

Policy Responses and Labor Market Adjustments in Argentina

**Latin American and Caribbean
Labor Markets and the Global
Economy.**

*International Collaborative Initiative
for Trade and Employment (ICITE)
14-15 Jun Santiago de Chile*

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Argentinian case

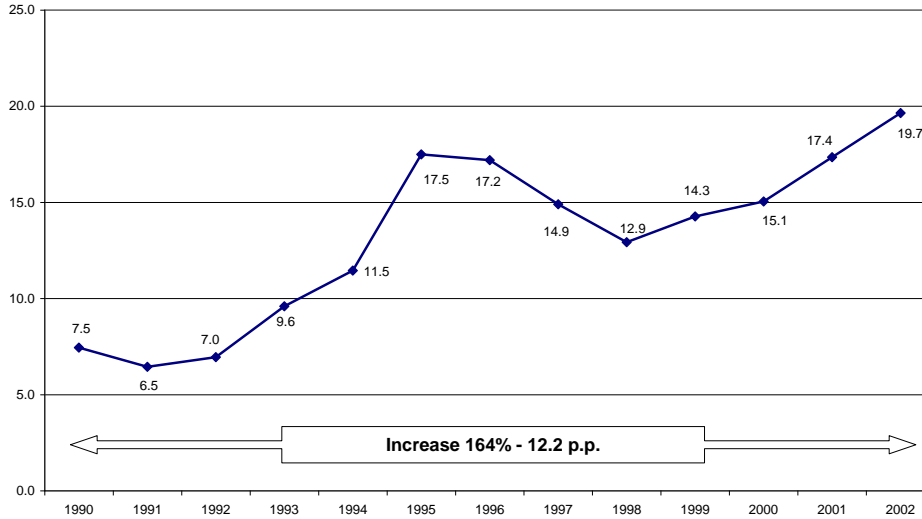
- Globalization and national policies: to what extent does globalisation limit the degrees of freedom of developing country governments to choose appropriate policy instruments?

The role of national policies to articulate the social impact of globalization (Gunter and Van Der Hoeven, ILO 2004). In a more global context, the labor institutions retrieve a fundamental role and are required to guarantee efficiency and equity and to protect more vulnerable population

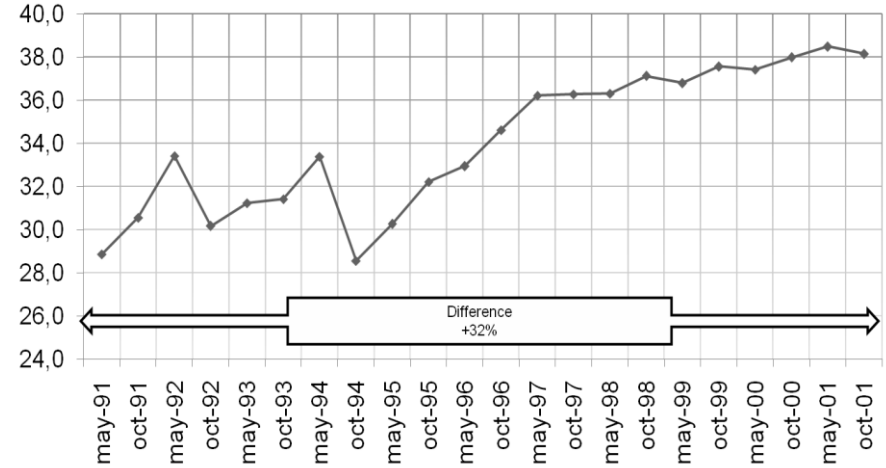
- Argentina as an example of different ways of managing globalization effects (taking advantage of the benefits of globalization and also reducing the threats or negative impacts)
- Different degrees of freedom of Argentinean public policies under two different macroeconomic regimes (both in a context of trade and financial openness):
 - In the `90s: economic and social effects of an abrupt and deep process of financial and commercial liberalization as a consequence of the deregulation of the labor market and institutional weakness
 - New regime since 2003: Increase in trade openness in a different macroeconomic regime with public policies aimed at employment generation (recovering and strengthening of labor institutions)

