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Macroeconomic Regime, Trade Openness, Unemployment and Inequality: The Argentine Experience

Roxana Maurizio

Abstract

This paper analyzes the Argentine experience of the interactions of macroeconomic regime, labour performance, income distribution and poverty during the Convertibility Plan and the new macroeconomic regime that followed the collapse of the currency board regime. Differing theoretical perspectives are discussed, and diverse labour and social indicators analyzed. The macroeconomic framework is found to have a bearing on the social situation. Further, the negative effects of the macroeconomic configuration on the labour market and income distribution persist even after the country has resumed a growth path. The complete recovery of the standard of living conditions thus requires additional public policy efforts targeted at the more vulnerable groups, even under macroeconomic regimes more favourable to employment generation.

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Introduction

A distributive analysis of Argentina is relevant for at least two reasons. First, among Latin American countries, it has experienced the most dramatic changes in income inequality and welfare in the last three decades. From being a country with low unemployment and inequality levels and reasonable social integration, Argentina has been transformed into one with high social vulnerability, poverty and inequality rates. Second, the country's experience is proof of the co-existence of significant GDP growth with worsening labour conditions and income distribution.

These dynamics were at play during the 1990s. When the “Convertibility Plan”—a currency board regime—was established, trade opening and exchange rate appreciation generated a process of productive restructuring. This was characterized by the displacement of local production and the reduction of labour force requirements, resulting in insufficient job generation despite strong GDP growth. The combination of very low elasticity of labour demand and a significant rise in the labour supply resulted in increasingly high unemployment rates. The maintenance of the currency board regime through successive external crises further enhanced the high levels of unemployment and resulted in the reduction of average wages in the contractive phases of the cycle.

The economic and labour market performance during the 1990s contributed to the increase in the income inequalities and the gap of welfare between the rich and poor in Argentina. The distance of household per capita incomes (HPCI) between the richest 20% and poorest 20% of the population rose from 10 times in 1991 to 20 times at the end of 2001. Poverty headcount ratio, which in 1991 was 29%, reached 35% in 2001, and indigence doubled.¹

In 2002, Argentina underwent an economic and social crisis of unusual magnitude due to the collapse of the Convertibility Plan at the beginning of that year. GDP decreased by more than 11%, unemployment climbed to 21.5%, and 57.5% of the population fell below the poverty line.²

From the second half of 2002, however, as a consequence of the consolidation of the process of economic growth, some reversion in the labour market indicators' trend has taken place. Nevertheless, the intensity of this reversion differed for the variables: employment has been recovering very quickly since the end of 2002 and poverty has decreased substantially. Other variables have shown a less intense recovery; this is the case with real incomes and their distribution. Job creation has been characterized by the inability to completely resolve the problems of precariousness associated with the generation of non-registered wage earner posts.³ Moreover, the indicators of inequality, poverty and indigence reveal that the country's social situation remains vulnerable despite the good performance of the labour market. In the second half of 2006, 27% of total population was still poor.⁴

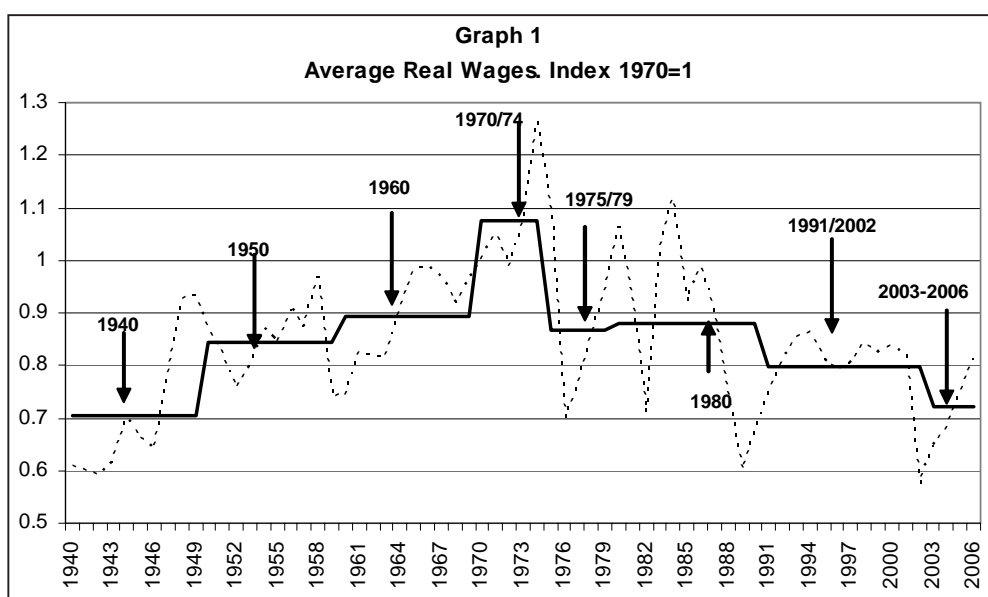
The paper will study the Argentine experience by focussing on the relationship between the macroeconomic regime, employment generation, income distribution and poverty incidence. The analysis will encompass both the macroeconomic regimes: the Convertibility Plan and the new macroeconomic regime in force after the collapse of the currency board. Microdata from the official regular household survey—Encuesta Permanente de Hogares (EPH)—are analysed for the purpose. EPH is carried out by the National Statistical Office (INDEC), which covers urban areas and collects information especially on labour market variables.⁵

The paper is divided into five sections. The first section analyzes the long-term evolution of the most important social indicators in Argentina, and compares it with those of other Latin American countries. The second section describes, in brief, Argentina's macroeconomic and social indicators in the nineties. The third section discusses the factors associated with the worsening of the labour and distributive conditions of the decade. The fourth section analyzes the reversion and perdurability of social indicators in the recovery phase that followed the change of macroeconomic regime. The fifth section presents the conclusions.

