

# **Macroeconomic regime, trade openness, unemployment and inequality. The Argentine Experience.**

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## **Abstract**

Argentina appears as a very interesting country to be analyzed from the point of view of the evolution of their population's welfare during the last three decades. Being a country characterized in the region by a very low level of inequality, widespread labour protection and reduced poverty incidence, the country has been experiencing a systematic worsening in social conditions, in part as a consequence of the macroeconomic crisis. However, these negative trends were also verified even in periods of economic growth. Specifically, during the first part of the Convertibility Plan (1991-1994) when an intensive structural "market-friendly" reform was carried out, Argentina experienced very high GDP growth rates as well as unprecedented unemployment rates. This was mainly due to the weak performance of the labour demand under a macroeconomic regime characterized by the combination of a very quick trade opening, real appreciation and structural reforms.

The negative impact on living conditions has resulted to be very difficult to revert even under the economic recovery after devaluation, indicating the perdurability of these effects on the labour market and the social structure. In fact, the difficulties to improve the distributive equality even under favourable macroeconomic performance, probably, constitute a distinctive characteristic of the Argentine case.

The main aim of this paper is to analyze the Argentine experience focusing on the interactions among macroeconomic regime, labour performance, income distribution and poverty incidence. For this, microdata from official regular household survey – Permanent Household Survey (EPH)– are used. A discussion about different theoretical perspectives is presented and analysed, taking into account diverse labour and social indicators. Also, poverty decomposition exercises are included in order to evaluate the impact of factors associated with distributional failure and poverty growth.

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## INTRODUCTION

The distributive analysis of Argentina is relevant for, at least, two reasons. On the one hand, this is one of Latin American countries that has experienced the most dramatic changes with respect to income inequality and welfare through the last three decades. Argentina changed from being a country with low unemployment and inequality levels and reasonable social integration to experience high vulnerability, poverty and inequality rates. On the other hand, the experience of this country indicates that it is possible to verify considerable increments of the domestic product together with a very strong worsening of the personal and household income distribution.

Traditionally, Argentina –together with Costa Rica and Uruguay– constituted one of the countries of the region with lower levels of inequality. This panorama was altered since the change of the macroeconomic regime at the end of the seventies and it was deepened with the economic opening, the exchange rate appreciation and the structural reforms carried out in the country during the nineties.

Indeed, the economic performance during this decade contributed to increase the income inequalities and the gap of welfare among rich and poor in Argentina. The distance of per capita household incomes between the 20% richest and 20% poorest population passed from 10 times in 1991 to 20 times at the end of 2001 –when the “Convertibility Plan” Currency Board established in 1991 collapsed–, as long as the Gini coefficient of these incomes passed from 0,478 to 0,512. Unemployment grew from 10% to 20% in that period. Poverty, that in 1991 affected 29% of the population, reached 33% in 2001, at the same time that indigence was duplicated.<sup>1</sup>

During the Convertibility years, the distributive worsening of the household incomes was mainly related to the deficient performance of the labour market.<sup>2</sup> In a first stage, market opening and exchange rate appreciation generated a process of productive reconversion, characterized by the displacement of local production and the reduction of labour force requirements, deriving in a deficient generation of employment and persistent high unemployment rates. The early upsurge of this configuration of the labour market, even in periods of growth of the economic activity, was one of the characteristic features of the decade. Later, by keeping the currency board regime through successive external crises deepened the high levels of unemployment in the contractive phases of the cycle. Towards the end of the Convertibility, and within the framework of record levels of open unemployment, the income inequality of active population (that include not only employed but also unemployment) reached 0.565 in October 2001, value that was 0.462 ten years before.

In this way, the adjustment of the labour market in terms of employment generation, unemployment and real wages, was in the center of the strategy of inflationary stabilization that was implicit in the fixed exchange rate regime. When the real wage ‘flexibility’ that allows the inflation was lost, the open unemployment rate acted depressing the average wages. The average real remunerations grew 28% between 1991 and 1994, falling later 14% since that date until the end of the Convertibility.

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<sup>1</sup> Data for the “Greater Buenos Aires” urban centre (GBA).

<sup>2</sup> Altimir and Beccaria (1999); Altimir *et al* (2002); Damill *et al* (2002); Beccaria and Maurizio (2005).

In this context, Argentina, during 2002, goes through an economic and social crisis of unusual magnitude as a consequence of the collapse of Convertibility at the beginning of that year. The GDP decreased more than 11%, the unemployment climbed to 21% and 55% of the population lived in households with incomes below the poverty line. The magnitude of this crisis in the following months of the currency devaluation, expressed through the significant contraction of the activity level, the employment and the real income, reflected the important disequilibria that were accumulated during the previous decade.

From the second half of 2002, however, some reversion of the trends of the labour market indicators has operated, as a consequence of the consolidation of the process of economic growth. Its intensity was differential according to the specific analyzed variable: the employment has been recovering very quick since the end of 2002 and the poverty has substantially decreased. Other variables have shown a less intense recovery, as the case of the real incomes and their distribution. However, after so many years of persistent unfavourable indicators, the generation of labour posts has been partly characterized by being unable to solve the problems of precariousness –generation of salaried jobs not registered in social security- and labour instability.

Also, the dynamics of the wages has been shown as procyclical. The increase of the employment demand, as a consequence of the higher activity level, brought not only “per quantities” adjustment but also wage rises. However, although the contraction of the real remunerations that started in 1998 was very important, their recovery, as mentioned, has been not very intense. The fragmentation inside the workforce and the high levels of initial unemployment rates (that have not been solved yet) make this recovery be, for the time being, insufficient to fully re-establish the wage purchasing power. Lastly, the indicators of inequality, poverty and indigence reveal that the country continues going through a vulnerable social situation, in spite of the better behaviour of the labour market. The permanency during long periods of exclusion and extreme social conditions made the impact of the current macroeconomic configuration –that has been more favourable to employment generation–, although important, not enough to completely reverse the panorama of social privation that still affects to an important group of the population.

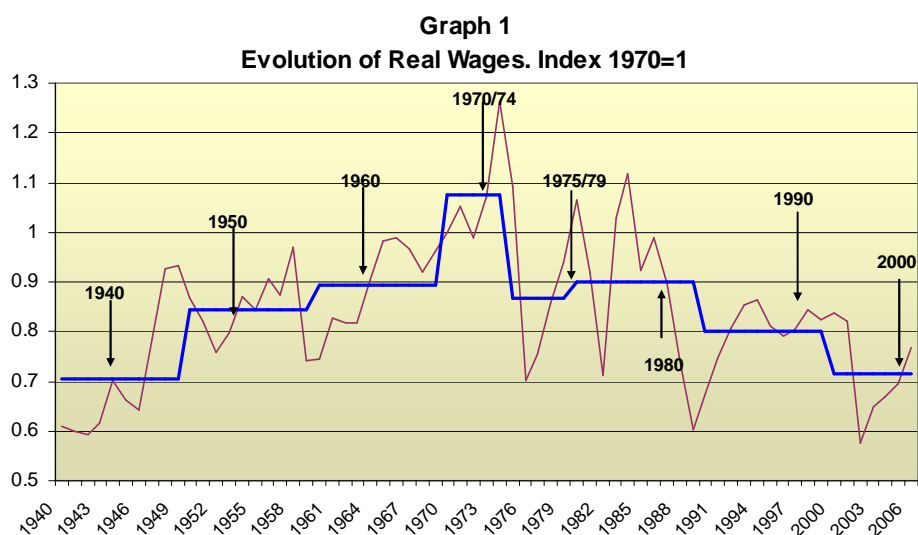
Therefore, the recent history of Argentina allows establishing two important conclusions. The first one is that the macroeconomic framework is not indifferent regarding its consequences on the social situation. In particular, the Argentine experience indicates that there are environments that, in spite of producing important GDP growths, do not promote the creation of employment and contribute to the increase of inequality. The second conclusion is that the negative effects that the macroeconomic configuration has on the labour market and the income distribution persist even after the country returns to its growth path. This makes the complete recomposition of living conditions, even under macroeconomic regimes favourable to employment generation, require very important additional efforts through public policy towards the more vulnerable groups. In this sense, Argentina has registered a pattern where the successive crises act worsening the income distribution as long as the recovery cycles find boundaries for the complete reversion of these trends.

The main aim of this paper is to study the Argentine experience analyzing the interaction among the macroeconomic regime, the employment generation, the income

distribution and the poverty incidence. The paper has five sections. The first one analyzes the long-term evolution of the most important social indicators in Argentina and it compares it with the rest of Latin American countries. The second section presents a brief description of the macroeconomic and social indicators of the nineties decade in Argentina whereas in the following section a discussion about factors associated with the worsening of the labour and distributive condition of this decade is presented. In section 4 the reversion and perdurability of social indicators in the recovery phase after macroeconomic regime change in 2001 is analyzed. Lastly, in the section 5 the most important conclusions of the work are shown.

## 1. Long-term and regional perspective

A long-term look allows us to put the recent developments of the labour market and the inequality in Argentina in perspective. During the last three decades, the country not only experienced macroeconomic instability and recession processes but also phases of strong economic growth and greater stability. However, as shown in Graph 1, beyond the short-term fluctuations, the real incomes of workers have been experiencing a downward trend from the maximum obtained in 1974. This would indicate that the role of “adjustment variable” of the wages has been verified under different macroeconomic regimes. In particular the nineties, characterized by very reduced inflation levels and even by deflation episodes, were not able to make the purchasing power of remunerations grow. Instead, it ended up being, on average, lower than that of the previous decade. This systematic deterioration makes the wage recovery that started in 2003 insufficient to substantially reverse the previous process. Actually, the value corresponding to the post-Convertibility average is only higher than the average of the first half of the forties decade.



Source: Author' elaboration based on data from Altimir and Beccaria (1999).

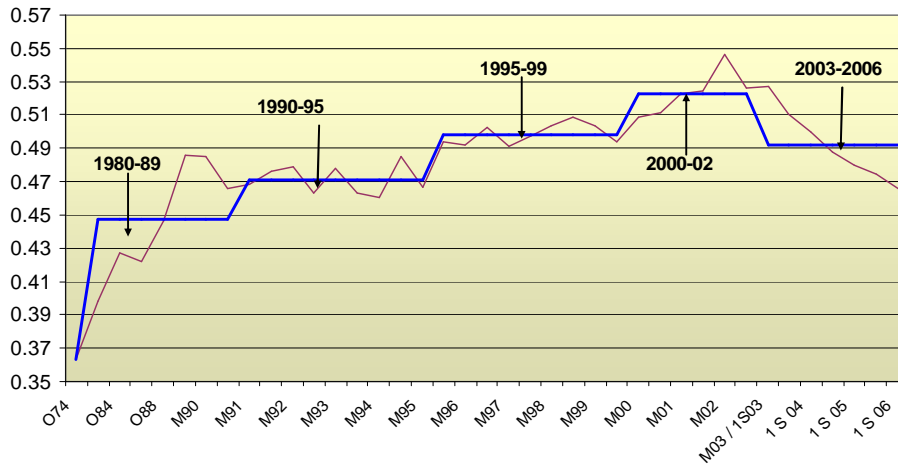
The reduction of the long-term real wage and the dynamics of the employment were not verified, however, in a homogeneous way inside the population. It resulted in a sustained growth of the inequality levels both of employed population and of households. As shown in Graph 2, Gini index of per capita family incomes has experienced a growing trend since the middle of the seventies: from 0,361 in 1974 to 0.466 in 2006, 10 p.p. higher thirty two years later. In general terms, the growing

inequality among households has had two different types of determinants. On the one hand, the economic crises (1989-1990 associated with the hyperinflation episodes, 1995-1996 Tequila crisis and 2002 after the macroeconomic regime change). On the other hand, the two opening processes -one at the end of the seventies and the other one at the nineties- that implied deep modifications in the labour market with negative effects on the income distribution. Also, the factors associated with this dynamics have been different in each of these stages.

Indeed, in the second half of the seventies the increase of inequality was fundamentally associated with the increase of inequality among the employed population in a framework of strong reduction of real wages after the freeze of nominal wages freezing imposed by the military government in 1976, but without growth of unemployment. As it is mentioned in Altimir *et al* (2002), the higher inequality would be explained by the employer's policy of granting the most qualified workers asylum from the deterioration of the remunerations. In the eighties, the discrepancies of labour income prevailed, even after the return of the democracy which brought the return of the union action, in a context of stagnancy and strong macroeconomic instability. At this stage, furthermore, this behaviour went together with a slight increase of the unemployment rate, fundamentally among the members of the poorest families. Lastly, and as it will be seen later in detail, the achievements in matters of stabilization and economy growth during the nineties did not result in distributive improvements. As it was already mentioned, although the real remunerations recovered in comparison to the years of hyperinflation, they continued being -on average- lower than those of the second half of the eighties. This income distribution remained constant only during the first half of the nineties, experiencing later a sustained growth. However, the unprecedented levels of open unemployment that the country already experienced in the first years of the Convertibility (and in a context of strong economic growth) implied a additional deterioration of the inequality of the family income. Indeed, the increase without precedents of this indicator in the nineties marks a very important discrepancy with the previous stages, in particular, with what happened in the first opening experiment at the end of the seventies. The unemployment, therefore, constitutes the basis from where a higher inequality was verified not only among the households but also, as it will be explained later, among the employed population.