90's

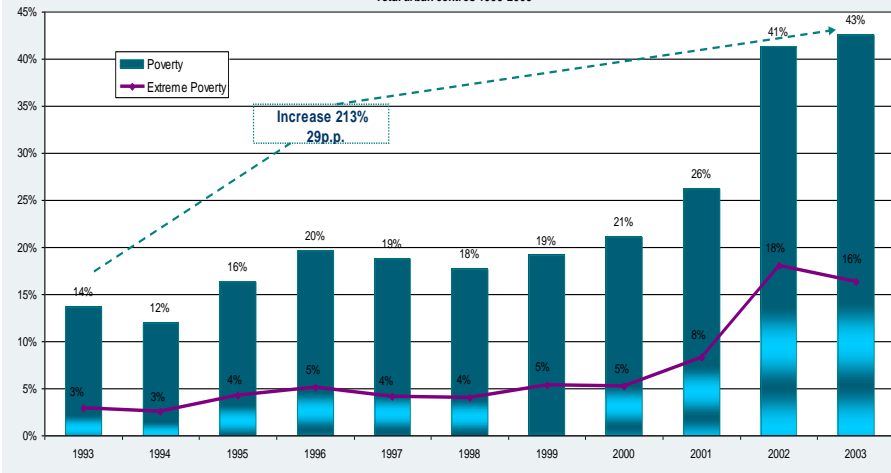
**Unemployment Rate
1988-2002**



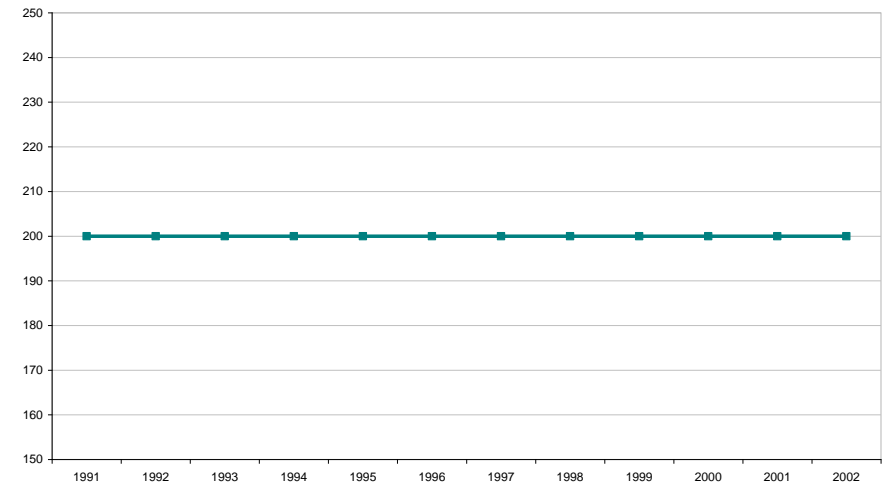
Labour informality rate



**Households Poverty Dynamic.
Total urban centres 1993-2003**



Minimum Living and Adjustable Wage in nineties



Current model: growth and social inclusion 2003-2010

**“Decent Work” as main
social inclusion policy
(coordination)**



Macroeconomic:

Real economy over finance

- Stable and competitive real exchange rate
- External and fiscal surpluses
- Encourage domestic demand and investment



Employment and labour

- Institutional recovery
- Employment policy
- Income policy

Social Policy:

- Cash Transferences to vulnerable families
- Food Program
- Free access to generic medicines

Employment and Labour policies

➤ **Institutional Recovery for Employment policies**

- Reinstalling labour inspection to face informality and to enhance jobs registered in social security
- Enacting new legal framework (to dismantle the labour market flexibility rules and aimed at specific groups: rural and domestic workers, teleworking)
- Reducing recruitment costs (for new workers in small and medium-sized enterprises)
- Recording new workers on line
- Active Labor Market Policies (unemployment services, training)

➤ **Income policies**

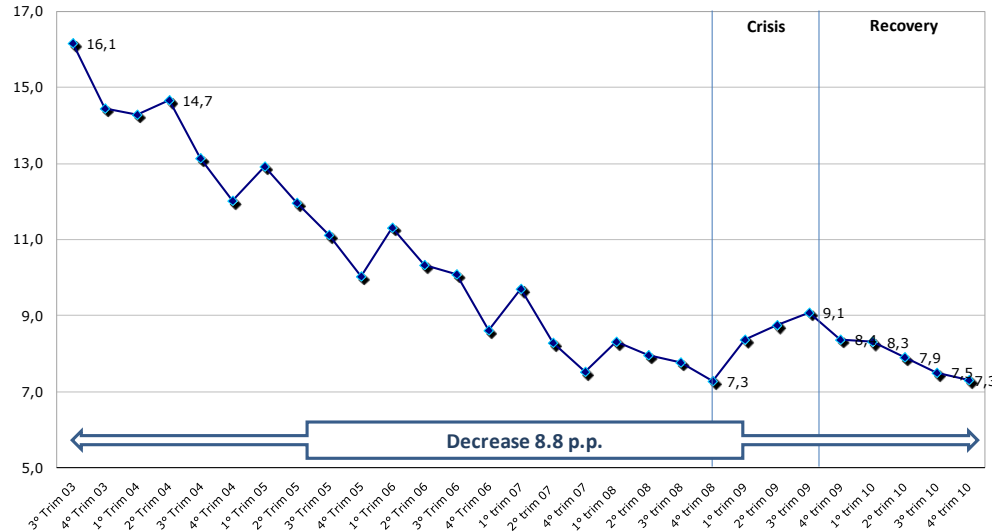
- Promoting social dialogue and collective bargaining
- Increased of minimum wage of 260% in real terms

Economic performance

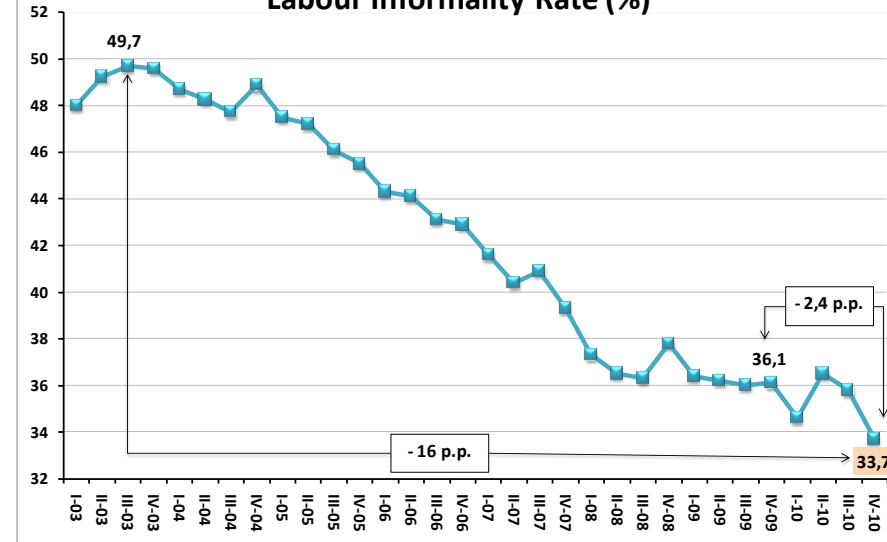
	93-01	2002	03-10
	Annual average growth %		
GDP	1,5%	-10,9%	7,6%
Investment	-0,2%	-36,4%	18,4%
Employment	0,8%	-5,6%	3,5%
Productivity	0,7%	-5,6%	4,0%
Real Wage	-0,6%	-19,6%	5,0%
Terms of Trade	0,8%	-0,4%	3,8%
	%GDP		
Trade openness (X+M/GDP)	16,9%	33,4%	36,1%
Trade Balance	-0,5%	16,1%	6,1%
	1993=1		
Multilateral exchange rate	0,99	2,09	1,93