1. Long-term as well as Regional Perspective

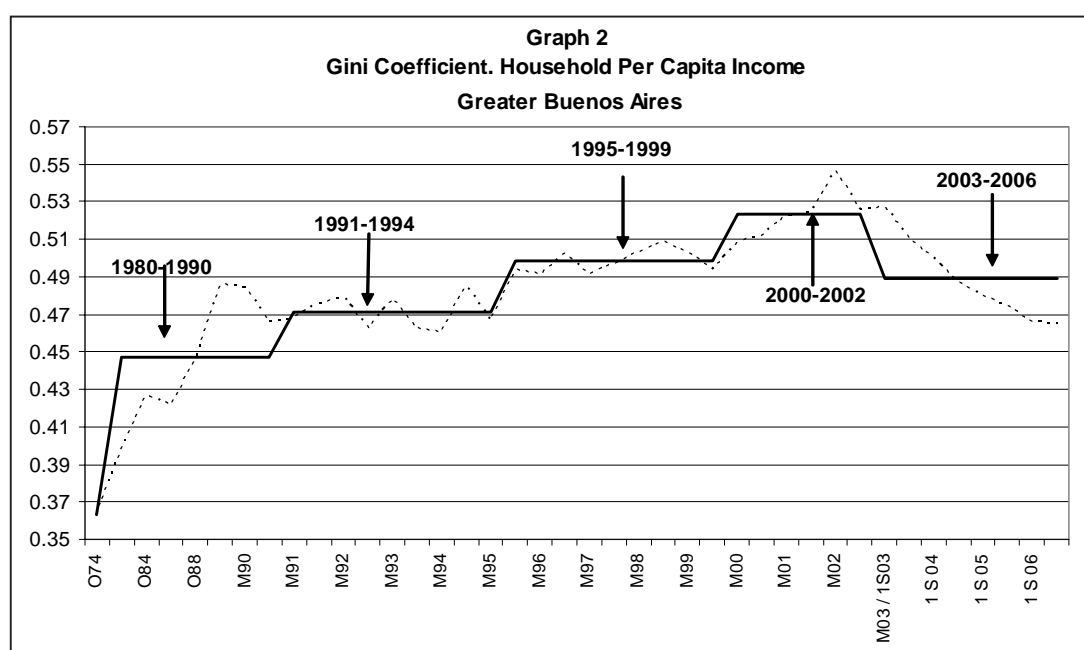
A long-term view allows us to put the more recent developments of the labour market and inequality in Argentina in perspective. During the last three decades, the country experienced phases of macroeconomic instability and deep recession as well as strong economic growth and relative stability.

However, as shown in Graph 1, beyond these fluctuations, real wages have been experiencing a downward trend since 1974. In particular, the nineties—characterized by reduced inflation levels and deflationary episodes—did not see a growth in the purchasing power of remunerations. Instead, it ended up being, on average, lower than that of the previous decade. This systematic worsening makes the wage recovery that started in 2003 insufficient to substantially reverse the previous process. In fact, the average value corresponding to the 2003-2006 period is only higher than the average of the first half of the 1940s. Along with this negative trend, four different episodes have reduced the average real wages even more: the freezing of nominal remunerations imposed by the military government in 1976; the external debt crisis in 1982; the hyperinflation episodes in 1989-1990; and the devaluation in 2002.



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

The reduction of the long-term real wage and the dynamics of employment were not experienced, however, in a homogeneous way by workers. It resulted in a sustained growth in the inequality levels of both the employed population and the households. As shown in Graph 2, the Gini coefficient of HPCI in Greater Buenos Aires (GBA) experienced a growing trend from the middle of the seventies onwards. From 0.363 in 1974 it increased to 0.465 at the end of 2006. Inequality, in particular, rose during most of the years between the second half of the seventies and 2003 (when the reversion of this trend started). In the few years that income distribution improved, the progress was less intense than the previous worsening.