Therefore, in Argentina this “distributive catastrophe” during the last three decades indicates the negative impact on equity of different macroeconomic factors: macroeconomic unbalances, hyperinflation, currency devaluations, stabilization policies, structural reforms, economy opening, exchange rate appreciation, they all seem to have had devastating effects on the incomes inequality in a more and more fragmented society. After the collapse of Convertibility, a period of four years in which inequality has registered a decreasing trend, the Gini index recently returned to the levels of the first half of the nineties that, as it was already analyzed, ca not be considered as satisfactory.

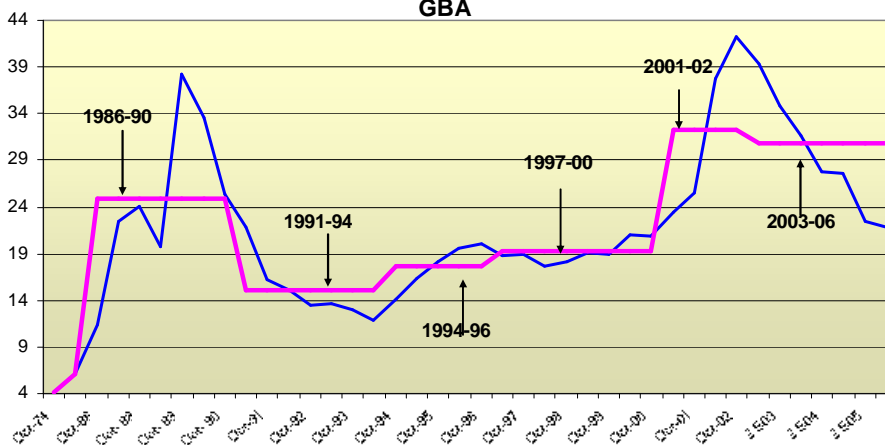
**Graph 2**  
**Gini Index of Per Capita Income. GBA**



Source: Author' elaboration based on data from EPH (INDEC).

The different capacity of diverse population groups in the struggle for “appropriation” of the total income has had a direct impact on the poverty incidence. Although during these years it is possible to observe stages with dissimilar behaviours, the percentage of poor households grew significantly, going from representing 4% of the households in 1974 to almost 22% in the second semester of 2006. As it is observed in Graph 3, although the poverty reduction in the first half of the nineties was very important, the average incidence in those years went higher than that registered before the hyperinflation episodes of 1989 and 1990. On the other hand, after a new growth phase registered between the end of 1994 and the end of 1996, poverty was able to become stable until the end of 1999 but, again, in levels higher than those of the previous phases. The collapse of the Currency Board and the consequent devaluation made poverty reach levels that had never been registered before in the country. Finally, although since 2003 the upward trend of the poverty rate is reverted, the average of this last period is still the highest of the whole period.

**Graph 3**  
**Household's Poverty Index**  
**GBA**



Source: Author' elaboration based on data from EPH (INDEC).

It can be observed, then, that the privation levels that emerge after each crisis, although lower than those registered during its development, make it difficult to return to the pre-crisis levels. This indicates a pattern of long-term behaviour in which the crises do not appear as deep episodes of worsening of living conditions, but delimited in time, but rather as the breaking away from certain consents on the quality of the population's social conditions that "naturalize" a situation previously considered as intolerable.

The regional dimension also helps to put the recently mentioned developments in perspective. As it has been argued in different previous studies<sup>3</sup>, Latin America constitutes one of the regions of the world with higher level of inequality and polarization. For example, as shown in Gasparini *et al* (2006), the level of average polarization of Latin America and the Caribbean (for selected years of the nineties decade) is 44% higher than the European average and 40% than other OECD countries. Also, inside the region, Argentina was traditionally one of the Latin American countries with better social indicators, together with Costa Rica, Uruguay and Venezuela. In particular, the presence of a middle class and a low degree of social polarization in Argentina differentiated it from most of the countries of the region. On the contrary, Brazil was and still is the most unequal country in the region.

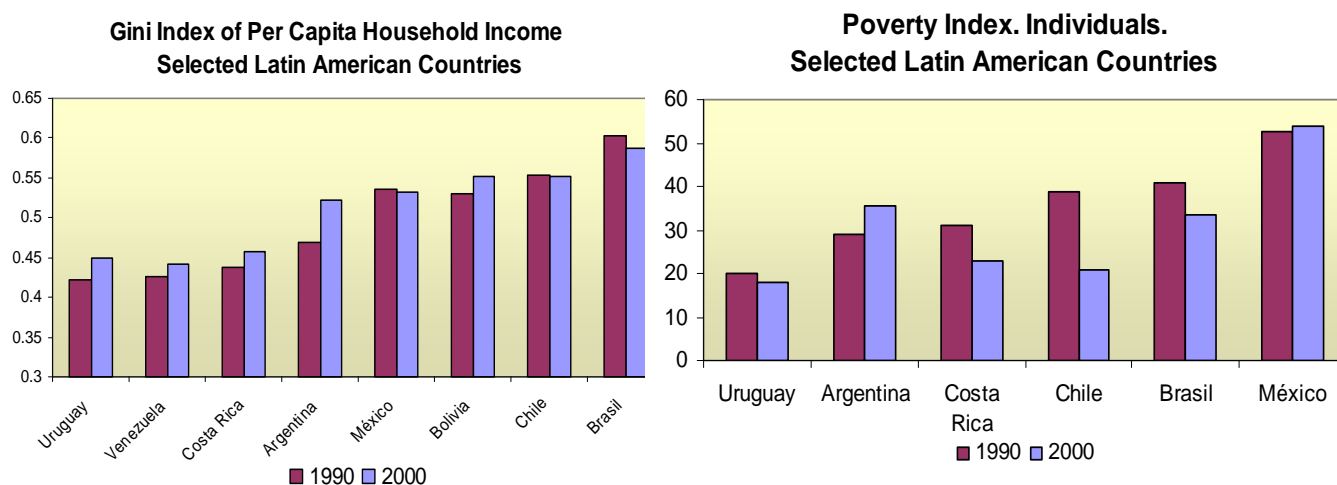
During the last decade, the experience of the countries of the region has not been homogeneous in terms of income distribution and poverty. Although it is observed that in most of them the inequality has increased, the intensity of this process has been different in each case. In general terms, the growth of inequality was verified basically in South America, whereas the countries of Central America have experienced more reduced changes.

Also, there are other remarkable differences: while during the nineties the inequality decreased in Brazil and, in smaller measure, in Chile, on the contrary, Uruguay, Costa Rica, Venezuela and –especially– Argentina experienced the opposite process (Graph 4). In this sense, during the last decade certain reduction has been verified in the gap among countries with respect to the inequality indicators (although it is still very wide) as they rose in the last years in the countries with lower degree of initial inequality, while they reduced in the most inequitable ones.

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<sup>3</sup> See Gasparini (2003), Morley (2000), Ganuza *et al.* (2001), Bourguignon and Morrison (2003).

**Graph 4**  
**Evolution of inequality and poverty during the nineties in Latin America**



Source: Author' elaboration based on BADEINSO (ECLAC).

A similar panorama arises when comparing the evolution of the poverty incidence in the case of Argentina with that of the countries of the region. In particular, the strong increase in the poverty rates registered during the nineties has been clearly higher than the one registered in most of the countries of the region (Graph 4). In this sense, there is a striking contrast between the Argentine performance and that of its neighbouring countries –Chile, Brazil and Uruguay– since the poverty incidence decreased in the first two cases while it remained relatively constant in the third one.

This brief comparative analysis with the most important countries in the region (which is by no means exhaustive) indicates that although the distributive changes brought about in Argentina are not opposed to what happened in the rest of the region, these seem to have been verified more intensely. For this reason, it is interesting to analyze with more depth the macroeconomic and labour changes that might be behind these significant changes in inequality and poverty in the country.

## **2. Macroeconomic regime, labour market and distributional performance during the nineties**

The mid-1970s marked the start of a 15-year period of macroeconomic instability. This performance was associated with an external constraint arising from the high level of external debt, which in turn was generated firstly by the policies implemented, particularly between 1978 and 1981. The measures adopted subsequently –throughout the 1980s– were unable to successfully address a number of structural aspects of the Argentine economy, such as the management of public accounts and the “high inflation regime” (although the two factors are not independent). The latter is very important for understanding both the domestic effects of external borrowing and the difficulties in achieving sustained stabilization.

This process of macroeconomic instability culminated in the hyperinflation episodes of 1989 and 1990. The Government that took office in 1989 was initially unable to

improve the situation, and the implementation of a stabilization programme that could halt inflation and generate activity growth was left to the economic team appointed in late January 1991. Therefore, from the beginning of the nineties a vast set of economic policy reforms were implemented based on the Washington Consensus, which not only implied a profound transformation of the macroeconomic functioning in the short run, but decisively affected the living conditions of the population. After decades of macroeconomic instability, the “Convertibility Plan” implemented in 1991 was brought into practice based on the diagnosis that explained these disequilibria as a consequence of characteristics inherent to the functioning of an economy that did not let the forces of the market act freely. The plan was based on the implementation of a fixed exchange rate, the establishment of the convertibility of the currency in circulation and the prohibition of any issuing of money that was not backed by external assets.<sup>4</sup> In practice, the Convertibility Law transformed the central bank into a currency board. As mentioned in Damill, Frenkel and Maurizio (2007), the legal constraints on the central bank’s ability to autonomously manage the monetary base left domestic liquidity and credit almost fully dependent on the balance of payments results.

This macroeconomic scenario was the frame in which a vast set of structural reforms were carried out: large scale privatizations, state reform and modification of the previsional system are some of the most important. This process of reforms in favour of the market also included intense policies of deregulation and flexibilization of the labour market.<sup>5</sup> Finally, strong and quick commercial and financial liberalization policies were implemented in order to contribute to the alignment of domestic and international inflation.

However, in addition to these new “rules of game”, one important aspect should be remarked: the real exchange rate was already appreciated when the nominal exchange rate was pegged to the dollar in March 1991 and this appreciated level lasted throughout the nineties. The currency appreciation explains, for instance, why in spite of the strong growth in the labour productivity in manufacture activities, the unit labour cost in constant dollars strongly increased in the first years of the nineties in spite of the reduction of the purchasing power of the remunerations.

The vigorous inflow of foreign capital between 1991 and 1994 –attracted by the greater confidence provided by the orientation of economic policy, but also due to a larger supply of funds in the international financial market– boosted domestic demand. Nonetheless, the Mexican crisis in late 1994 revealed the fragility of an economy in which the expansion was based on increasing foreign debt. Although the economy managed to recover quickly and to grow at high rates, in 1998 a new contractionary phase started which, unlike the previous recession, lasted unusually long and triggered the abandonment of the fixed exchange rate system shortly after the beginning of 2002. As mentioned in Damill *et al* (2007), the Argentine macroeconomic experience in the nineties is an example of a more general pattern of external crisis. It begins with an expansionary phase caused by capital inflows attracted by high interest rate differentials between local and foreign assets. Domestic credit and aggregate demand expands while real exchange rate appreciation emerges as a consequence of inflation generated by demand pressures. The current account worsens as a result of the increasing net imports flow caused by both the exchange rate appreciation and the demand expansion. The

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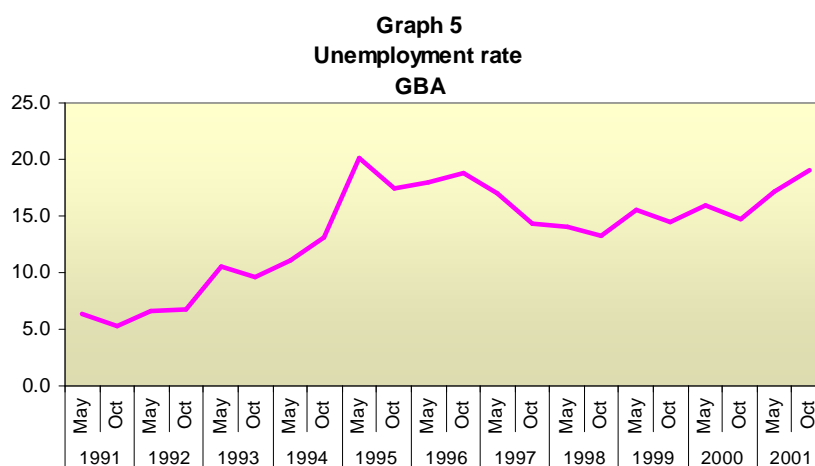
<sup>4</sup> For more details about Convertibility, see, for instance, Damill *et al* (2002, 2003)

<sup>5</sup> For a discussion about the effect of labour market deregulation, see Beccaria and Galin (2002)

external financial needs raise leading to debt accumulation. Consequently, external vulnerability of the economy progressively increases. As the perceived risk increases, capital inflows tend to slow down and interest rates rise, pushed by rising country risk and exchange risk premiums. Reserves accumulation stops and a contraction begins. Higher interest rates and capital outflows give place to an illiquid financial scenario. Moreover, the rise in the real interest rate, an endogenous consequence of increasing external fragility, sharpens the contraction of economic activity creating additional sources of financial distress. Finally, the exchange rate regime collapses simultaneously with a financial crisis.