Labour and social performance 2003-2010

Unemployment rate evolution
Total Urban Centres 2003-2010

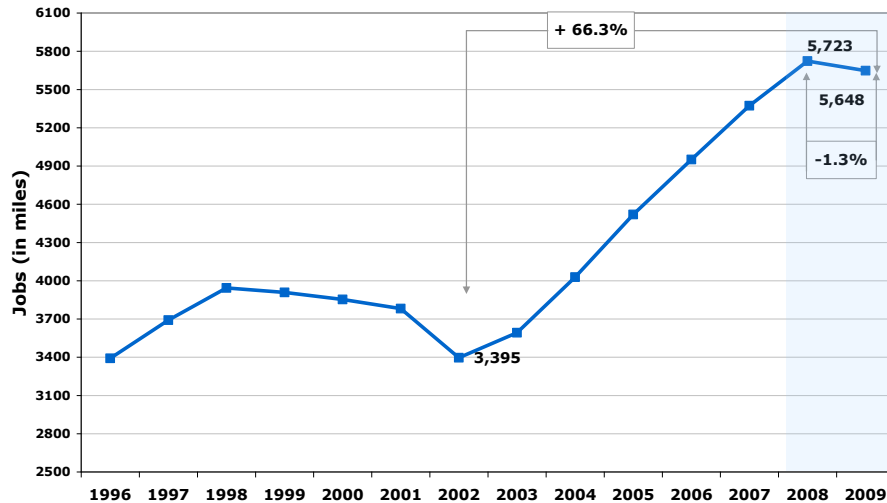


Labour Informality Rate (%)

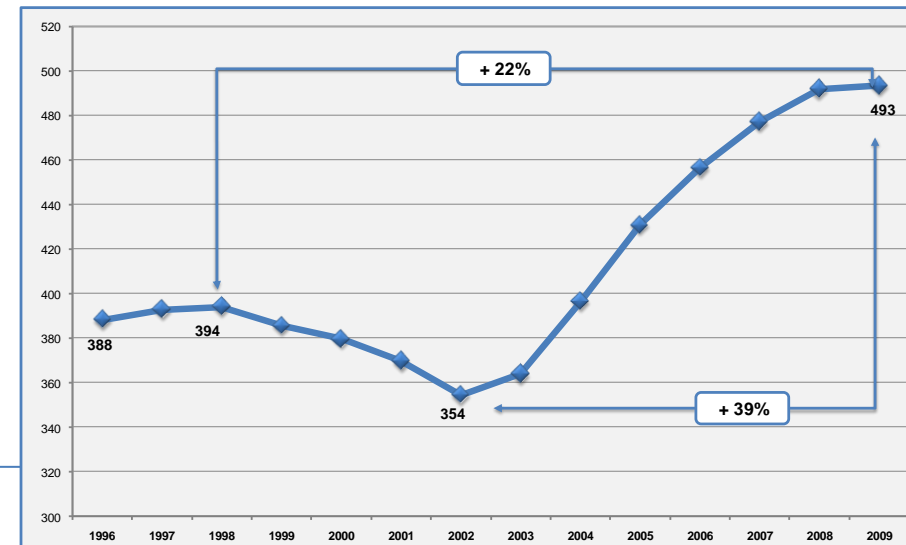


Formal Employment

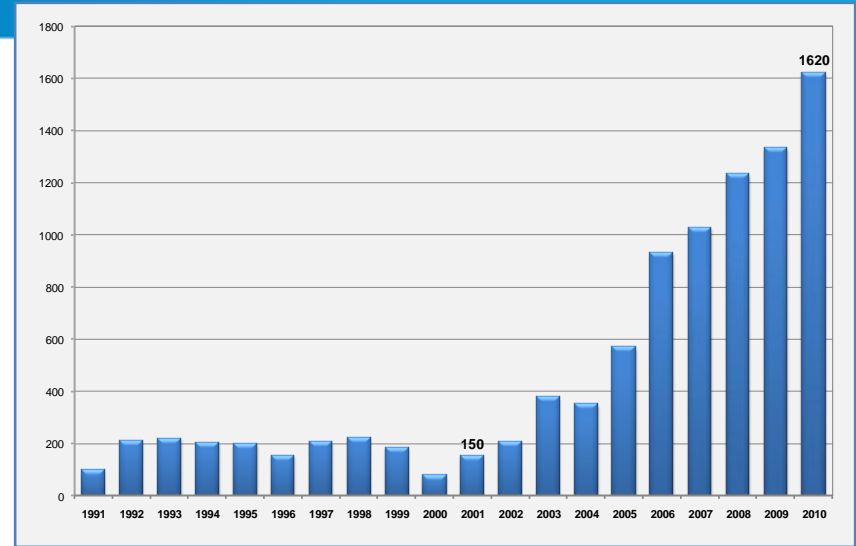
Performance 1996-2009 – Private sector (jobs in miles)