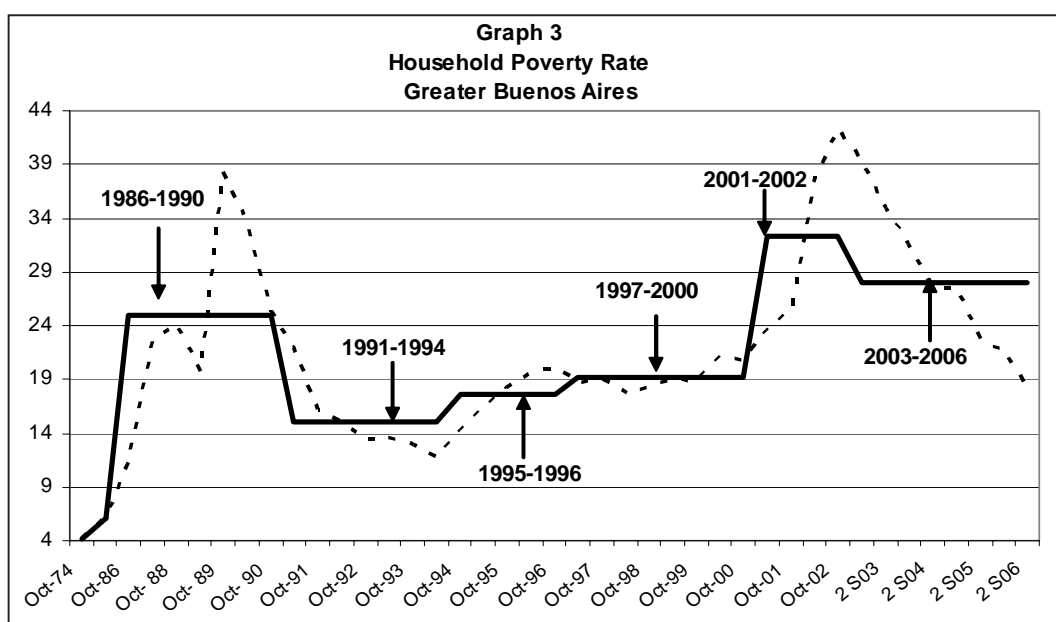


Source: Author's elaboration based on data from EPH (INDEC).

Different factors determined the dynamics during the whole period. For example, in the second half of the seventies, the increase in inequality was fundamentally associated with the rise in inequality among the employed population due to the strong reduction of real wages in 1976. Following Altimir *et al* (2002), the higher inequality would be explained by the employers' policy of protecting the most skilled workers from the deterioration in real remunerations. During the eighties, the labour income gaps among workers remained, even after the return of democracy, in a context of strong macroeconomic instability and stagnation. Further, during this period, there was a slight increase in the unemployment rate, mostly among the members of the poorest families. This worrying distributional situation was worsened by hyperinflation episodes at the end of the decade. The stabilization and economic growth during the nineties did not result in distributive

improvements. On the contrary, income inequality remained relatively constant during the first half of the nineties, while the second half was marked by a sustained worsening. Since 2003, a reversion of this trend has taken place, but inequality remains very high.

The average real wages and the distributional dynamic also had a direct impact on poverty incidence.⁶ The percentage of poor households grew from 4% in 1974 to 18% in the second half of 2006 in GBA.

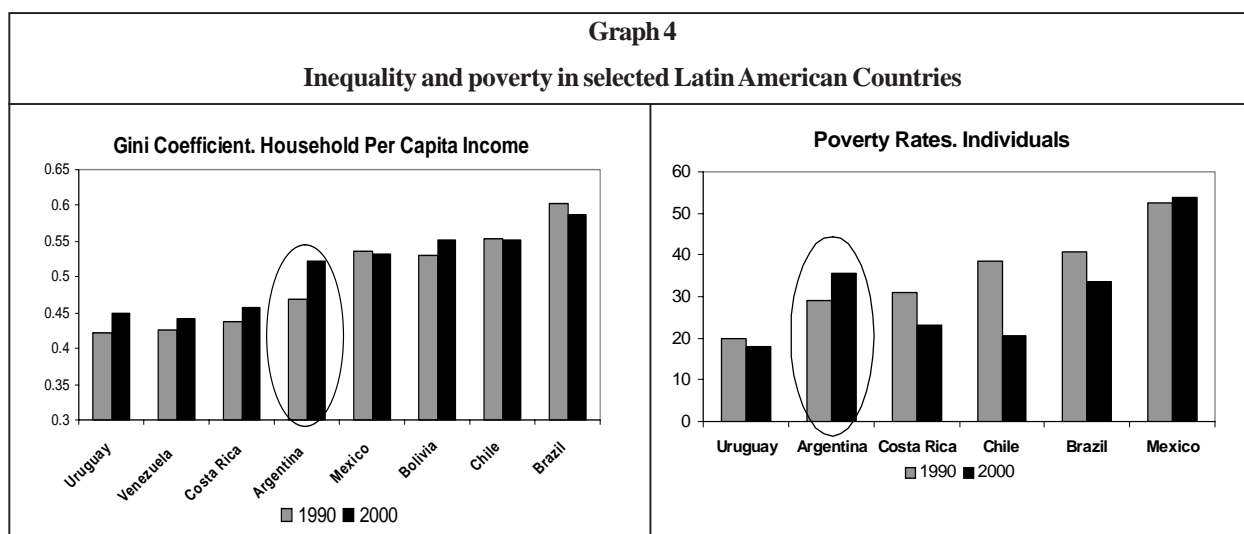


Source: Author's elaboration based on data from EPH (INDEC).

As shown in Graph 3, although poverty reduction in the first half of the nineties was significant, the average incidence of poverty during the period was higher than that registered before the hyperinflation episodes of 1989 and 1990. After the growth period between the end of 1994 and the end of 1996, poverty remained relatively constant until 2000; however, poverty levels were again higher than those of the previous phases. The collapse of the currency board regime and the consequent devaluation resulted in poverty levels that had never been registered before in the country. Although since 2003 the upward trend of the poverty rate is being reverted, the average of this last period is still one of the highest of the last three decades (with the only exception of the 2001-2002 period).