From the point of view of the employment generation, the new prices configuration that came up under the new regime had important consequences on the performance of the labour market. Although the high growth rates of the first years of the Convertibility contributed to the increase of the employment in the non-tradable sectors, the commercial opening and the exchange rate appreciation seriously attempted against the employment creation in the industrial sector. At the same time, the reduction of the capital goods in relation to labour resulted in a substitution process of the second for the first ones across different productive sectors. All that strongly weakened the employment requirement with the consequent increase of open unemployment rates, even when the economy exhibited, at the beginning of the 90's, a vigorous growth.

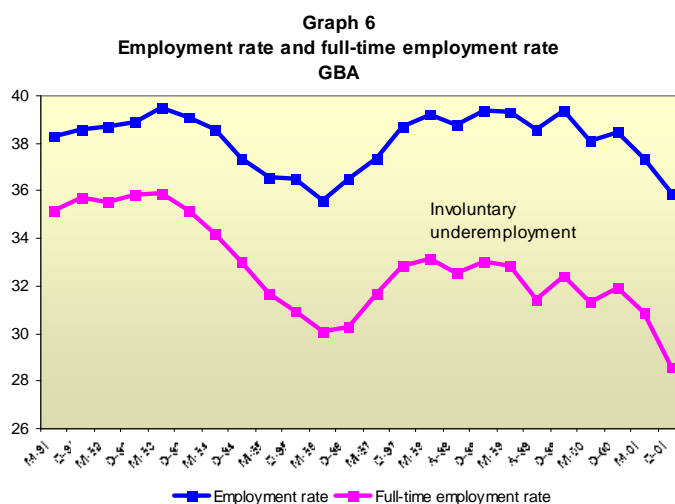
Specifically, during this whole period it is possible to identify four stages with clearly differentiated behaviours. The first of them lasts from the beginning of the Currency Board up to 1994 which was characterized by high economic growth rates that only resulted in a weak employment creation, with a lower dynamism than the labour force, which implied a systematic increase of unemployment, which meant that in 1993 it had already reached rates of two digits (Graph 5 and 6). Over the poor *performance* of the labour market, the recession of the middle of the decade (the “tequila effect”) severely worsened the general conditions of the labour market, raising unemployment to around 20% in May 1995 (Graph 5).



Source: Author' elaboration based on data from EPH (INDEC).

However, it is important to notice that the reduction of the employment, and of the full-time employment, began before the crisis, when the country registered high rates of growth (around 8%) (Graph 6). Among 1996 and about the middle of 1998 the economy recovered, but this time the employment creation went together with the product

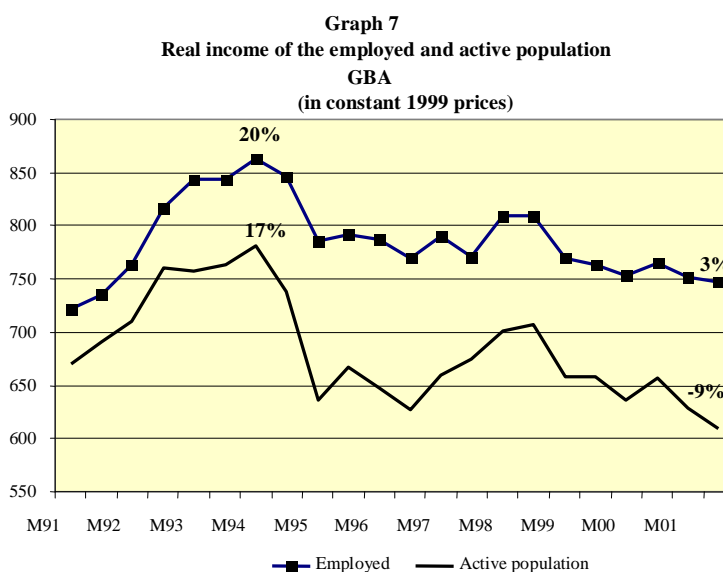
growth. Finally, since the beginning of a new crisis by the middle of 1998 and until the chaotic collapse of Convertibility, the economy passed through a recessive stage that generated an additional impulse on the growing trend of unemployment. At the end of 2001, the open unemployment rate was over 20%.



Source: Author' elaboration based on data from EPH (INDEC).

It is important to remark that in the second part of the nineties, unemployment affected all educational groups of labour force. In particular, unemployment rate of those that have not completed the secondary level was 16% in 1994 and 23% en 2001; for those graduates of the tertiary/university level these figures were 4% and 7%, respectively.

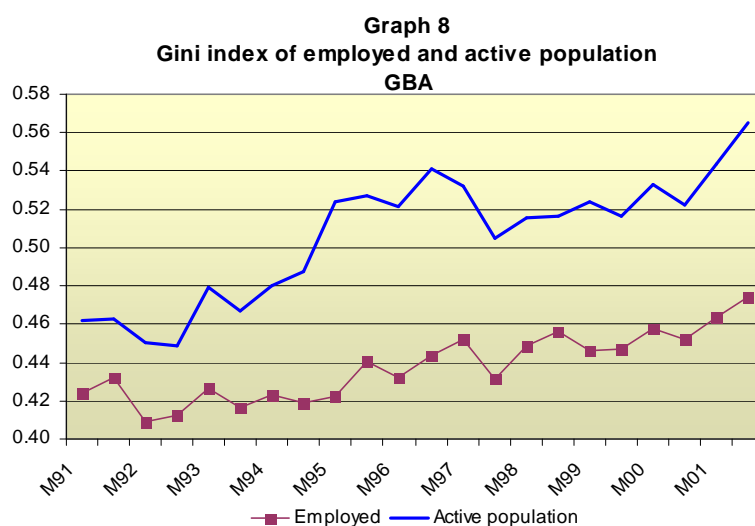
In the first stage of Convertibility, the real incomes achieved a certain recovery as a consequence of the significant decrease in the levels of domestic inflation. Between the beginning of Convertibility and May 1994 the real wages grew 20%, on average, reaching in that moment the maximum of the whole decade. On the other hand, the active population (employed and unemployed) were able to increase their average incomes in 17%, to reach the highest level during this regime (Graph 7).



Source: Author' elaboration based on data from EPH (INDEC).

The “Tequila” crisis also had negative effects on the real incomes. Between May 1994 and October 1996 the real incomes of the active population fell around 20%, while the employed population suffered a reduction of 11%. Starting from that date and until October 1998 the incomes slightly recovered, without reaching the maximum registered in the first semester of 1994. Then they experienced a new descending phase until the end of the regime. In October 2001 the average remunerations of the employed population were over the levels of the beginnings of the decade in only 3%, which represented a fall of 13% regarding the maximum achieved in 1994. On the other hand, the strong increase of the unemployment implied that the active population’s average incomes in the last observation of Convertibility were 9% and 22 % lower than the registers of 1991 and of 1994, respectively (Graph 7).

The initial recovery of the remunerations did not allow a reduction of inequality. Between 1991 and 1994 the levels of concentration of income among the employed population remained relatively constant while in the case of the active population there was a systematic worsening as a result of the increase in the unemployment. Graph 8 presents these behaviours measured in terms of the Gini Index.



Source: Author’ elaboration based on data from EPH (INDEC).

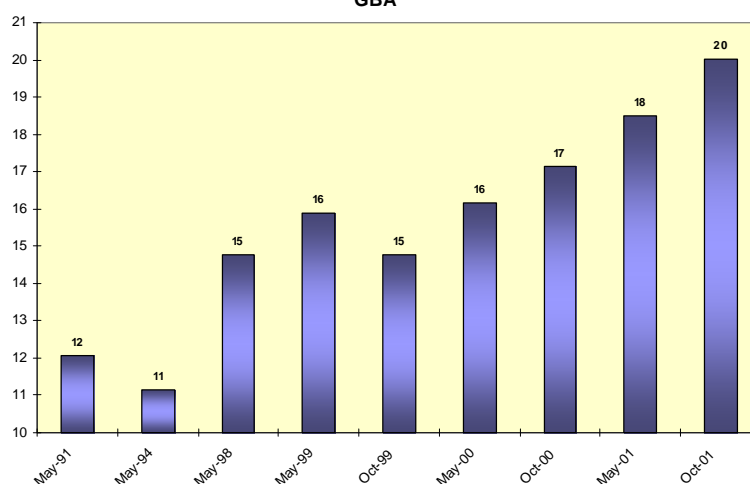
The period 1995-2001 showed a process of strong income concentration both for employed and active population (Graph 8). One argument, which will be discussed in following section, focuses on the role of unemployment on inequality among workers. In particular, it is supposed that the unemployment elasticities of income are different by educational level. In fact, as shown in Damill *et al* (2002), important differences in elasticity coefficients for the nineties are found indicating that the flexibility of the wage diminishes as the educational level rises. While a 10 percent increase in the unemployment rate imply the wage of workers with tertiary education to falls by about 0.6 percent, the decline climbs to 1.62 percent for the workers with primary education.

At the same time, the evolution of concentration among workers significantly affected the inequality of the family incomes (Graph 9).<sup>6</sup> While at the beginning of the decade the relationship of the per capita family incomes (PCFI) between the fifth and first quintile was 12 times, it rose to 20 times towards the end of the Currency Board. This

<sup>6</sup> For an analysis of the income distribution behaviour during the Convertibility, see Altimir *et al* (2002), Beccaria and González (2006).

distributive worsening was explained, on the one hand, by the higher inequality among the employed and, on the other hand, by the growing influence of unemployment.

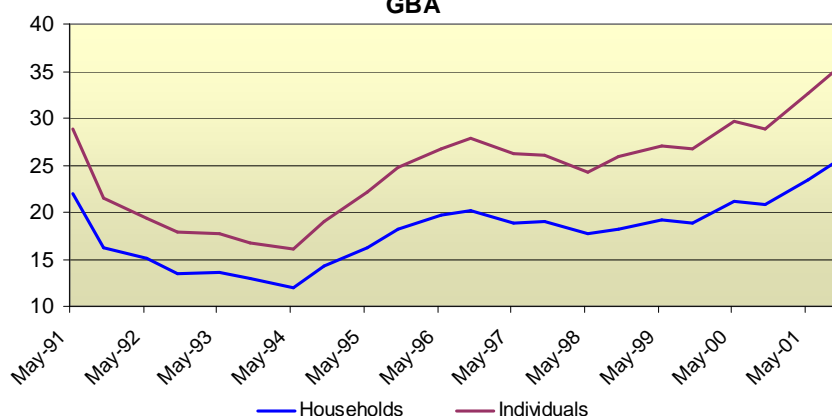
**Graph 9**  
Per Capita Family Income. Relationship between fifth and first quintile  
GBA



Source: Author' elaboration based on data from EPH (INDEC).

The behaviour of the labour market variables also had a direct impact on poverty levels. Between 1991 and 1994, the levels of poverty and indigence decreased as a consequence of the increase in the employment and in real remunerations. However, in 1996 this improvement welfare had already been completely lost. After a slight decrease between 1996 and 1998, these indicators experienced a strongly growing trend. Towards October 2001, before the collapse of Convertibility, poverty reached 25% of the households where 35% of the population lived (Graph 10).

**Graph 10**  
Poverty indexes  
GBA



Source: Author' elaboration based on data from EPH (INDEC).