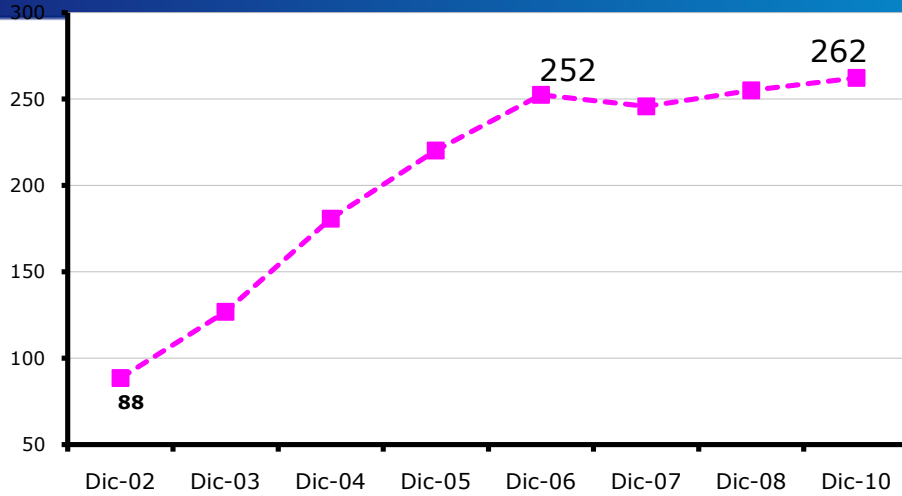
ENTREPRISES EVOLUTION 96-10



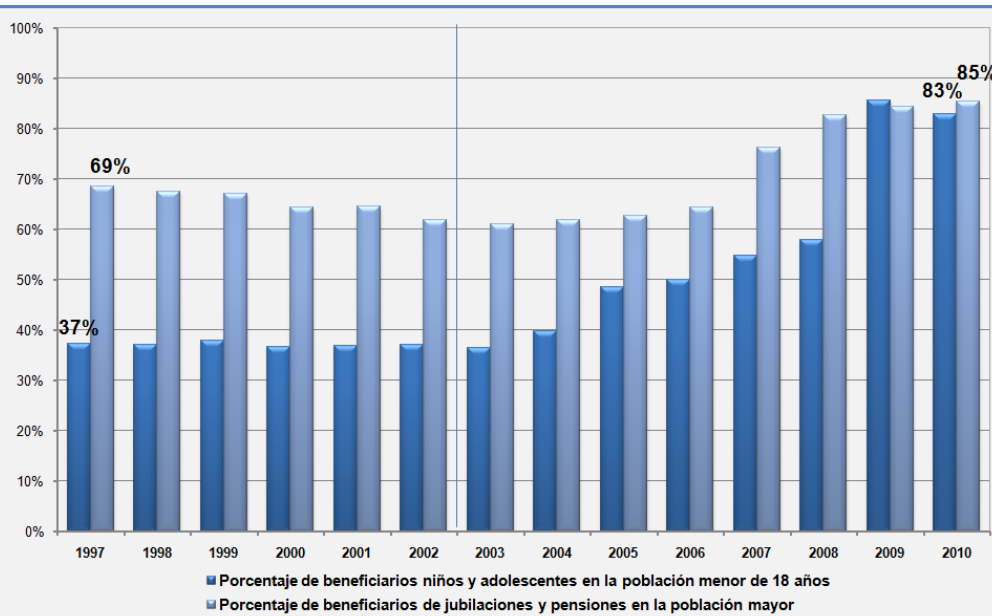
Collective bargaining



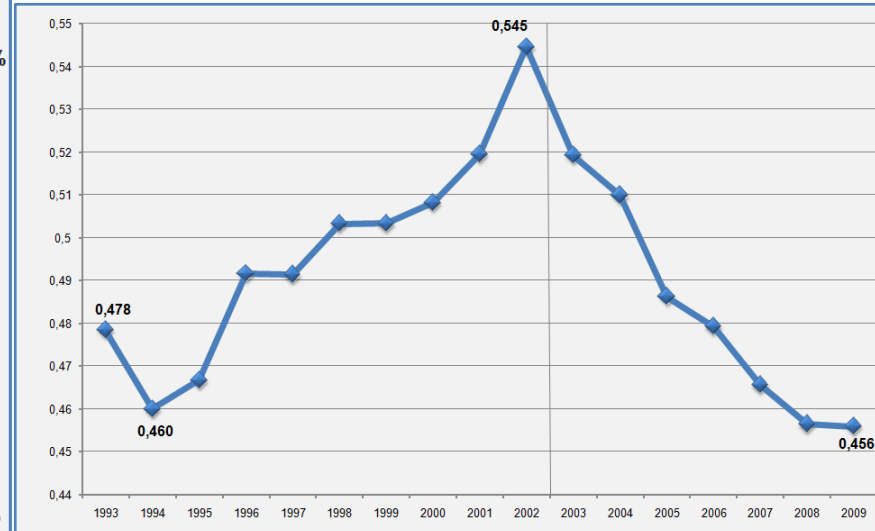
Real Minimum Living and Adjustment Wage 2001=100



SOCIAL PROTECTION COVERAGE



INEQUALITY (Gini)



Argentinian labor policies face up to the global crisis

Macroeconomic Policies

- Prevention of nominal appreciation
- Program of Public Infrastructure Investment
- Pension System Nationalization
- Tax waiver in case of formalizing employment

Industrial Policies

- Credit conditioned to employment maintenance
- SME's Support
- Non-automatic import license

Anti-crisis policies
(in defence of employment and social welfare)

Permanent LM Crises Observatory

Labour Policies:

• Use of institutions:

- Crisis Agreement Procedures.
- Temporary wage Subsidies to firms affected by the crisis (REPRO=141.615).
- Reduce payroll taxes only for new workers
- Extension of the Training Program.