The degree of social deprivation that appears after each crisis—although lower than that registered during the crisis—is significantly higher than of the pre-crisis level. In the process, a certain erosion of the consensus on the satisfactory social conditions has taken place, such that situations which were previously considered intolerable became socially acceptable.

The regional dimension also helps to contextualize the recent developments. Argentina, together with Costa Rica and Uruguay, has historically been one of the Latin American countries with better social indicators, characterized by a low degree of social polarization and a large middle class. During the last decade, there has been no homogeneity among countries in the region in terms of income distribution and poverty. Inequality decreased in Brazil, but Uruguay, Costa Rica, Venezuela and, especially, Argentina experienced the opposite process (see Graph 4). A slight reduction in the gap between countries with respect to the inequality indicators (although it is still very wide) has been detected; in the last few years, there has been a rise in inequality in countries with lower degree of initial inequality, and a reduction in the most inequitable ones.



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

A similar picture arises when the evolution of poverty incidence in Argentina is compared with that of the other countries in the region. The strong increases in its poverty rates during the nineties are clearly higher than that registered in almost all other countries of the region. In this sense, there is a striking contrast between the Argentine performance and that of its neighbouring countries—Chile, Brazil and Uruguay;

poverty incidence decreased in the cases of Chile and Brazil and remained relatively constant in the case of Uruguay (Graph 4).

A comparative analysis of Argentina with some of the most important countries in the region (which is by no means exhaustive) indicates that the distributive changes, although not unlike what happened in other Latin American countries, were more intensely adverse in it. In fact, during the last thirty years Argentina was among the Latin American countries that experienced the most severe worsening of income distribution and poverty.⁷ For this reason, it is interesting to analyze in depth the macroeconomic and labour changes associated with the significant changes in inequality and poverty in the country.

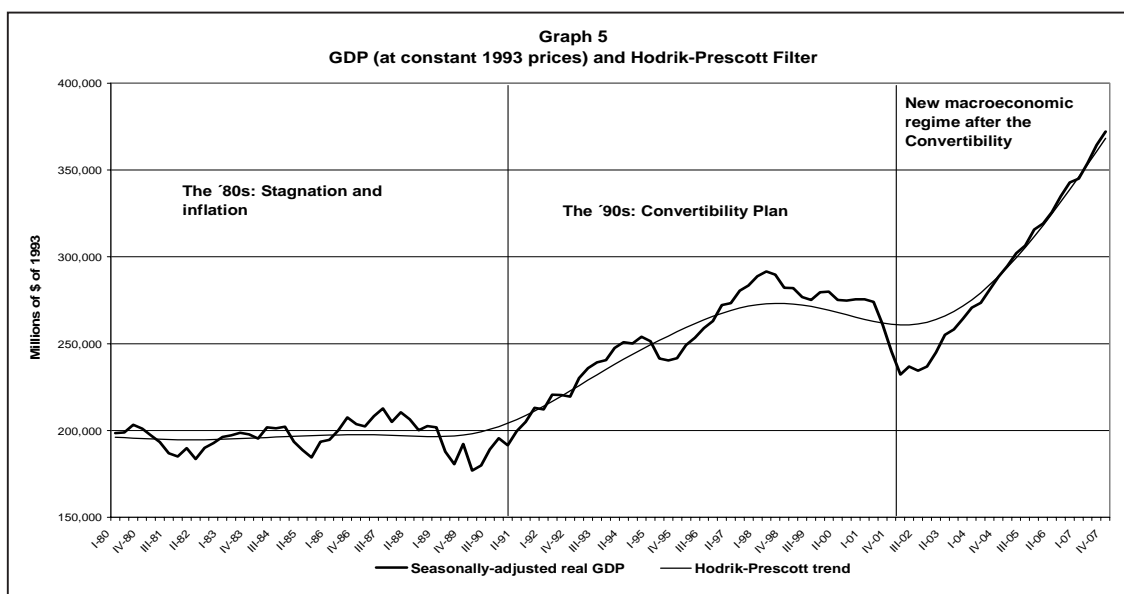
2. Macroeconomic Regime, Labour Market and Distributional Performance during the Nineties

After decades of macroeconomic instability, the Convertibility Plan was implemented in 1991; it was based on the establishment of a fixed exchange rate and the convertibility of the national currency with the dollar at a parity of \$1=US\$1.⁸ Strong commercial and financial liberalization policies were quickly implemented in order to contribute to the convergence of domestic and international inflation. In addition to this stabilization plan, a vast set of structural reforms were carried out: privatization of state-owned enterprises, state reform and modification of the pension system were some of the most important ones. The reform process in favour of market-based policies along the lines of “Washington Consensus” also included intense policies of labour market deregulation and flexibilization.⁹

Initially, these policies contributed to a rapid decline of the inflation levels and very high GDP growth rates. However, although the configuration achieved perdurable success in strongly reducing inflation rates, economic growth did not take place. In fact, during the second part of the decade, GDP experienced strong contractive phases, especially from 1998 to 2002 (Graph 5). During these years GDP dropped around 20%, with 60% of the fall in 2001 alone.