Therefore, the behaviour of labour demand under this new regime intensified some characteristics that had begun to emerge in previous years like precariousness, income instability and inequality. As mentioned, even when the Argentine economy was accumulating a progressive deterioration since the mid-seventies, the Convertibility Plan accelerated this process substantially. In particular, the nineties registered a systematic worsening of the most important social indicators –especially during the last crisis– which determined degrees of exclusion and vulnerability that were unknown for

the country.<sup>7</sup>

Labour difficulties and inequality were exacerbated towards the end of the decade, when the Convertibility regime became clearly unsustainable. During 2002 Argentina went through an economic and social crisis of an unprecedented magnitude. The GDP fell by more than 11%; the unemployment rate climbed to 21.5% and 55% of population lived in households with an income lower than the poverty line. The magnitude of this crisis in the months following the devaluation of the peso, expressed through the significant contraction of the level of activity, the employment and the income, reflected the important disequilibria that were accumulated during the previous decade.<sup>8</sup>

### **3. Assessing the distributional worsening during the nineties: the role of the macroeconomic regime and the labour market**

A very widespread argument about the distributive failure of the nineties in Argentina is based on the so called “Unified Theory”<sup>9</sup> which, starting from a simple model of supply and demand applied to the labour market, shows how an increase in the demand for higher education levels that exceeds the increase in its supply, generates a demand excess in these groups increasing the education returns and worsening, in this way, the income distribution. In developed countries this theory has frequently been used during the eighties and the nineties to explain both the fall in wages of the less educated groups in the US and the increase of unemployment of these groups in European countries.

Therefore, the bases of this argument are the discrepancies between supply and demand of qualifications. In particular, given that empirical evidence –both for developed countries and for Argentina– indicates that a process of growth in the population’s educational level has occurred, and that this process took place together with increases in educational returns, it is inferred that the demand for these qualifications should have exceeded the supply. This, in turn, impacted on the relative wages of the different groups of workers with different qualifications.<sup>10</sup>

This hypothesis which tries to explain the labour demand biased towards higher education levels, in turn, is based on increased openness and integration of the economy. In particular, according to this argument, these processes have an impact on employment structure through two different channels. On the one hand, through reallocations of resources across productive sectors; Stolper-Samuelson theorem is used to indicate that, given that Argentina is relatively abundant in natural resources and skilled labour force<sup>11</sup>, trade opening will imply a shift in production and employment towards sectors that use these production factors more intensively, with the consequent increase in their returns. On the other hand, trade liberalization will imply a reduction in the price of external capital goods as well as incorporation of new technology affecting, in both cases, the use of productive factors within sectors. Specifically, since a complementarity between technology and qualification is supposed to exist, the process

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<sup>7</sup> Altimir *et al* (2002); Esquivel and Maurizio (2005).

<sup>8</sup> Beccaria and Maurizio (2005), Beccaria *et al* (2005).

<sup>9</sup> Blank (1994; 1997).

<sup>10</sup> Gasparini (2003), Sanguinetti and Galiani (2003), De Ferranti *et al* (2003).

<sup>11</sup> Porto (2000)

of technological improvement and capital incorporation also generates a demand towards higher qualification levels.<sup>12</sup>

In comparison with other countries in the region, this argument suggests that Argentina had a higher increase in inequality as a consequence, partly, of the faster speed at which the reforms were carried out, which would probably have had a higher impact in terms of factors and productive sectors reallocations. Also, given that Argentina is technologically more developed than other Latin American countries, the aforementioned changes would have a deep impact on the wage structure. Finally, the higher educational level would have facilitated a wide diffusion of these technological changes.

This perspective –based identically on arguments used to analyze the distributive changes in the developed world–, does not incorporate the particular local conditions on which the important transformations of the nineties operated. Specifically, this vision does not take into account the role of the Argentine macroeconomic regime during the nineties and its impacts on the aggregate dynamism of the labour market emphasizing only on labour supply conditions and the disequilibria between these and a labour demand biased towards higher qualifications.

On the contrary, the perspective adopted in this paper on the functioning of the labour market in the years of Convertibility suggests that the macroeconomic regime determines the global performance of the labour market and it has, through this channel, direct impact on the level and distribution of welfare. Therefore, this vision emphasizes the role of the aggregate labour demand over considerations which refer only to employment structure and the adjustments between labour supply and labour demand.

In particular, this document points out that the increase in inequality of labour incomes experienced during the last decade in Argentina was mainly a direct result of the low dynamism of the aggregate employment demand, and of the persistently high level of unemployment, both determined by the economic configuration during Convertibility.<sup>13</sup> As was already mentioned, the real exchange appreciation, together with very fast trade openness, negatively affected the structure of domestic production already from the beginning of this regime, implying that the employment generation stagnated before the first contractive phase (associated with the “tequila crisis”). The inflexibility of the currency board regime implied that different exogenous shocks were transmitted directly to the labour market.<sup>14</sup>

Therefore, given the existence of a very high global labour force surplus, it seems incorrect to ignore the distributive impacts of unemployment. In particular, in this paper it is argued that unemployment not only affects household’s income inequality, given that its incidence is higher among members with lower educational levels. On the contrary, the high unemployment also has important impacts on the structure of remunerations of workers. In particular, since the “Wage Curve”<sup>15</sup> can be different for

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<sup>12</sup> Gasparini (2003), Porto (2000).

<sup>13</sup> The privatization process also contributed to the destruction of job posts but explains only one small part of the increase of the opening unemployment (Altimir et al, 2002).

<sup>14</sup> Camargo (1999).

<sup>15</sup> The so-called “wage curve” links the evolution of the real wages with the unemployment dynamics. For an estimation of the Argentine case, see Damill *et al* (2002).

each group of employed people, unemployment will imply a higher inequality among workers. Therefore, the increase in the unemployment rate affects less educated people more intensely both, directly, because of its higher relative incidence and, indirectly, because of its higher negative impact on their wages. Moreover, contexts of very high labour force surplus favour the workers acceptance of more flexible labour conditions as well as generating a “competition for job positions” where the most educated workers displace those of lower qualification from their jobs (generating a process of overeducation among qualified workers).<sup>16</sup>

A crucial theoretical discrepancy between both views is the conceptualization of the origin and the distributive impact of unemployment. Whereas for the first one unemployment does not impact on the distribution of labour income –although it does, obviously, in the families, because the non employed active population do not generate income–, in the second one the *generalized* unemployment (that means, across qualification levels). not only limit the increase in aggregate real wages, but also induce a differentiation process among wages of different groups of workers, according to the degree in witch each of them are exposed to the competition for their job positions. Conceptualizations of different theoretical perspectives (as efficiency wages theory or the most traditional theory about labour markets segmentation) contribute to this vision.

Of course, in this paper the distributive impact that the openness and the technological changes could have had is not ignored. However, given the inflexibility of the exchange rate, an important part of the adjustments was “per quantities” throughout the increase of the open unemployment which, through different channels, leads to the widening of the gaps of remunerations among different qualification groups.

Additionally to theoretical aspects, another relevant aspect refers to existing empirical evidence for Argentina supporting each of these perspectives. On the one hand, the first of these arguments is fundamentally based on the idea that, given that during the nineties an increase in the educational level of the labour force was verified together with an increase in educational returns, these facts are *interpreted* as evidence of a shift in the composition of labour demand biased towards qualified workers. That is, in the case of Argentina, there is no direct evidence of changes in the composition of the labour demand but rather they are inferred from the behaviour of labour supply and of the wage premium for skilled workers. However, as was already mentioned, this configuration of relative wages can also be consistent with other developments, especially in the context of high persistent unemployment.

On the other hand, the existing evidence does not seem to completely support this type of argument. In the first place, the increase of inequality among workers was verified in the second half of the nineties whereas in the first half they stayed relatively constant. However, as was mentioned before, the integration process was carried out in the first years of this decade, indicating a temporary unbalance between both processes. It could be argued, however, that there is a certain lag between the openness and the technological changes, and its distributive impact. However, in this case, it would be necessary, at least, to keep in mind that the second half of the decade was characterized by strong macroeconomic disequilibria and by a deep recession from 1998 to 2002,

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<sup>16</sup> Maurizio (2005).

which makes it difficult to argue that distributive worsening is only a consequence of technological changes.

Secondly, the hypothesis of excess in demand for skilled labour should not only imply relative increases in wages but absolute increases in remunerations as well as a non-increasing unemployment rate for these groups of workers. However, in the case of Argentina, the increments in educational returns in the second part of the nineties were verified in a context of generalized fall in the real and even nominal incomes. In particular, nominal wages of less educated workers increased up to 1994 and then systematically decreased during the second part of the nineties. In the case of workers with university level, their nominal wages also grew in the first half and then remain relatively constant until 2001. Therefore, the higher wages inequality is due to, at least in this subperiod, the deeper reduction of income among non skilled workers and not because of a higher increase of wages of most educated workers. The disarticulation of certain labour market institutions which tend to protect particularly the lowest wages (minimum wages, labour unions) verified in the nineties, would also have contributed to these trends. Also, as mentioned before, during the second half of the decade unemployment increased in all educational groups, even among the most educated. Therefore, given the existence of global labour force surplus, it seems wrong to base the argument of genuine skilled-biased technological change only in the evidence of an increase in the skilled workers share.

Also, the argument about sectoral changes applying Stolper-Samuelson theorem is based on evidence regarding the strong reduction of employment in manufacturing activities and the increase in professional services and the public sector, under the assumption that the Argentine manufacturing industry is, in relative terms, intensive in low-skilled labour. However, it seems to be inadequate to apply this theorem for non-tradable sectors, like financial and public sectors, whose dynamism during the nineties was due to reasons completely different to economic openness. Also, as shown in Gasparini (2003), not only was employment in the low-tech manufacturing industry decreasing but a similar process was also verified among high-tech manufacturing, evidence that would not be consistent with that hypothesis.<sup>17</sup>

On the contrary, our argument emphasises that the fast reduction of the tariffs together with an appreciated exchange rate strongly affected international competitiveness of the manufacturing industry as a whole. In particular, as mentioned in Damill, Frenkel and Maurizio (2007), the appreciation process implied that, in spite of the increment in the manufacturing sector labour productivity, the average unit labour cost in constant dollars strongly increased because non-tradable goods and services' prices rose in the first half of the nineties. That implied a strong process of destruction of manufacturing enterprises (facing the massive entrance of imported goods that competed with national production) with the resulting employment destruction. In particular, the need to compete with imported industrial goods induced the acquisition of new technologies, a process that was favoured by the change in relative prices. Therefore, besides employment reduction as a consequence of plants destruction, those enterprises that survived carried out a process of labour for capital substitution resulting in a considerable reduction in the employment-product elasticity. (Altimir *et al* (2002), Damill *et al* (2002)). These productivity improvements were achieved both with a

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<sup>17</sup> In general, studies for Argentina conclude that the most important distributive changes are due to the skilled-biased technological change while sectoral reallocations had a lower impact

higher investment rate and with reorganization of the productive process (basically, personnel reduction by rationalization of the working process).

Therefore, from the first perspectives (based on the shift in composition of labour demand), the idea seems to rise that the distributive worsening during the nineties was the “necessary cost to assume” in order to achieve a more efficient and more competitive productive structure. As Gasparini (2003) mentions, although the existence of an unequal effect associated with trade opening and integration can be accepted, there is evidence that these processes also allow higher economic growth rates to be reached, which, in turn, positively affect welfare through the reduction of poverty levels.

However, that argument was not completely verified in the case of Argentina during the nineties. Part of the distributional failure and the high poverty levels were directly due to unsustainability of the macroeconomic regime. Although the configuration achieved a perdurable success regarding the strong reduction in inflation rates, the same was not verified with respect to economic growth. Towards the end of the regime, the deflationary strategy for sustaining Convertibility generated higher unemployment levels than those experienced during the previous contraction. Therefore, an important part of the social crisis verified since the end of the nineties and up to now, is due to the decision of continuing with a regime that had clearly become unsustainable.

The worsening of living conditions, especially during the last years of Convertibility, has been of such magnitude that it is impossible to ignore its effect when evaluating the performance of the new macroeconomic regime. In this respect, in this paper it is argued that the impact on distribution and welfare of the final crisis of Convertibility cannot be explained without taking into account the degree of deterioration of pre-devaluation living conditions. In particular, the initial unemployment level had a very important role in the post-Convertibility labour market performance. In this sense, it is necessary to re-think the role of “the crisis”, leaving the conceptualizations that point it out as a delimited episode, and of which resolution postpones any other consideration given that, as was already shown, the reversion of the social indicators at pre-crisis levels is extremely difficult, just as will be analyzed next.

#### **4. Reversion and perdurability after the macroeconomic regime change**

As it was mentioned, during 2002 Argentina experienced an economic and social crisis of unusual magnitude as a consequence of the collapse of Convertibility. But as the depth of the economic and social crisis does not have records in the country, the recovery that began towards the second part of the year was also intense, in particular, with respect to the employment generation. Although it can be argued that the improvement shown by the aggregate production was not very different from that of other cyclic episodes, the net generation of jobs –even excluding those originated in the “Plan Jefes y Jefas de Hogar Desocupados (PJJHD)”<sup>18</sup> was higher than the one that could be predicted taking into account the GDP dynamics. The domestic product

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<sup>18</sup> The “Plan Jefes y Jefas de Hogares Desocupados” was implemented in 2002 by the National Government to response to the prevailing critical situation in the country. It established a fixed amount of \$150 aimed at unemployed household heads with children up to 18 years old. In 2003 it reached about 2 million households to systematically reduce its coverage later.

experienced very different phases after the change of macroeconomic regime. Initially, it continued falling during the first quarter of 2002 –to a 15% annualized rate–, it was stabilized in the following quarter and it started increasing from the third one, when it began a process of sustained growth that is extended until the present time.