• Income Policies:

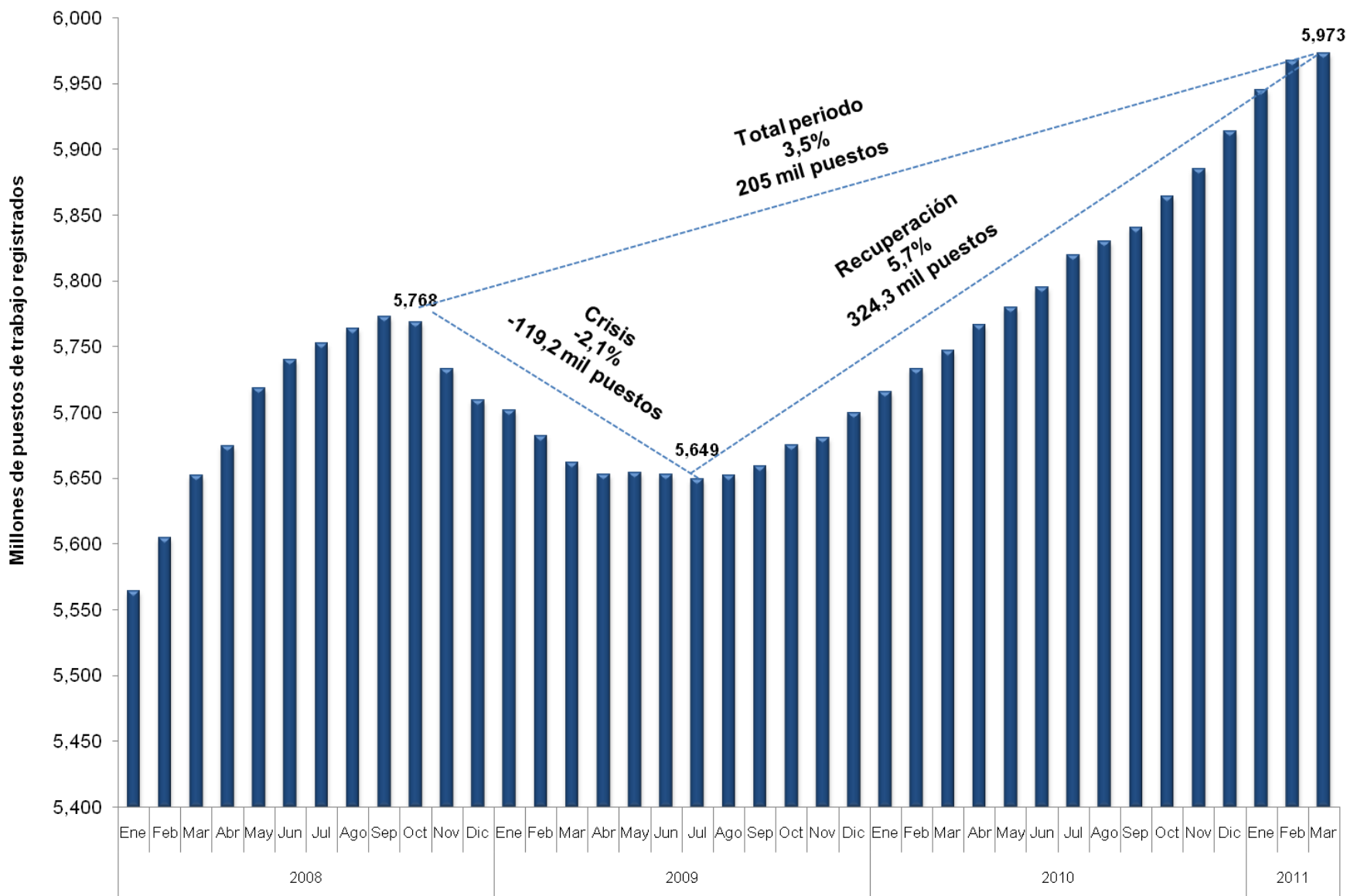
- Collective bargaining.
- Increase of Minimum Wage