According to Damill, Frenkel and Maurizio (2007), “*the Argentine macroeconomic experience in the nineties is an example of a more general pattern of external crisis*”. First, capital inflows, spurred by a high domestic interest rate, contribute to achieving high GDP growth rates. During this expansionary business cycle, domestic demand increases leading to a rapid rise in net imports. This behaviour, fostered by the real exchange rate appreciation, contributes to a worsening of the trade balance.¹⁰ The trade deficit

along with the growing deficit in the factor services account lead to a structural and increasing current account deficit. With this increasing external vulnerability, the country's risk premium and interest rate rise, bringing capital inflows to an end and resulting in a contraction of foreign reserves. The unsustainability of the external debt leads to the financial crisis and the collapse of a regime based on a currency board rule.



Source: Author's elaboration based on data from INDEC.

Clearly, in this regime, domestic demand becomes highly dependent on the balance of payment results: accumulation of international reserves automatically leads to an expansion of the monetary base and credit, inducing a growth in domestic demand and activity. In contrast, the decline of the reserves of the Central Bank provokes a monetary reduction with a consequent contraction in the domestic activity level. However, even with growing reserves, increasing external capital inflows are needed to maintain a given rate of economic growth.

From the point of view of employment generation, the new price configuration under the Convertibility regime had important consequences for the performance of the labour market.¹¹ Although the high growth rates of the first few years of the nineties contributed to the increase in employment in the non-tradable sectors, the trade opening and the exchange rate appreciation acted against employment creation in the industrial sector. At the same time, the reduction of the prices of capital goods as compared to labour resulted in a substitution of the latter with the former across different productive sectors. Thus the demand

for labour was considerably weakened even as the economy exhibited vigorous growth in the beginning of the nineties.

The decade can be divided into three stages with clearly differentiated unemployment dynamics. This is shown in the following table.

Subperiods	Growth rates (p.p)			Decomposition of the unemployment variation		Annual elasticity of labour demand (average in each subperiod)
	Participation rate	Employment rate	Unemployment rate	Variation of the employment rate	Variation of the participation rate	
M91-M95	5.0	-1.7	13.9	30%	70%	0.157
M95-O98	-0.5	2.8	-6.9	88%	12%	0.617
O98-O01	-1.0	-3.5	5.7	133%	-33%	-0.421
May91-Oct01	3.5	-2.4	12.7	46%	54%	0.114

Source: Author's elaboration based on data from EPH (INDEC) and Ministry of Economy.

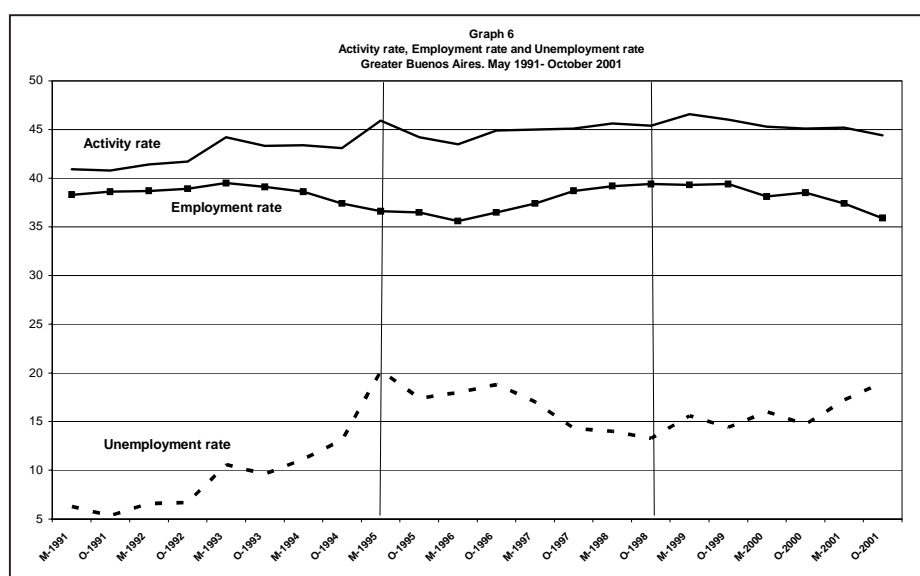
- *May 1991 – May 1995: Macroeconomic growth, low labour demand, increasing labour supply and unemployment.* This stage was characterized by high economic growth rates, but weak employment creation. The average elasticity of labour demand (employment-product elasticity) was very low; it was in the order of 0.15. Moreover, the employment rate, since 1993, went down; this was several months before the macroeconomic crisis of the mid-nineties (Graph 6). In addition, the rise in the labour force entailed a significant and systematic increase of unemployment, which meant that in 1993 it had already reached rates of two digits (Graph 6). In fact, the growing participation rate explained 70% of the increase in the unemployment rate. However, the remaining 30% was due to the reduction in the employment rate.

- *May 1995 – October 1998: Employment growth and unemployment reduction.* Following the recession associated with the “tequila crisis”, the economy recovered and at this stage, employment creation went in tandem with product growth. The elasticity of labour demand increased (around 0.62) leading to substantial generation of new jobs. This, together with some stability in the participation rate, allowed the reduction of unemployment. However, neither employment nor unemployment rates reached previous levels. In fact, the maximum employment rate during the Convertibility period was obtained in May 1993, while the minimum unemployment rate was registered in 1991 (Graph 6).

● *October 1998 – October 2001: Severe macroeconomic and labour market worsening.* From the beginning of the new macroeconomic crisis and until the chaotic collapse of the Convertibility regime, the economic recession generated an additional pressure on the growing trend of unemployment. This worsening was fully accounted for by the reduction in the employment rate given that even the participation rate had decreased. At the end of 2001, the open unemployment rate was close to 20% (Graph 6).