Immediately after the exit from the Convertibility the nominal exchange rate increased in a significant way. The over-adjustment that this variable experienced –in June 2002 it reached the proportion of almost four to one– reflected the high degree of uncertainty in an economy that had suffered an abrupt break of the macroeconomic rules that had persisted during the previous decade. This sharp depreciation of the peso implied a strong increase of the domestic prices (around 100% in the wholesale prices and 30% in retail during the first semester). However, the adjustment of prices turned out to be smaller in magnitude than that of the exchange rate being it the reason why the real exchange rate was duplicated towards June 2002. Unlike previous experiences, this significant rise of the general prices level did not result in an inflationary process. That was due to the deep economic depression and the already very vulnerable labour and social situation before the regime change. In particular, the weakness of the domestic demand imposed a limit to the *pass through* from devaluation to consumer prices. Also, the high unemployment levels explained, in part, the absence of mechanisms of wage indexation, what made the increase in prices shock directly the purchasing power of the remunerations. The lack of liquidity caused by the maintenance of restrictions to the use of deposits in the banks was another reason that contributed to this dynamic of the domestic prices. All these elements stopped the propagation mechanisms of the characteristic inflationary impulses of previous devaluations, giving place to a novel situation in the recent Argentine economic history.

The current economic regime leans on, fundamentally, the maintenance of a high real exchange rate. This constitutes a determinant factor of the strong recovery that aggregate activity level has registered since the middle of 2002 given that it has allowed raising the competitiveness of tradable sectors. Also, an import re-substitution has taken place in sectors that had experienced a strong deterioration of its capacities of facing the imports process during the period of the appreciated exchange rate. Following Frenkel (2004), in theoretical terms, a regime of high real exchange rate promotes the generation of new job positions through its lower proclivity to the macroeconomic unbalance (*vis-à-vis* a regime of low exchange rate), the change in the composition of the domestic production (more biased to tradable sectors) and the alteration of the relative prices favourable to a higher use of labour factor. Immediately after the crisis however, more short-term reasons seem to have prevailed in the explanation of the performance of the employment generation, such as the high degree of sub-utilization of installed capacity.<sup>19</sup>

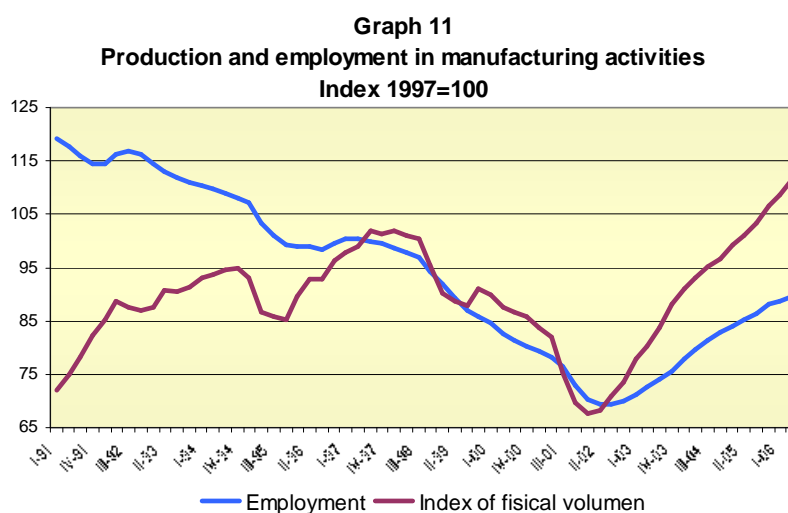
From the second half of 2002, some reversion of the trends of the labour market indicators has operated, as a consequence of the consolidation of the process of economic growth. In particular, the change of macroeconomic model has had very positive effects on the dynamism of labour market and income generation. After the negative shock caused by the collapse of the previous regime, all labour indicators have been able to break the trend towards the systematic worsening, although with different intensity. In particular, after the abandonment of the Currency Board, the employment

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<sup>19</sup> Beccaria, Esquivel and Maurizio (2005).

has experienced three clearly differentiated phases. The first of them covers the next immediate semester to the model's change between October 2001 and May 2002, which was characterized by a very important contraction of the aggregate employment level, reflecting the delayed effects of the Convertibility collapse. In the second one, between May 2002 and the fourth quarter of the same year, the genuine employment was able to restrain its fall, while the implementation and expansion of the PJJHD implied the generation of a very significant amount of new job positions. The third phase begins at the end of 2002 and lasts until the present time, period in which a consolidation and accelerated recovery of the employment took place. This process has been characterized by a high creation of new jobs by the private sector that more than compensated the reduction of beneficiaries of PJJHD that is being verified from about the middle of 2003.<sup>20</sup> In the fourth quarter of 2002, the employment rate (including this employment plan) was already higher than the one observed one year before (last observation of the Convertibility period) while in the third quarter of 2003 it exceeded the level of 1998, the maximum of the second half of the nineties. On the other hand, the employment level excluding these plans was completely recovered from the post-devaluation fall in the second quarter of 2003.

The dynamics of the aggregate employment has been particularly positive in the case of the industrial activities. From the fourth quarter of 2002 the manufacturing sector was finally able to break the falling trend in the employment level that it had been experiencing during last decade (Graph 11). In particular, it experienced a reduction during the first three quarters of 2002, to face then an increasing process that lasts until the present time. Since the fourth quarter of 2002 until the second quarter of 2006 it increased about 30% being, in that moment, 23% higher than the last register of Convertibility.



Source: Author' elaboration based on data from EPH (INDEC).

Although the industrial employment has had a very good performance, since 2003 the important increment of the employment was sectorally generalized, as it can be noticed in Table 1. In particular, it is observed that from that year on, commerce and construction, together with industrial activities have had the highest contribution to total

<sup>20</sup> The beneficiaries of the PJJHD that fulfilled the programme's counterpart work requirements represented around 8% of the total urban employment in 2003 whereas in 2006 their participation was reduced to 3%.

employment generation (Table 1). On the whole, they explain about 60% of the new net employment. Along this whole period the industrial employment experienced an increment of more than 30%, whereas in the case of construction and commerce the increase was 50% and 17%, respectively. On the other hand, financial services activities also registered significant increments that were verified especially in the most recent period. The intensity of the occupational growth was related to the intensity shown by the activity level, since it was more intense in the three sectors where the domestic product grew more (industry, construction and commerce).

**Table 1**  
**Evolution of employment by category, educational level and sector (%)**  
 28 urban centres. Excludes employment plans

	I SEM 2003	II SEM 2003	I SEM 2004	II SEM 2004	I SEM 2005	II SEM 2005	I SEM 2006	Var. 2006/2003	Contribution to employment growth
<b>TOTAL EMPLOYMENT</b>	100	100	100	100	100	100	100	21%	100%
<b>Category</b>									
Wage-earners	70.38	71.06	72.80	72.61	73.47	73.54	74.77	28%	96%
Registered	40.4	39.6	40.8	40.5	41.2	41.9	43.6	30%	59%
Non-registered	30.0	31.5	32.0	32.1	32.2	31.7	31.2	26%	37%
Non-wage earners	26.8	26.4	25.5	26.0	25.4	25.2	24.1	9%	11%
Employers	3.7	4.0	4.0	4.4	4.0	4.3	4.1	31%	6%
Own-Account	23.1	22.4	21.5	21.6	21.4	20.9	20.1	5%	5%
Workers without wages	2.8	2.5	1.7	1.4	1.1	1.3	1.1	-53%	-7%
<b>Educational level</b>									
Primary	30.8	28.9	29.7	29.3	29.2	28.6	28.3	11%	16%
Secondary	4.2	2.2	3.5	4.0	4.5	4.1	5.1	26%	46%
Tertiary	32.0	32.4	32.1	32.2	32.4	33.4	33.0	24%	38%
<b>Sector</b>									
Manufacture	13.6	14.4	14.6	14.9	14.9	14.4	14.7	30%	20%
Construction	6.9	7.4	8.0	8.1	8.2	8.8	8.6	50%	17%
Commerce	24.7	24.7	25.0	25.4	24.0	24.3	23.9	17%	20%
Transport	7.4	7.0	6.8	7.3	7.0	7.0	6.7	9%	3%
Financial services	9.5	9.6	9.7	9.2	10.3	9.7	10.3	30%	14%
Education and health	20.7	21.0	19.8	20.0	19.8	20.0	20.4	19%	19%
Other services	17.1	15.9	16.1	15.3	15.8	15.8	15.4	9%	7%

Source: Author' elaboration based on data from EPH (INDEC).

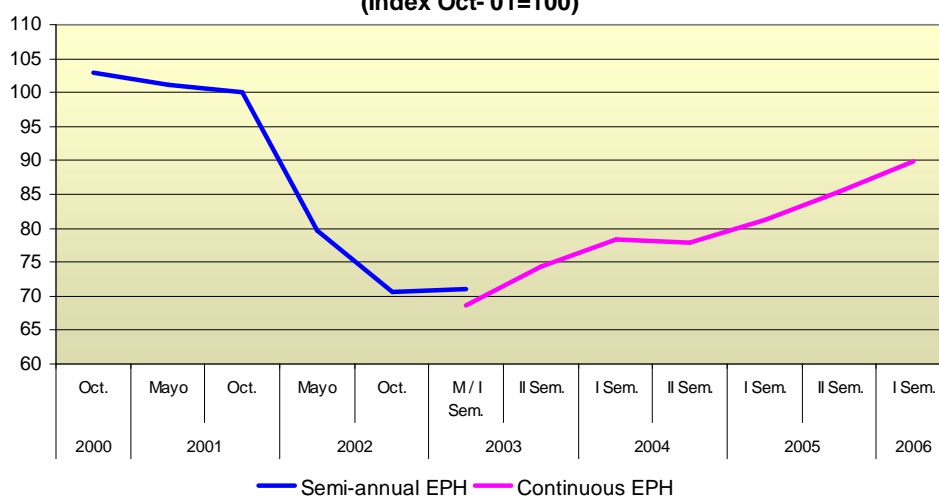
Another important dimension to characterize the evolution of the aggregate employment is the occupational category that allows distinguishing the workers in registered wage earners (registered in social security), non-registered wage earners, non-wage earners (own-account workers and employers) and family worker without remuneration. Along the whole period (2003-2006), the registered job positions increased 30% explaining 60% of the total new employment generated. On the other hand, the non-registered jobs rose 26% and they explain 37% of the employment creation. The independent activities have shown a lower dynamism given that during the period grew only 5% (Table 1).

In sum, registered wage earners have shown a significant and sustained increment which has allowed them to raise their participation in the total employment from 40% at the beginning of 2003 to 44% in 2006. However, after so many years of persistent unfavourable indicators, the generation of labour posts has been partly characterized by being unable to solve the problems of precariousness –generation of wage earners jobs not registered in social security–. Indeed, in the first quarter of 2006 they still represented 42% of the total salaried employment (Table 1). Precariousness is one of the most important signs of the strong deterioration suffered by the labour market, especially after the second half of the past decade. Given that, as it will be seen later, the precarious workers obtain, on average, 40% of the remunerations of the registered workers; this aspect turns to be important to explain the existing inequality even inside the workforce.

Lastly, it is important to notice that the recovery of the occupational level was spread among workers with different qualification, although with lower intensity among those with complete primary education or less. During the whole period, the employed population with complete or incomplete secondary level grew 26%, similar to the 24% experienced by the workers with tertiary level (complete or incomplete) and clearly higher than the 11% registered by those with lower education level (Table 1). This relatively homogeneous evolution in the occupations in terms of the educational level constitutes a novel fact given that previous experiences of employment recovery were biased almost exclusively towards the most qualified job positions. This dynamism is explained, partly, by the one shown at a sectoral level, especially with respect to the employment generation by the construction activities that, in relative terms, demand lower qualification workforce.

In parallel to the evolution of employment, three phases can be identified in the evolution of real wages. There was a first phase after the devaluation in which real wages fell; a second phase of stabilization and a third phase of recovery and growth that started at the beginning of 2003. In effect, the increase in domestic prices after the devaluation had a direct negative effect on the purchasing power of wages. Between October 2001 and October 2002 real wages (from EPH) fell around 30%, although more than two thirds of the fall was verified in the first semester after the exit from the Convertibility. After this strong reduction, since October 2002 nominal labour incomes started to grow at a similar pace than prices, hence the figure of May 2003 was similar to the figure of October 2002 (Graph 12).<sup>21</sup>

**Graph 12**  
**Real labour income**  
**28 urban centres. Excludes employent plans**  
**(Index Oct- 01=100)**



Source: Author' elaboration based on data from EPH (INDEC).