Social Policies

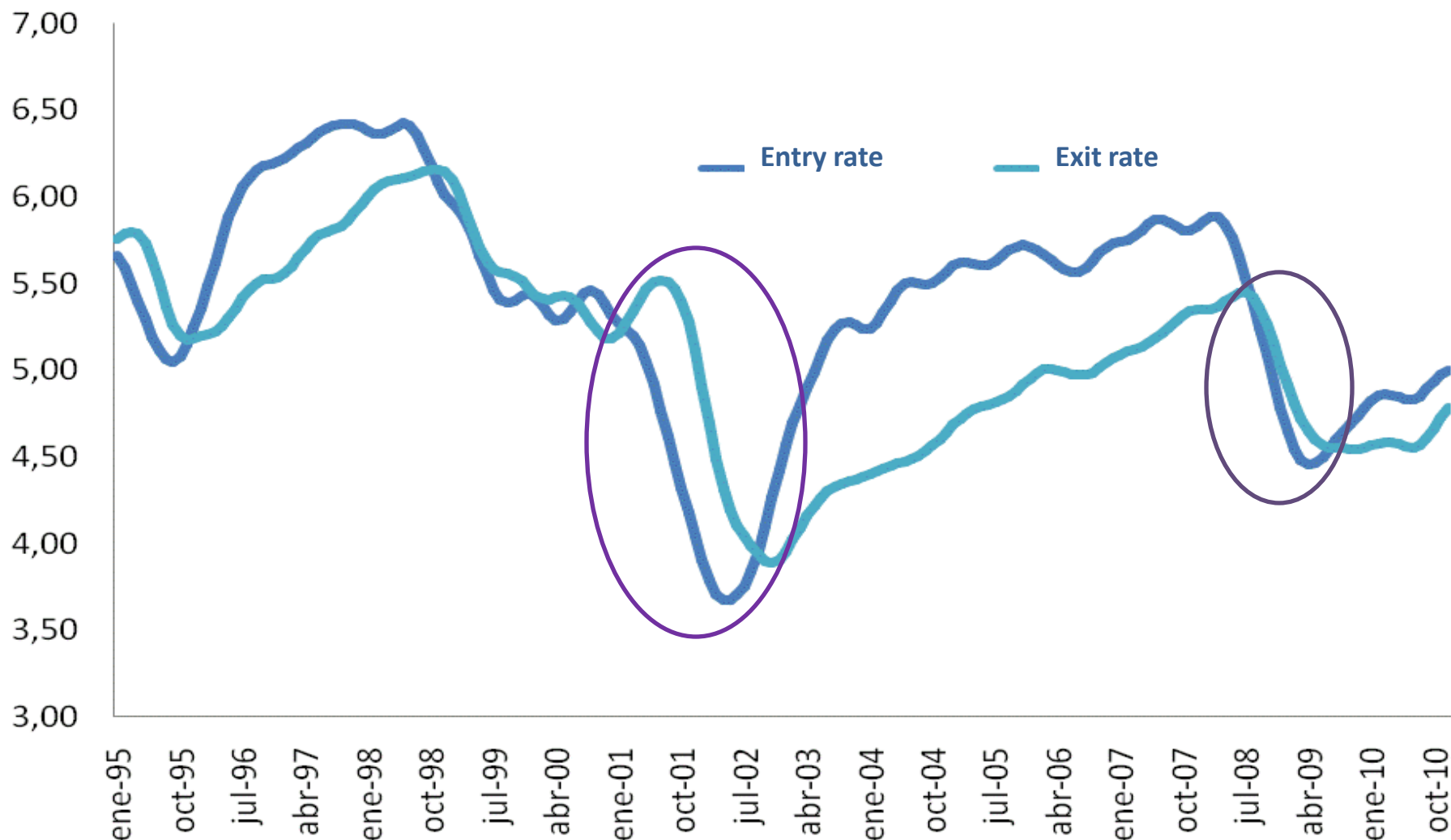
- Increase of Pensions and Social Programs
- Food Program budget Increase
- Pension mobility
- Extension of child protection (child wage)

Labor Market Adjustments

Formal employment (registered in social security)