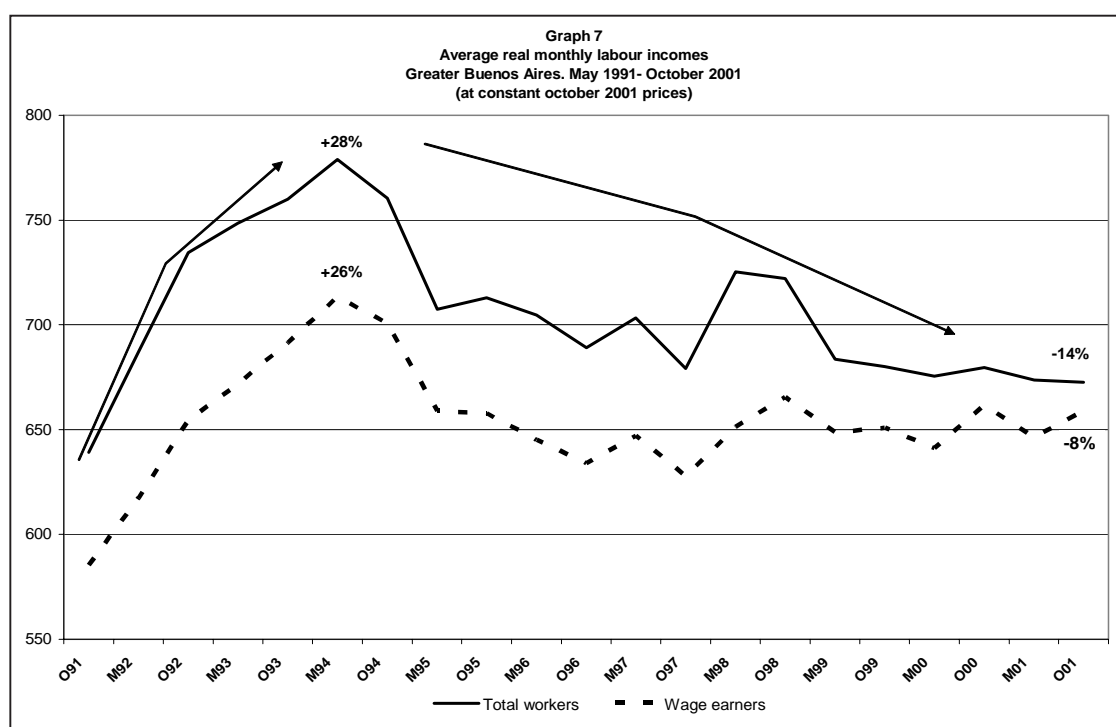
Increase in labour supply (3.5 percentage points) and reduction in labour demand (-2.4 percentage points) explained the significant growth in the unemployment rate (12.7 percentage points) during the May 1991 – October 2001 period. The first factor accounted for 54% of the total growth in the unemployment rate whereas the second explained for the remaining 46%.

Finally, an additional comment needs to be made with respect to the factors associated with the growth of the activity rate. In particular, it is worth differentiating the “additional worker” from the “encouraged worker”. Cerrutti (2000) suggests that the strong increase in female labour force participation in Argentina during the nineties was a response to the increasing unemployment and job instability—factors associated with the structural reforms since 1991. Women decided to enter the labour force in order to reduce household income decline and instability. Marshall (2000) points out that due to the reduction in the employment and wages of adult males, adult women and youth (both men and women) had to move into the labour force. This was associated with, in the case of some young workers, the abandoning of education.