As from 2003, both the greater dynamism of the demand for labour and the price stability allowed an increase in the real incomes of employed population after the long

<sup>21</sup> In 2003 there was a methodological change in the Permanent Household Survey (EPH): since then, the semi-annual EPH (whose last wave was sampled in May 2003) was replaced by a continuous EPH (see [www.indec.mecon.gov.ar](http://www.indec.mecon.gov.ar)). This causes a discontinuity in the series that the change in methodology does not allow to match.

period of continuous fall. In the first year of recovery –between the first semester of 2003 and the same period of 2004–, real wages grew 14%, excluding from the calculation the beneficiaries of employment plans. Later on, the purchasing power of wages kept on growing: it rose 11% between the first half of 2005 and the same period of 2006. Throughout the whole period the average real incomes of employed population increased 31% (Table 2). However, given the strong previous reduction, at the beginning of 2006 real wages were, on average, approximately 10% lower than those at the end of the Convertibility (Graph 13).

Real incomes increased for all the groups of workers defined according to their occupational category, although with different intensities (Table 2). In particular, between 2003 and 2006 there was a 33% increase in real wages of non-registered wage earners in the private sector, whereas the increase for registered wage earners in the same sector was significantly lower (23%). On the other hand, the real income of non-wage earners (self-employed plus employers) rose approximately 43%. The fact that the largest increase was observed in those jobs not covered by social security constitutes a novel phenomenon since in the previous periods of wage recovery the latter had taken place fundamentally among registered wage earners.

**Table 2**  
Evolution of real labour income according to occupational category  
In pesos. 28 urban centres. Excludes employment plans

	I SEM 2003	II SEM 2003	I SEM 2004	II SEM 2004	I SEM 2005	II SEM 2005	I SEM 2006	Variation ISem06-Isem03
TOTAL EMPLOYMENT	722	783	825	819	856	900	947	31%
Total wage earners	730	783	819	809	840	887	929	27%
Registered	961	1014	1059	1032	1077	1142	1193	24%
Non-registered	413	460	476	497	507	519	529	28%
Private sector wage earners	666	736	769	758	793	817	865	30%
Registered	962	1037	1081	1037	1091	1125	1188	23%
Non-registered	386	448	452	484	490	495	512	33%
Non-wage earners	699	790	840	847	901	937	1000	43%
Employer	1685	1938	1800	1719	2051	2014	2085	24%
Self-employed	572	613	654	670	684	714	777	36%

Source: Author' elaboration based on data from EPH (INDEC).

Moreover, another important characteristic of the trajectory of wages has been the different evolution according to the educational level of workers. In particular, there has been a relative improvement in incomes of the less educated throughout this period: the real income of workers with incomplete secondary school or less increased 37% as opposed to a 24% rise for those with complete tertiary/university (Table 3).

As a result, when both dimensions are considered –occupational category and educational level– it can be observed that there has been a reduction in the wage gap between the extremes of the distribution that has contributed to the reduction in inequality among workers.

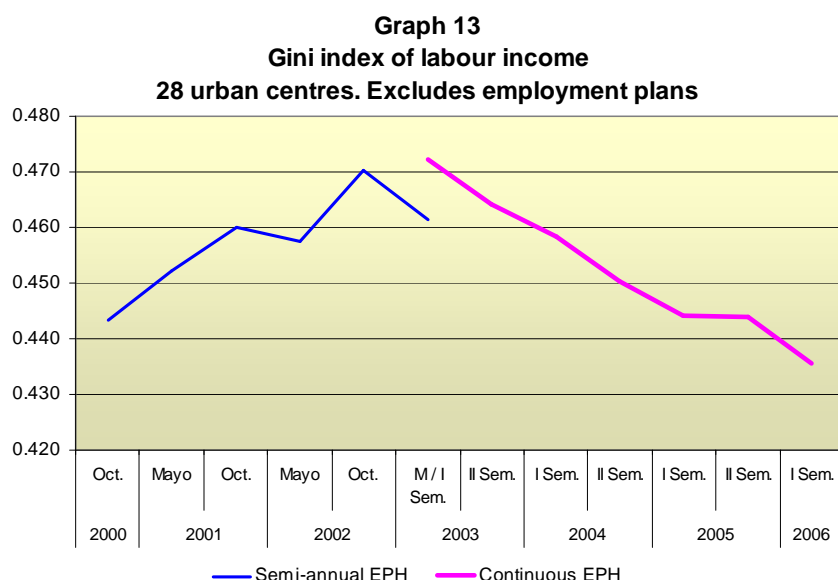
**Table 3**  
Evolution of real labour income according to educational level  
In pesos. 28 urban centres. Excludes employment plans

	I SEM 2003	II SEM 2003	I SEM 2004	II SEM 2004	I SEM 2005	II SEM 2005	I SEM 2006	Variation ISem06-Isem03
TOTAL EMPLOYMENT	722	783	825	819	856	900	947	31%
Incomplete Secondary or less	485	521	562	558	592	602	663	37%
Complete Second.-Incom. Terc.	775	812	850	854	877	934	977	26%
Complete Tertiary	1290	1382	1471	1414	1501	1636	1601	24%

Source: Author' elaboration based on data from EPH (INDEC).

One of the factors that have contributed to this process has been the significant incomes policy implemented by the National Government since mid-2002 through lump-sum rises and increments in the minimum wage. These measures have a greater impact on lower income groups.<sup>22</sup> Even though the non-registered wage earners are not covered by labour legislation, it is often argued that the wages earned by those workers that are covered by social security –or, at least their variations- have a certain impact on the wages paid to the former group of workers. If this is so, and given the lower average value of wages of non-registered workers, the non-proportional increases must have had a greater impact on them.

Due to the generalized fall of real wages along the semester that followed the exit from the Convertibility, the Gini index remained practically unchanged. After a small increase in inequality between May and October 2002, the trend towards higher concentration of incomes started to reverse (Graph 13)<sup>23</sup>. The new trend towards less concentration continues up to the present and contrasts with the process experienced throughout the nineties. In effect, the Gini index of income from labour income fell 8% between the first semester of 2003 and the first semester of 2006 passing from 0.472 to 0.435.<sup>24</sup>



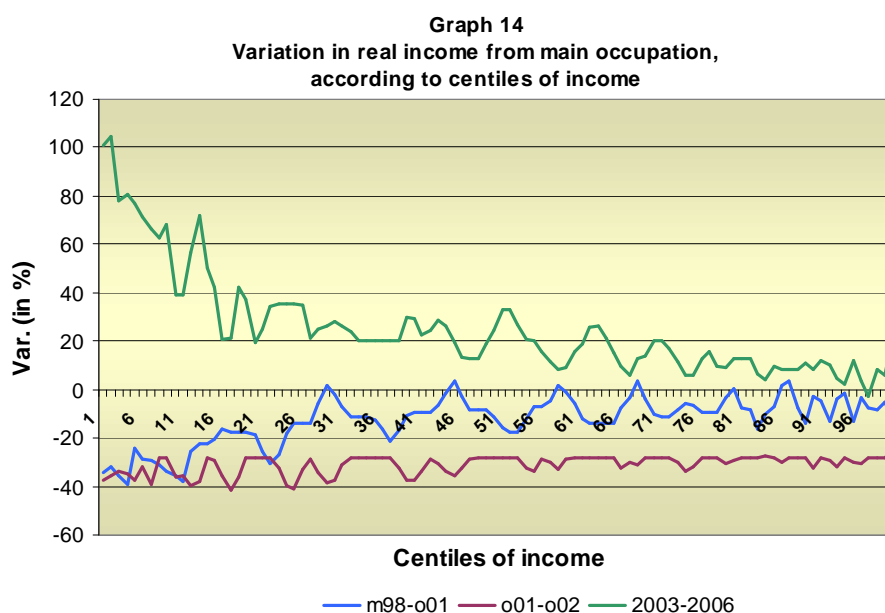
Source: Author' elaboration based on data from EPH (INDEC).

<sup>22</sup> In effect, the National Government established by decree an increase of \$100 for the private sector in the second semester of 2002 (without contribution to the social security), and gradually rose it up to \$200 at the end of 2003. As from July of that year, those amounts started to contribute to the social security system. In 2004, there were further increases but of smaller magnitude. At the same time, the minimum wage was increased successively from \$200 –current until June 2003- to \$450 in September 2004. In 2005, it was raised up to \$630, and in 2006 a further increase allowed to raise the minimum wage to \$800. For workers in the National Public Sector an increase of \$100 (without contribution to the social security) was established since June 2004 for those who earned wages lower than \$1,000; and since January 2005, an increase of \$100 was established for workers with wages lower than \$1,250. Further increases were established in 2005: 10% since June and 9% since August.

<sup>23</sup> The Continuous EPH has improved the data collection regarding precarious activities, most of which generate incomes that are lower than average incomes of employed workers. This is one of the factors that explain why the inequality indicators of the continuous EPH in the first semester of 2003 are higher than the corresponding indicators in May 2003 of the semi-annual EPH.

<sup>24</sup> The reduction verified throughout this whole period is statistically significant with a 95% level of confidence.

The change of trend in the distribution of labour incomes can be seen in greater detail in Graph 14. It compares the variations in real incomes according to percentiles of labour income in three different periods: the last phase of Convertibility (May 1998-Oct. 2001), the first year after the change of regime (Oct. 2001-Oct. 2002) and the period of recovery (I Sem. 2003-II Sem. 2006).



Source: Author' elaboration based on data from EPH (INDEC).

As can be seen in the graph, the deterioration of labour market conditions in the final phase of the Convertibility regime led to a fall in real incomes that affected lower incomes with greater intensity. On the other hand, the variation in the period 2001-2002 was relatively homogeneous all along the distribution due to the already mentioned impact of the increase in prices. Lastly, since 2003 the improvement in real wages was greater among the first percentiles, a fact that is consistent with the reduction in the wage gap previously mentioned.

Despite the reversal in the trend towards greater inequality, the concentration of income is still high due, partly, to the high level of income inequality prior to the change of regime (Table 4). In the first semester of 2006, whereas the first quintile of employed workers received 4% of total wages, the fifth quintile received approximately 48%. Moreover, average income of the latter group was 12 times the average income of the first quintile (such ratio was of 15 times at the beginning of 2003).

**Table 4**  
**Quintile distribution of labour incomes**  
28 urban centres. Excludes employment plans

QUINTILE	I SEM 2003	II SEM 2003	I SEM 2004	II SEM 2004	I SEM 2005	II SEM 2005	I SEM 2006
1	3%	4%	4%	4%	4%	4%	4%
2	9%	9%	10%	10%	10%	10%	10%
3	15%	14%	15%	15%	15%	15%	15%
4	22%	22%	21%	22%	22%	22%	22%
5	51%	51%	51%	49%	49%	50%	48%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>102%</b>	<b>100%</b>

Source: Author' elaboration based on data from EPH (INDEC).

As can be deduced from Table 2, the occupational category is one of the dimensions through which the strong heterogeneity among workers is clearly seen, and in particular, the condition of being registered or not among the wage earners. In effect, in the first semester of 2006, those wage earners in the private sector not covered by social security received, on average, incomes that represented 43% of the incomes of registered wage earners in the private sector.

Hence, even though the wage improvement has been greater among the non-registered wage earners compared to the rest of wage earners there is still a significant gap between the two groups. This fact is reflecting the effects of a labour market that has been showing a trend towards segmentation as a result of the low global dynamism of the labour market throughout the nineties. On the one hand, there is a group of workers that receives higher incomes and is covered by social security and, on the other hand, there is a group of workers with low wages, in precarious jobs and without social security protection.

However, income differentials between both groups could be affected by a dissimilar composition of employment (in terms of personal and occupational characteristics) within each of these groups. In particular, this could be reflecting the fact that low-skilled wage earners and part-time workers represent a high proportion of non-registered workers. If this is so, the observed wage gap could not be exclusively attributable to the occupational category and to the condition of being registered or not.

In order to quantify the effect of the above mentioned dimension, as well as the influence of other attributes, different wage and worked-hours equations were estimated for the first semester of 2006 (Table 5).<sup>25</sup> The first three regressions were estimated for all employed workers, whereas the fourth only considered those that work more than 35 hours per week. In addition, the dependant variable in regression I is the monthly labour income (income from the main occupation, in logarithms), in regression II is the hourly wage, and in III is the logarithm of worked hours. Regression IV is the same as regression I but estimated for wage earners that work more than 35 hours per week.