Labor Market Dynamics - Formal employment

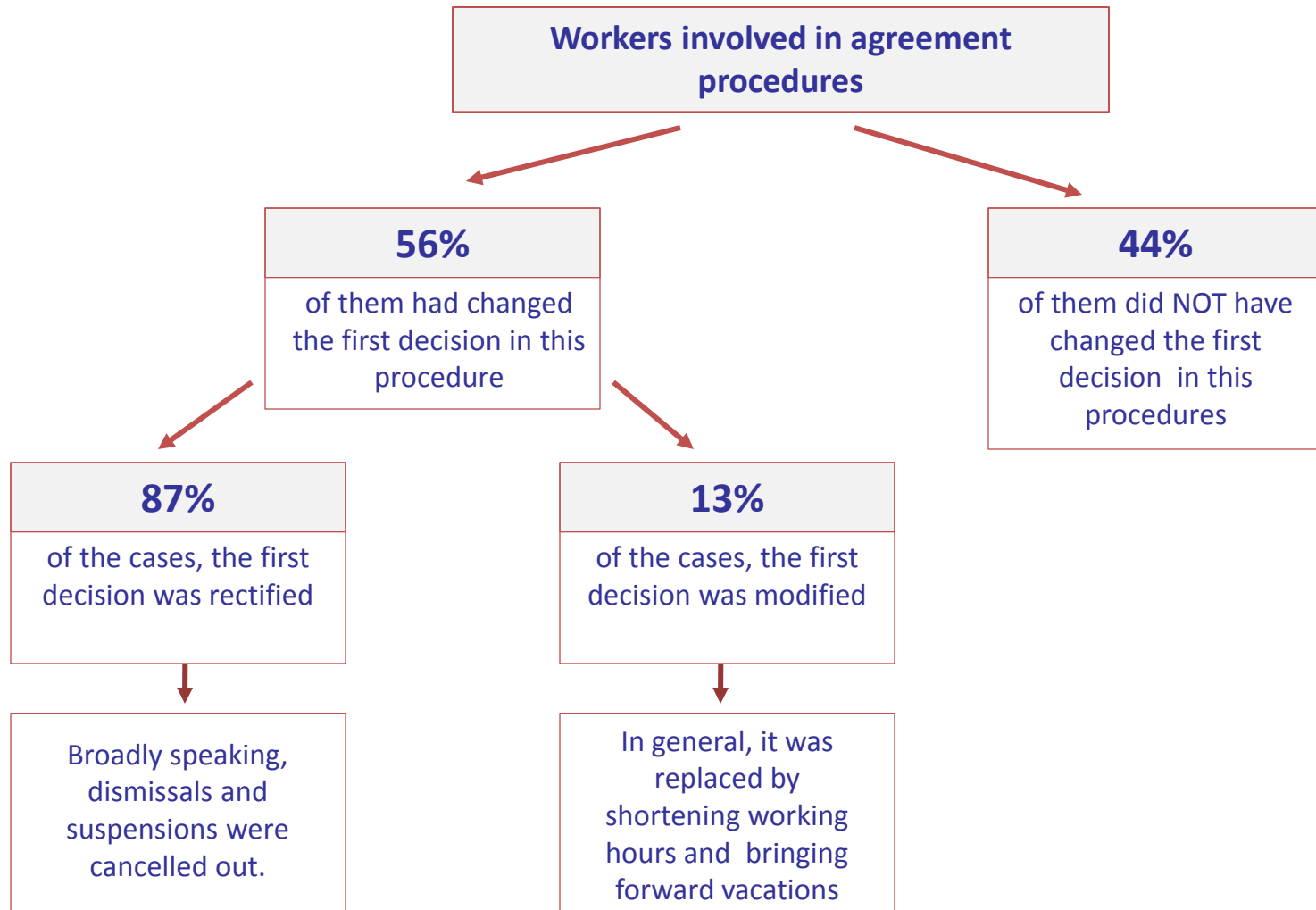


Main Labour policies evaluation

Crisis Agreement Procedures (tripartite negotiation to protect the employment)

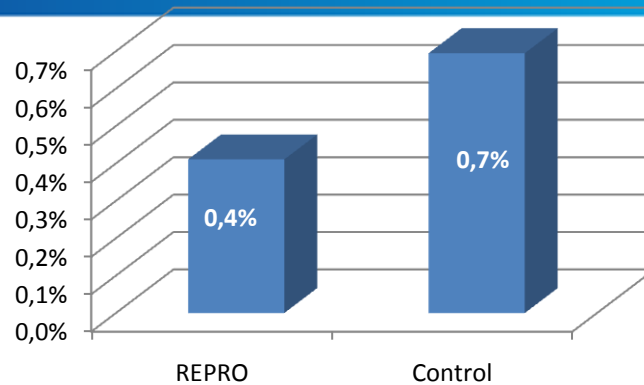
- **Wage Subsidies to firms affected by the crisis (REPRO)**
- **Reduce payroll taxes**
 - Methodology
 - Impact evaluation with a control group to assess what would have happened to companies under this policy if those incentives would not have been applied
 - The method used is “Propensity Score Matching” and the control variables are: employees, seniority, economic activity, average wage, location, employment growth between 2006 and 2008 (before the policy was in force)
 - in order to estimate the effect of the policy on the employment dynamic, a diff-in-diff econometric model is used here.

Results of the strategy of tripartite negotiation and agreement



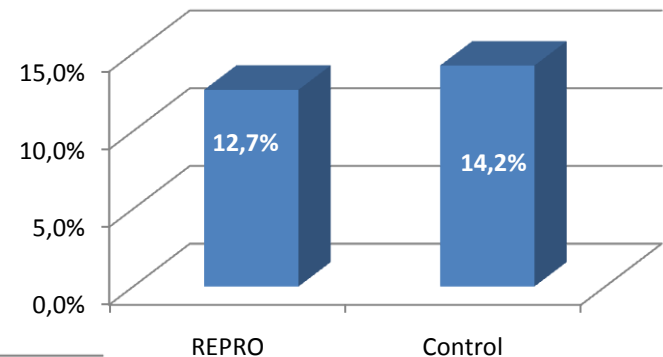
Wage Subsidies to firms affected by the crisis (REPRO)