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

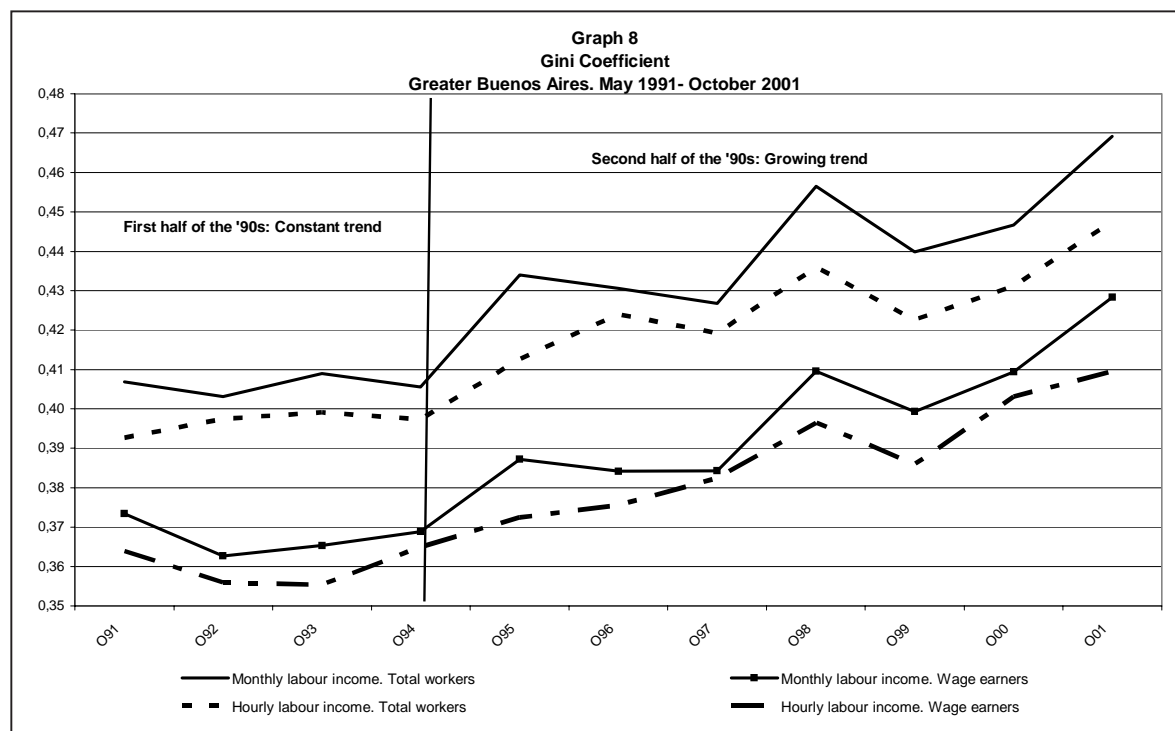
These occupational cycles were observed together with different labour income dynamics (Graph 7). In the first stage of the Convertibility period, real income recovered to some extent as a consequence of the nominal income growth, in the backdrop of decreasing levels of domestic inflation. From the beginning of the nineties to May 1994, average real wages grew 28%, the highest figure during the whole decade. The “tequila crisis” also had negative effects on real incomes: between May 1994 and October 1996, the real incomes of the employed population suffered a reduction of 12%. From then on till October 1998, the incomes recovered slightly but never reached the maximum figure registered in the first half of 1994. Then there was the new descending phase that lasted into the end of the regime. In October 2001 the average remunerations of the employed population were only 11% higher than the levels of the beginning of the previous decade, which represented a fall of 14% from the maximum achieved in 1994. A very similar dynamic was observed among wage earners (Graph 7).



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

As already mentioned, the initial recovery in the remunerations did not result in a reduction in inequality. Between 1991 and 1994, income distribution among the employed population remained relatively constant, while the 1995-2001 period showed a process of strong concentration. This growing trend of the Gini

coefficient was observed among both the monthly and the hourly labour incomes (for total workers and wage earners), but more intensely in the former than the latter due to the unequal reduction in working hours, especially among total workers (Graph 8).

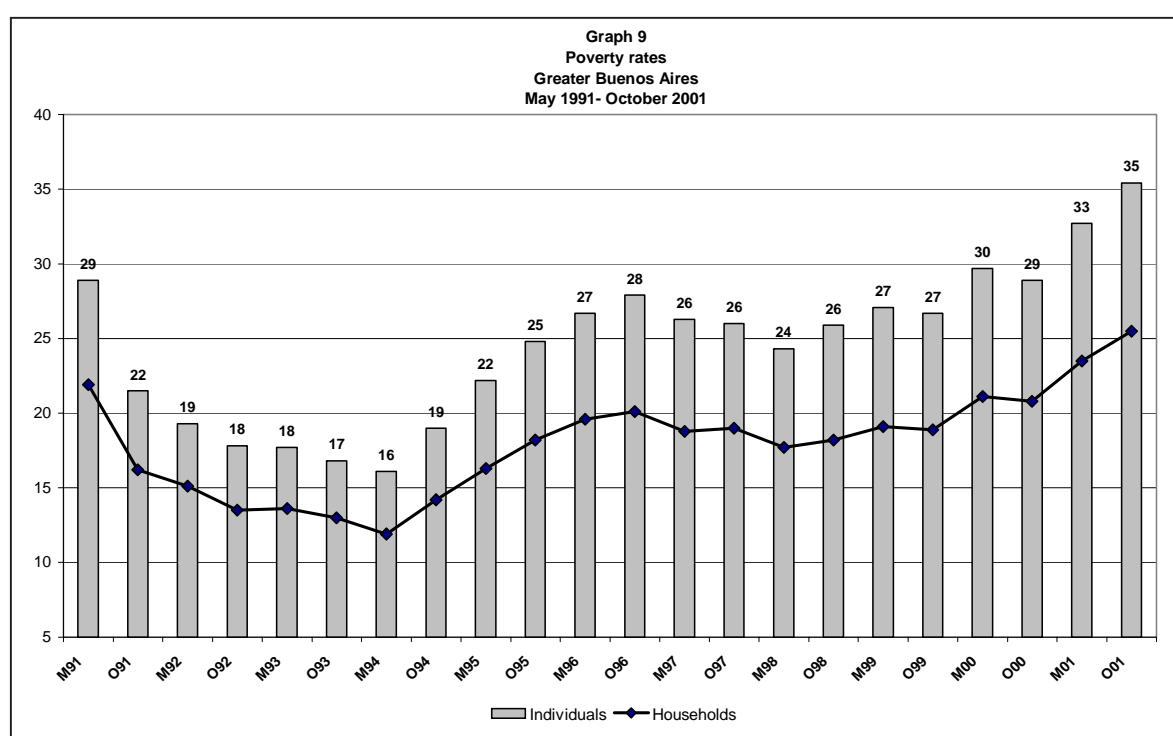


Source: Author's elaboration based on data from EPH (INDEC).

