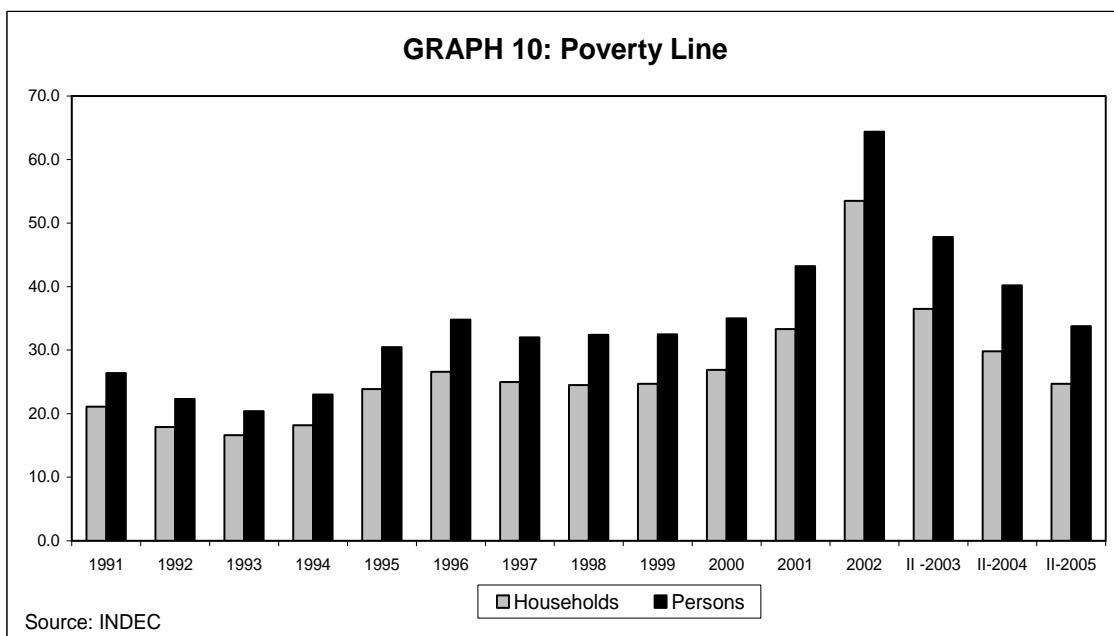
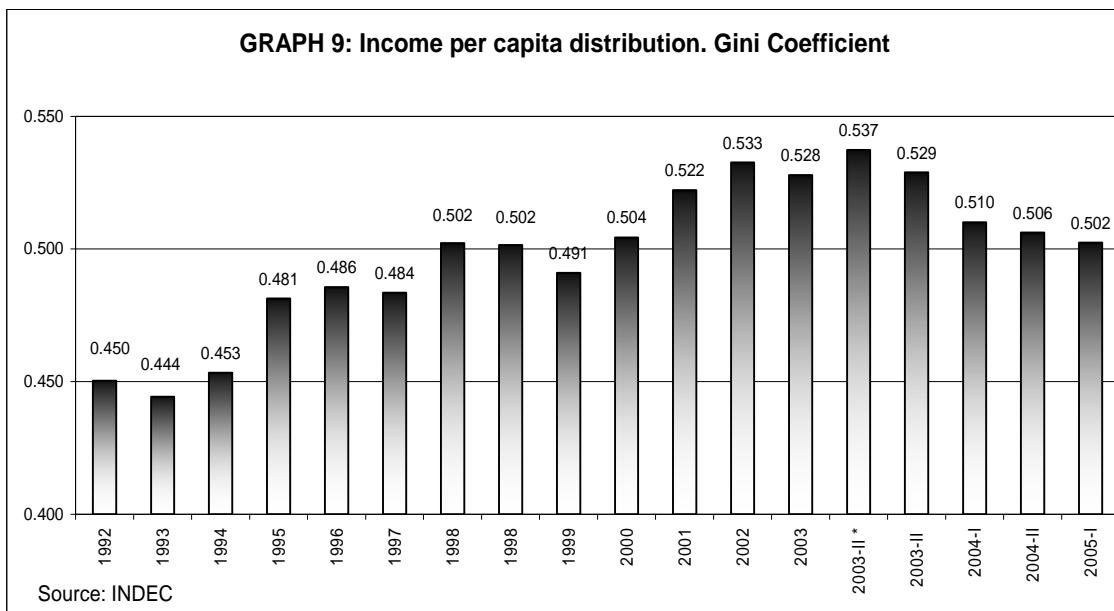
Source: Baker and Weisbrod (2002)











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