

How Wage-led Growth has Powered Argentina's Economic Recovery

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As the global economy sputters into yet another recession in the ongoing drama generated by the 2008 financial crisis, it is easy to be pessimistic. Many countries that are critical to overall trends in the world economy seem to be locked into a self-defeating downward spiral of fiscal austerity measures that add further negative impulses to economies that are already affected by the impact of the initial crisis and the winding down of excessive private debt. So GDP stagnates or declines, making the indicators that financial markets are obsessed with (such public deficit or debt to GDP ratios) look that much worse, further adding to the pressures even on finance.

Everyone hopes for salvation from higher exports, which is a false hope in a period when almost all economies are trying the same thing. A big part of the problem is the continued dominance of an economic policy model that has clearly failed, and currently has no answers to deal with the escalating problems. Clearly this situation cannot carry on for very long, and on current trends an unhappy outcome cannot be very distant. But in fact, this is not actually inevitable - even in this extreme situation it is possible to imagine some ways out of the current predicament, if only policy makers have the imagination and will to embark on a quite different trajectory.

Fortunately, there are some bright spots of alternative macroeconomic trajectories, particularly in Latin America. One example of an alternative strategy that has paid significant dividends in terms of generating more genuinely inclusive growth is Argentina. Curiously, this country regularly gets a hard time in the global financial media despite its evident success in terms of relatively stable GDP and employment growth. Could this be because its strategy had defied so many of the current orthodoxies that are so clearly failing in most other places? Or because more knowledge about the actual nature of the policies that have been applied in Argentina might encourage more governments to think differently from the current mainstream?

Consider just some of these facts. Since 2003 (when Argentina had just been through one of the most severe financial crises ever experienced by any developing country) real GDP has grown at an annual rate of around 9 per cent. This has been sustained not just by increasing exports fed by the global commodity boom (which is the point generally harped upon by most external commentators) but by sustained expansion of the domestic market, strengthening of production and increase in investment, which reached historically high rates of 23 per cent in the period 2003-09. This was not all or only about public investment - there were nearly 130,000 new private enterprises registered between 2003 and 2009. This investment in turn powered a substantial increase in labour productivity, which had languished through the earlier two decades.

The increase in the domestic market was in turn led by labour market dynamics and the expansion of social protection systems - precisely in the manner advocated by proponents of

wage-led growth. Total employment increased substantially, much of it in better quality jobs. There was a significant increase in formal employment, which increased by 70 per cent between 2002 and 2009. The ratio of registered workers to total working age population (which had stagnated for the previous 25 years) increased by 30 per cent in just these seven years, such that by 2009. The aggregate unemployment rate fell from 21.5 per cent in 2002 to 7.9 per cent in 2010.

And even during the latest crisis, the economy has shown substantial resilience in growth and employment terms. The unemployment rate has not changed and real wages have not suffered (although partly as a result of this, it is true that new problems are emerging in the form of inflation and its consequences). This is due to a combination of macroeconomic and active labour market policies, as noted in what follows.

A publication from the Ministry of Labour, Employment and Social Security of the Government of Argentina ("Work and Employment in the Bicentenary: Changes in employment and social protection dynamics for an extended inclusion, 2003-10", Buenos Aires 2010) highlights some of the factors behind this impressive achievement.

Basically in 2003 the government sought to change the economic policy model quite drastically, to move away from dynamics of exclusion and marginalisation in labour markets, which had become the norm in the economy since the mid 1970s. The promotion of quality, productive and fairly remunerated employment, together with the expansion and redefinition of social protection, focused on protecting a greater part of the population, were the main tools through which the model sought to improve the living conditions of the people. These turned out to have significant macroeconomic implications as well, providing a vibrant source of domestic effective demand that could encourage the proliferation of new productive employment.

Therefore the economic advantage provided by a boom in primary commodity exports was not concentrated in the hands of a few privileged elite groups as had hitherto been the case, but spread much more widely amongst the population. And the expansion of public employment and social protection provided opportunities for employment diversification within the economy, as well as assisting the productivity improvements that have been witnessed in the recent past.

Some of the early changes were legislative or administrative in nature. In 2004 Law 25,877 for Labour Regulation, was passed. The National Council for Employment, Productivity and Minimum Salary was reactivated to decide upon and enforce minimum wage and salary rules. The National Plan for Work Regularization (PNRT) was set in motion, with the goal of expanding the Ministry's capability to inspect and control the compliance with labour laws and social security contributions of employers.

Importantly, collective bargaining - which had languished under the earlier regimes - was brought back to centre stage, with a dramatic (more than five-fold) increase in the number of agreements and negotiations approved each year. In addition, negotiation activity at the branch

level was re-introduced, so as to reach a greater number of workers and "collectivise" the benefits, as opposed to the "individualisation" of employment relationships that had predominated in the 1990s. As a result, collectively agreed salaries accounted for 81% of the wage bills of enterprises in 2009, compared to less than 50% in -2001. As a result of these changes, the wage share of national income increased from 34.3 per cent in 2002 to 43.6 per cent in 2008.

Another major element was the doubling of social protection grants. There was an increase in the value of pensions and extension in coverage, including the introduction of social pensions for defined categories. Today it is estimated that the pension system covers 84 per cent of the elderly population.

At the same time, social protection for children and adolescents was extended, going from 37 per cent coverage (in terms of monetary transfers) in 1997 to 86 per cent in 2009. Some of this was the result of the expansion of registered employment, which allowed an extension of the coverage of family allowances. Those who were excluded from this have benefited from the creation of a non-contributive sub-system: the Universal Per-Child Allowance for Social Protection, which currently reaches about 3.5 million children.

As a result of this emphasis on inclusion and social protection, social spending expenditures of the government amounted to nearly a quarter of GDP in 2008. This and other measure outlined obviously had a direct effect on income distribution. Argentina was known as one of the more unequal countries in the world, and income inequality had been steadily increasing since the mid-1970s. In the past decade this was finally reversed, as the Gini coefficient for income distribution improved by 16 per cent between 2002 and 2009.

In the current crisis, these measures have been sought to be maintained and even expanded. There has been a focus on countercyclical macroeconomic policies, including public works, housing plans, incentives for stimulation of productive sectors, exports pre-financing loans, loans for small enterprises. In all policies implemented, an employment preservation clause was included as a requirement to access and maintain the benefits and subsidies. In addition, the reach of the Productive Recovery Program (REPRO, through which the state subsidises part of the workers' salaries in enterprises in a critical situation) was extended. Fiscal incentives were provided for formal hiring and regularisation of non registered employment. There was also a strengthening of the active training and employment policies targeted to people that needed to further develop their skills in order to enhance their occupational insertion opportunities. Active income policies were maintained, so that as of the last quarter of 2008 the raises in retirement and pension transfers were guaranteed by law. Collective labour bargaining was sustained. There was a reduction in income taxes for salaried workers, and the amounts of the family allowances were increased. Also, there were monetary transfer programmes for vulnerable or impoverished groups.

Obviously these policies make severe fiscal demands, and the current inflationary pressures in Argentina do suggest that further increases will have to be moderated. However, this very different approach to social and economic distribution and the positive macroeconomic effects that it has generated thus far show that there are other viable economic trajectories that can deliver both growth and economic justice. This in turn provides valuable lessons for the rest of the world.

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