In all the estimations of wages it is verified that the occupational category is a very relevant dimension to explain the gaps between employed workers. Given other characteristics of workers, non-registered wage earners that work full time received at the beginning of 2006 an income approximately 50% lower than the income of registered full-time wage earners (regression IV), a phenomenon that is consistent with what was previously mentioned. On the other hand, the gap between registered wage earners and non-wage earners is smaller but significant, of approximately 37%.

When considering all employed workers, the monthly income differentials according to this dimension are even wider. In effect, the non-registered workers receive a wage 68% lower than the registered ones. The gaps are narrower when calculated in terms of hourly incomes. These results would be reflecting that, being other attributes equal, registered wage earners receive higher monthly labour incomes than the rest of the

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<sup>25</sup> In all the estimations the control group is comprised by women wage-earners, registered in the social security system, non-household heads, with incomplete primary education and that work in the manufacturing industry. The estimations take into account the correction for selectivity bias by using Heckman's methodology.

employed workers both because they get higher hourly wages and because they work more hours. This last fact is confirmed by regression III, which shows that non-registered workers work 25% less hours per week than registered wage earners. A similar gap is observed between the latter and the group of non-wage earners.

Returns to education also contribute significantly to the wage differentials observed within the labour force. Monthly wages of those that have completed primary school are between 14% and 22% –depending on the specification of the model- higher than wages of those that have not completed this level of education. In the other extreme, complete university studies allows incomes 90% higher than those of incomplete primary school. Like what happens with occupational category, the gaps widen because the most qualified workers receive higher hourly incomes and also work more hours. Furthermore, as it is usual in this type of equations, men and heads of household receive higher wages (monthly and hourly) than women and other household members, respectively. On the other hand, the age has a positive although non-linear effect on labour incomes; and manufacturing activities are among those that pay the highest wages (except, in general terms, transport and financial services).

**Table 5**  
**Income equations**

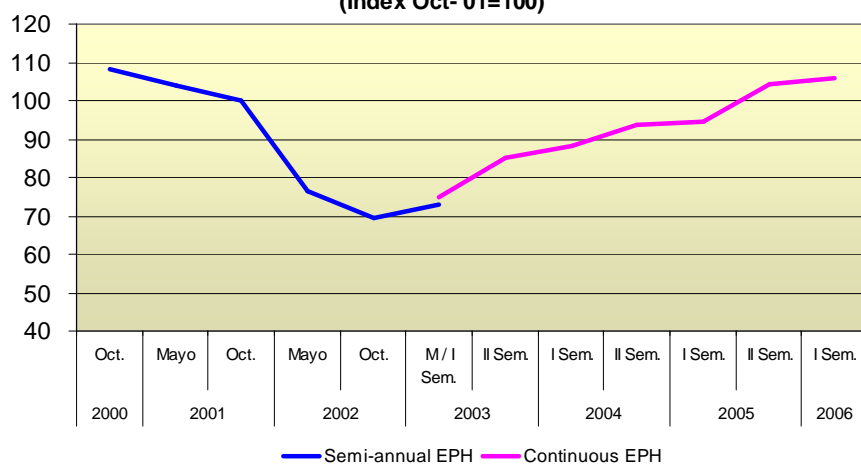
Category	Total employed			Reg. IV Employed more than 35hs
	Regression I			
	Monthly Wage	Regression II Hourly Wage	Regression III Hours	
<b>Category</b>				
Non-registered	-0.677 (65.74)**	-0.427 (42.95)**	-0.248 (28.18)**	-0.497 (46.23)**
Non-wage earner	-0.579 (53.69)**	-0.352 (33.76)**	-0.227 (24.67)**	-0.37 (33.57)**
<b>Education</b>				
Complete primary school	0.218 (13.17)**	0.138 (8.61)**	0.08 (5.63)**	0.183 (10.00)**
Incomplete secondary school	0.35 (20.27)**	0.258 (15.45)**	0.091 (6.14)**	0.33 (17.45)**
Complete secondary school	0.568 (33.44)**	0.415 (25.33)**	0.15 (10.30)**	0.484 (26.12)**
Incomplete university	0.654 (35.43)**	0.614 (34.38)**	0.043 (2.73)**	0.616 (30.30)**
Complete university	0.952 (51.58)**	0.903 (50.29)**	0.066 (4.16)**	0.934 (45.71)**
<b>Branch of activity</b>				
Construction	-0.066 (4.21)**	-0.042 (2.80)**	-0.018 -1.34	-0.083 (5.41)**
Commerce	-0.064 (5.54)**	-0.194 (17.44)**	0.133 (13.48)**	-0.105 (9.14)**
Transport and financial service:	0.102 (5.96)**	-0.053 (3.16)**	0.161 (10.95)**	0.051 (3.14)**
Health and education	-0.112 (8.90)**	0.138 (11.21)**	-0.239 (21.90)**	-0.05 (3.72)**
Other industries	-0.235 (17.31)**	0.006 -0.47	-0.241 (20.84)**	-0.107 (7.16)**
Age	0.058 (33.07)**	0.036 (21.29)**	0.021 (14.18)**	0.046 (22.99)**
Age2	-0.001 (29.74)**	-0.0003 (16.54)**	-0.0003 (15.76)**	-0.0005 (19.66)**
Man	0.393 (42.49)**	0.133 (14.84)**	0.263 (33.09)**	0.249 (24.68)**
Household head	0.15 (16.37)**	0.077 (8.64)**	0.077 (9.85)**	0.137 (14.01)**
Constant	4.91 (122.77)**	0.454 (11.79)**	3.086 (90.42)**	5.364 (120.71)**
<b>Observations</b>	30049	28306	28306	18856
<b>R-squared</b>	0.48	0.42	0.2	0.46

Absolute value of t statistics in parentheses  
\* significant at 5%; \*\* significant at 1%

Source: Author' elaboration based on data from EPH (INDEC).

Given the importance of the labour market in the generation of family incomes, the dynamics of labour has been having a strong impact in the performance of family incomes. In effect, as a result of the favourable evolution of employment and the recovery of wages, family incomes started a process of sustained growth since 2003 that continues at present times. They grew about 42% in real terms in the period (Graph 15). This process has allowed the full recovery of purchasing power and even the achievement of higher levels than the late-2001 average levels. This process has been accompanied by an improvement in the distribution of family incomes.

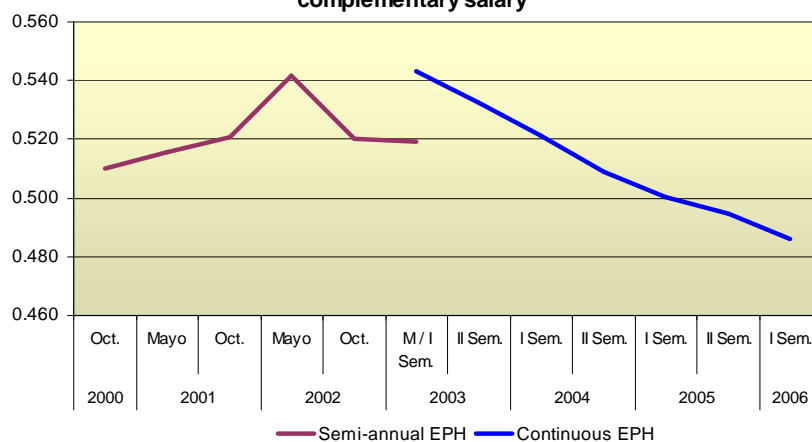
**Graph 15**  
**Real Per Cápita Family Income**  
**28 urban centres. Includes employment plans and annual**  
**complementary salary**  
**(Index Oct- 01=100)**



Source: Author' elaboration based on data from EPH (INDEC).

Contrary to what happened among workers, in the semester that followed the exit from the Convertibility family incomes inequality rose, mainly as a consequence of the increase in unemployment. This is reflected in the deterioration of the Gini index of per capita family incomes that passed from 0.520 to 0.541 between October 2001 and May 2002. After the maximum concentration level reached in May 2002, the concentration trend reversed. One of the factors that initially explained this turning point was the implementation of the PJJHD since, as mentioned, it gave employment and/or incomes to the poorest families. Its impact is reflected in the fall of the Gini index of total family income between May and October 2002, which in absence of this plan would have recorded 0.505 instead of 0.489. As from 2003 the inequality among households has shown a sustained decreasing trend that allowed a 5 p.p reduction in the Gini index, from 0.532 to 0.486, between that year and the first semester of 2006 (Graph 16).

**Graph 16**  
**Gini Index of Real Per Càpita Family Income**  
**28 urban centres. Includes employment plans and annual**  
**complementary salary**



Source: Author' elaboration based on data from EPH (INDEC).

This greater equality among households is also revealed in the ratio between the first and the fifth quintiles of total family incomes. Whereas in the first semester of 2003 the average per capita income of the fifth quintile represented 25 times the corresponding to the first quintile, in the first semester of 2006 the gap has reduced to 15 times (Table 6). This responds to the fact that, although real incomes rose for every quintile, the increases were larger among the poorest households. In effect, throughout this period the households in the first quintile doubled the purchasing power of their incomes whereas the real incomes of the richest households increased 30%. Furthermore, this was mainly due to the significant reduction in open unemployment (which affects to a greater extent those households in the lower extreme of the distribution) and, to a less extent to the recovery of wages. In spite of this dynamics, the concentration of family income is still extremely high. In the first semester of 2006, the 20% poorest households received only 4% of total income, whereas the fifth quintile captured 50%. On the other hand, the ratio of average per capita incomes between both groups was 15 times –and it was 25 times in 2003. (Table 6).

**Table 6**  
**Quintile distribution of Per Càpita Family Income**  
**28 urban centres. Includes employment plans and annual complementary salary**

QUINTILE	I SEM 2003	II SEM 2003	I SEM 2004	II SEM 2004	I SEM 2005	II SEM 2005	I SEM 2006
1	2%	3%	3%	3%	3%	3%	3%
2	7%	7%	8%	8%	8%	8%	8%
3	12%	12%	13%	13%	13%	13%	14%
4	21%	21%	21%	21%	21%	21%	22%
5	57%	57%	56%	55%	54%	54%	53%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Average income fifth Q / first Q</b>	<b>25</b>	<b>21</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>16</b>	<b>15</b>

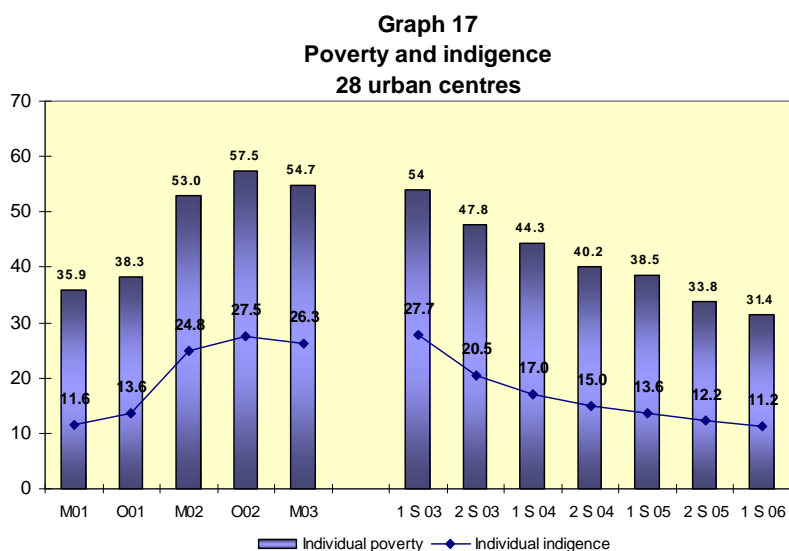
Source: Author' elaboration based on data from EPH (INDEC).

Even before the end of the Convertibility, 38% of the population lived in households with incomes below the poverty line.<sup>26</sup> Ten months after the devaluation of the peso

<sup>26</sup> The incidence of poverty is the proportion of households (or population) that cannot afford a basic basket of goods and services. Poverty due to lack of incomes differs from the standard international

this proportion rose to 57.5% of the urban population, and in the period between October 2001 and May 2002 the percentage of poor households increased 13.4 p.p (Graph 17). This deterioration of the living conditions can be also seen in the poverty gap<sup>27</sup>. In May 2002 poor households needed, on average, to more than double their incomes in order to surpass the poverty line.

Hence, the extremely high level of poverty incidence reached after the exit from the Convertibility is explained, on the one hand, by the magnitude of the shock, especially in terms of the fall of real wages and, on the other hand, by the serious situation prior to the collapse.



Source: Author' elaboration based on data from EPH (INDEC).