- Significant impact in reducing layoffs rate

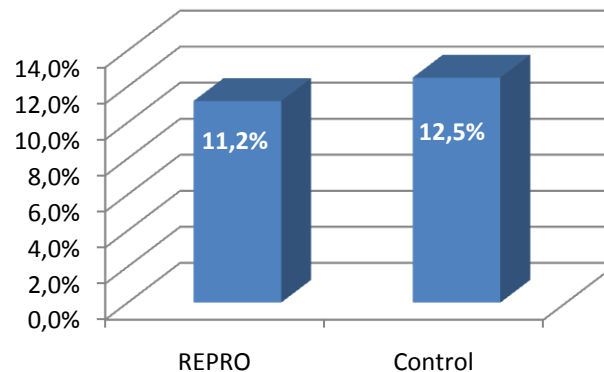


- Significant impact in reducing total exits

Exit rate



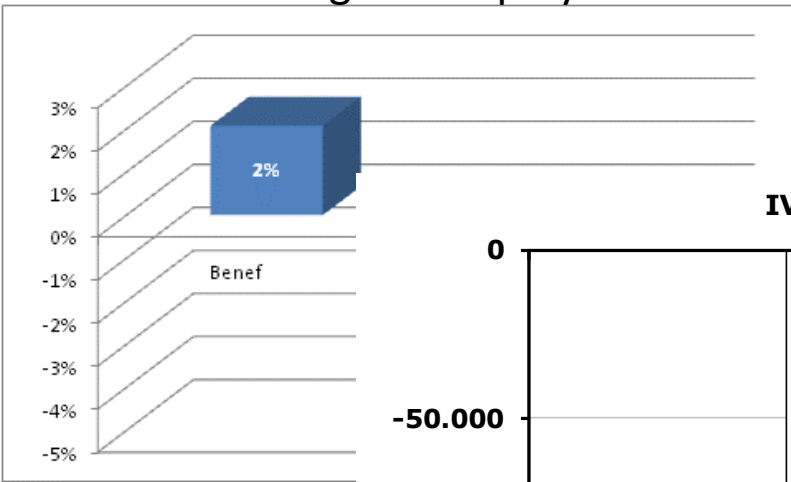
Entry rate



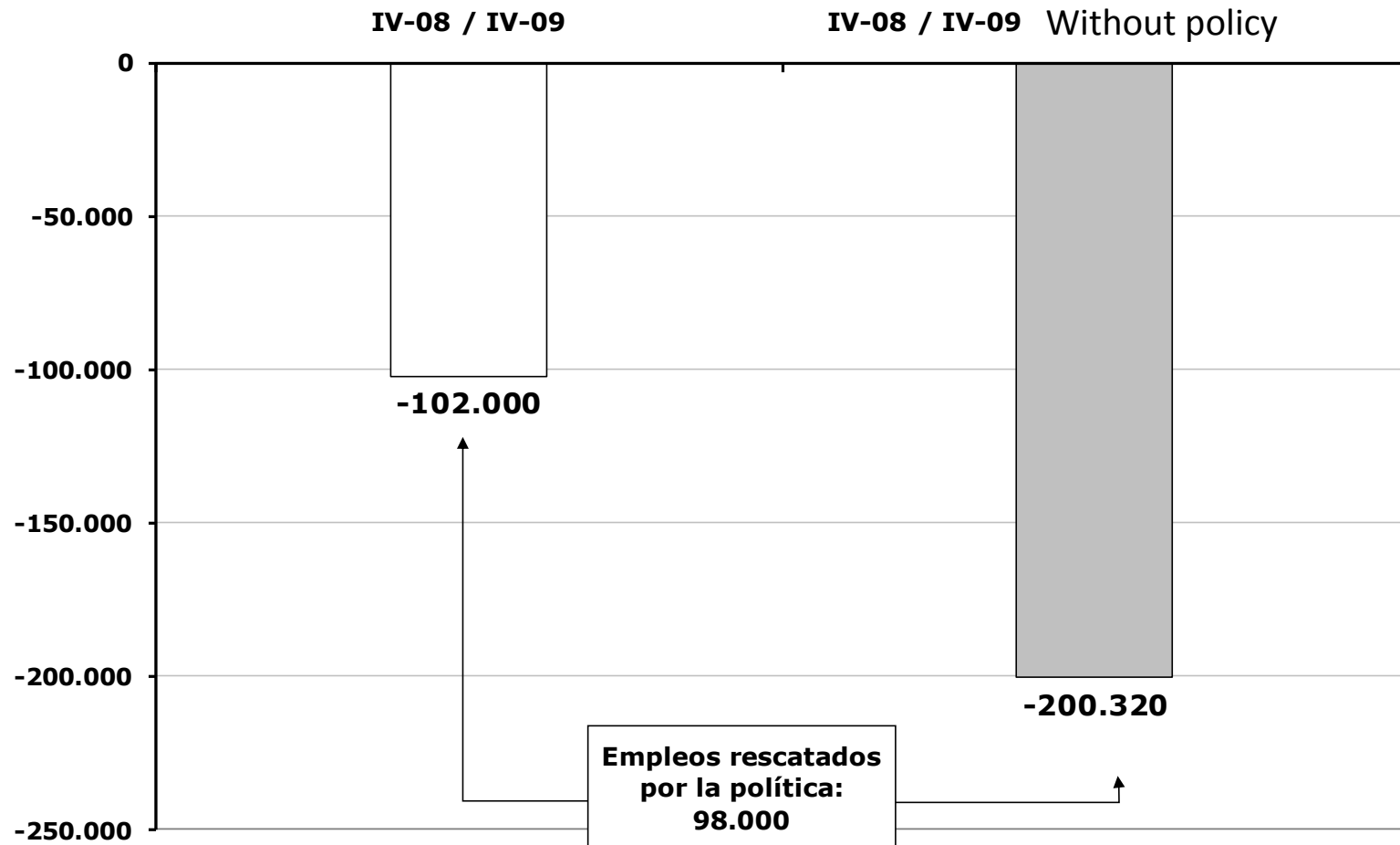
- But, impact reducing new entries
- Neutral net changes in employment

Reduce payroll taxes

Net change in employment



Employment real Impact



Final considerations

- **To Face up the challenges of globalization:**
 - Higher importance of national policies
 - The coherence of different public policies (recognized by WTO/ILO)
- **Changes on the orientation of the international crisis response:**
 - State/ public policies role
 - Greater importance in employment (preservation, unemployment and training)
 - New role of “non traditional” institutions (Ministry of Labor/ ILO)
 - Increasing importance of developing countries (G20)
- **Need of a model with higher social inclusion**
 - The role of work (decent work) is appreciated, but it is necessary to think of strategies to deal with informality, unemployment and inequality
 - Principles of the new social system: Employment, extention of social protection, the need for **improvement of social infrastructure**
- **Different crisis → different impacts on labor markets → different policy “bundles”**