This unfavourable dynamics of the social situation was due to the joint effect of the decrease in average real wages and their more unequal distribution. Therefore, it seems important to quantify the relevance of each of these factors. In particular, the variations in the level of poverty can be decomposed in two effects<sup>28</sup>: on the one hand, the change experienced as a consequence of the variations in the household average real income, maintaining the distribution constant –growth effect- and, on the other hand, as a consequence of distributive effects, with a constant average income –distribution effect. The growth effect can in turn be decomposed in the “inflation effect” and in the “nominal income effect”. The former effect indicates how large the variation in the poverty level would have been with constant nominal incomes and distribution. The latter quantifies the impact of the changes in incomes under the assumption that prices and distribution remain constant. The results are shown in table 7.<sup>29</sup>

During the last year of Convertibility, the fall in household total incomes explained 70% of the increase in poverty (income effect), even though deflation slightly attenuated the

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measures (of one dollar per day per person, for example) because the value of the reference basket is calculated based on domestic prices and patterns of consumption.

<sup>27</sup> The poverty gap measures the percentage difference between average incomes of poor households and the line of poverty.

<sup>28</sup> This decomposition is based on Datt and Ravallion (1990). The decomposition is not exact due to the existence of crossed effects between the two components.

<sup>29</sup> The negative sign means that the effect in consideration worked in the opposite direction than the variation of poverty.

fall in real incomes since it made the basic basket cheaper. On the other hand, the deterioration in income distribution explained the other 30% of the increase in poverty. As from that moment, the distribution effect loses its relevance and the increases in poverty levels become mainly explained by the deterioration of real incomes due to inflation in the first semester of 2002. In particular, between May and October 2002, the increases in family incomes (the negative sign of the nominal income effect) were not sufficient to compensate for the price increases. Therefore poverty continued to rise, although at a lower pace than in the previous semester. The increase in family incomes in this period is explained, to a great extent, by the rapid expansion of the PJJHD, with which poor and indigent households were benefited (Table 7).<sup>30</sup>

The negative trend in the social situation reversed since 2003. As it was already mentioned, the joint result of the increase in employment and wages led to a process of growth in family incomes and a simultaneous gradual improvement in their distribution. This is shown in table 7, since both the “growth effect” and the “distribution effect” have been important in the reduction of poverty (although the effect of the former was greater, of 70% against 30% of the latter). In addition, it can be seen that real incomes were able to rise despite the increase in the value of the basic basket (which is reflected in the negative sign of the inflation effect), especially in the more recent periods.

**Table 7**  
**Decomposition of poverty variation (households)**

Period	Variation (p.p)	Growth effect	Inflation effect	Nominal income effect	Distribution effect	Residual
O00-O01	4.7	70%	-6%	74%	30%	2%
O01-M02	12.3	98%	63%	28%	10%	-1%
M02-O02	4.8	72%	150%	-63%	9%	4%
O02-M03	-3.1	85%	-2%	89%	18%	-5%
II S03- IIS04	-6.7	72%	-36%	97%	29%	9%
IIS04-IIS05	-5.1	72%	-66%	133%	22%	10%
IIS03-IS06	-13.4	72%	-61%	116%	27%	18%

Source: Author' elaboration based on data from EPH (INDEC).

This allowed the percentage of individuals in poor households to decrease 23 p.p. –from 54% to 31.4%- between the first semester of 2003 and the first semester of 2006, while in the case of indigent individuals the proportion fell 16.5 p.p. in the same period –from 27.7% to 11.2%.

Poor households not only receive lower incomes per household than non-poor households but they are also larger in size (4.5 vs. 2.9 members/people per household). Therefore, the incomes gap per person between these two groups of households is even wider. In the second semester of 2005, whereas non-poor households receive approximately 3 times the average family income of poor households, this differential reached 5 times in the case of per capita income (Table 8). In addition, poor households present a higher average dependency rate (lower employment rate), because they have

<sup>30</sup> Even though the PJJHD was correctly focused on the poorest population, the impact on the poverty incidence was small because the amount of the transfer was low in relation to the value of the basket. There has been a larger effect in the case of indigence. In addition, currently the impact of the plan on both indicators is small given the reduction in the number of beneficiaries since 2003.

more individuals younger than 14 years old and also because the adults have a deficient insertion in the labour market. In the second semester of 2005, the activity rate of poor households was 14 p.p. lower than the rate of non-poor households, while the unemployment rate was 3 times higher (20% and 7%, respectively; see Table 8).

**Table 8**  
**Household indicators, according to poverty condition**  
**28 urban centres, II semester of 2005**

<b>Average indicators per household</b>	Total households	Non-poor households	Poor households
Total family income	<b>1,506</b>	1,810	531
Per capita income	<b>453</b>	622	114
Individuals	<b>3.31</b>	2.91	4.54
Younger than 14 years old	<b>0.8</b>	0.5	1.6
Unemployment rate (%)	<b>10.6</b>	7.0	20.3
Activity rate (%)	<b>46.1</b>	50.8	36.7
Employment rate (%)	<b>41.2</b>	47.3	29.3

Source: Author' elaboration based on data from EPH (INDEC).

Another way of characterizing poverty consists of describing the family household head profile according to the type of household he/she belongs to. In the first semester of 2006 the percentage of employed household heads belonging to poor households was 15 p.p. lower than the percentage of employed household heads in non-poor households, while the incidence of unemployment for household heads in poor households was four times the corresponding incidence in non-poor households -11% vs. 3% (Table 9).

This situation is in part related to the different educational levels among household heads. In effect, when considering this dimension it can be seen that 20% of heads in poor households had completed secondary school while the percentage rose to 60% for the average of the rest of households. Moreover, only approximately 3% of the former group's household heads had completed university, while this percentage was 22% for the rest of households. Regarding employed household heads, there is a wide discrepancy in terms of occupational category. Precarious employment has a significant incidence among the poor households: approximately one half of employed household heads works in jobs not covered by social security, while the figure decreases to 19% for the rest of the families. On the contrary, in the latter group 57% of household heads work in jobs covered by social security against 20% in poor households. This fact indicates that poverty is not only associated with events of unemployment but also with the quality of the jobs they achieve to insert in the members of each group, what generates the case of "poor workers".

Lastly, the branch of activity to which the household head belongs is also distributed in a different way between these two groups of households, with the only exception of industrial activities. In particular, construction and personal services present a larger concentration among poor households whereas the contrary is verified regarding financial services, transport and services to companies, as well as health and education services.

**Table 9**  
**Characteristics of household heads between 25 and 65 years old**  
**28 urban centres, includes employment plans. I semester of 2006**

	Poor households	Non-poor households
<i>Condition</i>		
Employed	73.8%	88.5%
Unemployed	11.0%	2.9%
Inactive	15.2%	8.6%
<i>Educational level</i>		
Incomplete secondary school or less	80.3%	42.6%
Complete secondary school and incomplete university	16.8%	35.4%
Complete university	2.9%	22.0%
<i>Occupational category</i>		
Registered	20.2%	56.5%
Non-registered	48.5%	19.0%
Non-wage earners	31.4%	24.5%
<i>Branch of activity</i>		
Industry	13%	15.6%
Construction	20.9%	7.3%
Commerce, restaurants and hotels	22.4%	20.2%
Transport and services to companies	5.6%	9.0%
Financial services	5.0%	11.4%
Health and education services	15.2%	23.8%
Personal services	17.5%	12.7%

Source: Author' elaboration based on data from EPH (INDEC).

## 5. Concluding comments

Along the last three decades Argentina experienced very dramatic changes in its social composition, labour structure and income distribution as a result of the macroeconomic performance and changes in the productive structure. Being a country characterized in the region by a very low level of inequality, widespread labour protection and reduced poverty incidence, the country has been experiencing a systematic worsening of its social condition. From 1976, the labour difficulties, the fall of real wages and the increase of inequality have been eroding the basic principle of social cohesion, deepening the distance of income among social strata. In this sense, it seems that a pattern has emerged where the successive crises acted to worsen the income distribution as long as the recovery cycles founded borders for the complete reversion of these trends. Therefore, this “distributive catastrophe”, shows a transformation of the “social contract” where the intergenerational transmission of inequality and poverty became a structural characteristic in a country less and less integrated.

From the previous analysis it is possible to conclude that the macroeconomic regime matters in term of distributional and living conditions outcomes. In particular, Argentina shows that it is possible to experience very high GDP growth rates together with elevated unemployment rates. During the nineties, the specific combination of very quick trade opening, real appreciation of the currency and structural reforms implied a very weak labour demand even under a context of significative dynamic of the GDP. On the contrary, the macroeconomic configuration after the devaluation allowed an

important amount of job creation, especially in manufacture activities. Following Damill *et al* (2007), from the eighties it is possible to distinguish three different periods according to the real exchange rate and employment behaviour: firstly, the eighties were characterized by a very instable real exchange rate, high inflation, external debt crisis and devaluations. The GDP exhibited cycles around of the constant trend while the employment followed a similar pattern.

Secondly, during the nineties the real exchange rate has been stably appreciated. The GDP showed two expansionary cycles –1991-1994 and 1996-1998– and a very dramatic contractionary phase from 1998 to 2001 when the Convertibility regime collapsed. During this whole period, the GDP increased but the level of employment experienced a negative trend implying persistently high unemployment rates. Finally, the last period initiated in 2002 when the real exchange rate has been stable and competitive, depreciated. In this period, the GDP has been growing very fast while the employment rate has experienced the same behaviour. In theoretical terms, a regime of high real exchange rate promotes the generation of new job positions through its lower proclivity to the macroeconomic unbalance (*vis-à-vis* a regime of low exchange rate), the change in the composition of the domestic production (more biased to tradable sectors) and the alteration of the relative prices favourable to a higher use of labour factor. Immediately after the crisis however, more short-term reasons explaining the performance of the employment generation, such as the high degree of sub-utilization of installed capacity seem to have prevailed. Therefore, what this long-term trends seem to show is, on the one hand, that the GDP growth is a necessary condition but not enough; on the other hand, in economies like Argentina, the exchange rate regime and its stability are very important factors associated with macroeconomic and labour performance.

In this paper two alternative arguments about distributional failure in the nineties were presented and discussed. The first perspective is based on the “Unified Theory” which, starting from a simple model of supply and demand applied to the labour market, shows how an increase in the demand of higher education levels that exceeds the increase in its supply, generates a demand excess in these groups increasing the education returns and worsening, in this way, the income distribution. In turn, this argument yielded to explain the labour demand biased to higher education levels refers to increased openness and integration of the economy. This process would have had impact on the employment structure through two different channels: on the one hand, through reallocations of resources across productive sectors.

In particular, the Stolper-Samuelson theorem is used to indicate that, given that Argentina would be a country relatively abundant in natural resources and skilled labour force, trade opening would imply changes in production and employment towards sectors that use these production factors more intensively with the consequent increase in their return. On the other hand, trade liberalization would imply a reduction in the price of external capital goods as well as incorporation of new technology affecting, in both cases, the use of productive factors within sectors. Specifically, since a complementarity between technology and qualification is supposed to exist, the process of technological improvement and capital incorporation should also have generated a demand towards higher qualification levels. An important characteristic of this argument is that it does not take into account the role of the Argentine macroeconomic regime during the nineties and its impacts on the aggregate dynamism of the labour

market, emphasizing only labour supply conditions and the disequilibria between this and a labour demand biased towards higher qualifications.

On the contrary, the perspective adopted in this paper about the functioning of the labour market in the years of the Convertibility suggests that the macroeconomic regime determines the global performance of labour market and it has, through this channel, direct impacts on the level and distribution of welfare. Therefore, this vision emphasizes the role of the aggregate labour demand over considerations referred only to employment structure and the adjustments between labour supply and labour demand. A crucial discrepancy between both views is the conceptualization of the origin and the distributive impact of the unemployment. Whereas for the first one the unemployment does not impact on the distribution of the labour income of the workers -although it does, obviously, in the families, because the non employed active population does not generate incomes-, in the second one the *generalized* unemployment (that means, across qualifications levels) not only delimits the increase in the aggregate real wages, but also induces a differentiation process among wages of different groups of workers, according to the level of exposure of each of them to the competition for their job positions. Conceptualizations of different theoretical perspectives (as efficiency wages theory or the most traditional theory about labour markets segmentation) contribute to this vision.

Finally, the worsening of the living conditions, especially during the last years of Convertibility, has been of such a magnitude that its effect is not possible to ignore when evaluating the performance of the new macroeconomic regime. In this respect, in this paper it is argued that the impacts of the collapse of Convertibility on income distribution and welfare cannot be explained without taking into account the degree of deterioration of pre-devaluation living conditions. In this sense, it is necessary to rethink the role of “the crisis”, leaving the conceptualizations that point it out as a delimited episode whose resolution postpones any other consideration aside, given that, as it was already shown, the reversion of the social indicators at pre-crisis levels is extremely difficult

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