At the same time, this dynamic affected the inequality in family incomes (Graph 2). At the beginning of the decade, the relationship of the HPCI between the fifth and first quintile was 12 times; towards the end of the currency board regime, it had risen to 20 times.

The performance of the labour market variables also had a direct impact on poverty levels. Between 1991 and 1994, poverty and indigence decreased as a consequence of the increase in employment and real remunerations. However, by 1996 this improvement in welfare had been completely lost. After a slight reduction between 1996 and 1998, these indicators experienced a strong growing trend. Towards October 2001, before the ending of the Convertibility regime, poverty levels reached 25% of the households and 35% of the population (Graph 9).

Summing up, the behaviour of labour demand under this new regime intensified some characteristics that had begun to emerge earlier; they included precariousness, income instability and inequality. Since the mid-seventies, the Argentine economy had been experiencing a progressive deterioration; the Convertibility accelerated this process substantially. Labour difficulties and inequality exacerbated towards the end of the decade, when the currency board regime had clearly become unsustainable. Therefore, the magnitude of the crisis in the months following the devaluation of the Argentine Peso, expressed through the significant contraction in the level of activity, employment and income, reflected the important disequilibria that were accumulated during the previous decade.¹²



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

3. Distributional Worsening during the Nineties: Role of the Macroeconomic Regime, the Labour Market and Technological Changes

The labour market performance was at the centre of the distributional worsening in Argentina, where the growing labour income disparities and unemployment directly impacted household income inequality.

The increasing wage gap could be linked to the changes in the employment structure as well as the growing returns to individual and job characteristics. Mincer Equations¹³ of the hourly labour income carried out exclusively for wage earners, shown in Annex Table 1, suggest that during the nineties the changes in the returns to different characteristics were significant. In particular, the reduction and relative stability of the inequality among wage earners during the first few years of the decade (1991-1993) was the result of a reduction in the returns to intermediate educational levels (incomplete and complete high school) together with a certain stability in the returns to university level. Also, a strong decrease in the wage gap between registered and non-registered wage earners was observed.

The significant growth in inequality from 1993 onwards was associated with the process of the rise in educational returns across all levels together with a strong increase of the wage gap between registered and non-registered wage earners. Also, wage differences according to the size of the firm¹⁴ significantly widened.

Given the importance of the changes in educational returns¹⁵, the diverse hypotheses on this distributional behaviour are based on explanations about the wage gap among workers with different skills.

In particular, a very widespread argument about the worsening of the hourly wages' distribution during the nineties in Argentina is based on the so-called "Unified Theory"¹⁶. Starting from a simple competitive model of supply and demand applied to the labour market, this theory shows that increase in the demand for higher education levels that exceeds the increase in its supply generates an excess demand for these groups increasing their education returns and worsening, in this way, the labour income distribution. In developed countries this "standard explanation" has frequently been used to explain both the fall in wages of the less educated groups in the US and the increase of unemployment of these groups in the European countries.¹⁷ This hypothesis, which tries to explain the shift in labour demand from unskilled to high skilled workers, in turn, is based on increased openness and integration of the economy¹⁸ and on the technological changes biased towards more skilled labour.

In the case of Argentina, it is argued that these processes have an impact on the employment structure through two different channels. On the one hand, this happens through the reallocation of resources across productive sectors. Stolper-Samuelson theorem is used to indicate that, given that Argentina would be

abundant in natural resources and skilled labour force relative to its main commercial partners in the region¹⁹, trade opening would imply a shift in production and employment towards sectors that use these production factors more intensively, with the consequent increase in their returns.²⁰ On the other hand, trade liberalization would imply a reduction in the price of foreign 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 skills is supposed to exist across most productive sectors and occupations, the process of technological improvement and capital incorporation also generates a demand towards higher levels of skills.

This argument suggests that compared to other countries in the region, 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 sector reallocations. Also, given that Argentina is technologically more developed than other Latin American countries, the aforementioned changes would have had a deep impact on the wage structure. Finally, the higher educational level would have facilitated a wide diffusion of these technological changes.

However, this perspective does not incorporate the particular local conditions in 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 impact on the aggregate dynamism of the labour market, while emphasizing only on labour supply conditions and the disequilibria between these and labour demand biased towards higher skills.

The perspective adopted in this paper on the functioning of the labour market suggests that the macroeconomic regime determines the global performance of the labour market and it has, through this channel, a direct impact on the level and distribution of welfare. In particular, in the process of the increasing labour income inequality experienced during the last decade in Argentina, a significant explaining factor was the low dynamism of the aggregate employment demand and the persistently high level of unemployment, both determined, at least in part, by the economic configuration during the Convertibility regime.²¹ As already mentioned, the real exchange rate appreciation, together with very rapid trade liberalisation, negatively affected the structure of domestic production right from the beginning of the regime, implying that employment generation had begun stagnating even before the first contractive phase itself. The inflexibility

of the currency board regime meant that different exogenous shocks were transmitted directly to the labour market.

The existence of a very high global labour force surplus affects household's income inequality, given that its incidence is higher among members with lower educational levels. High unemployment can also have important negative impacts on the average remunerations of workers, as shown by the "wage curve".²² Also, since the "wage curve" can be different for each group of employed people, unemployment could imply a higher inequality among workers.²³ 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 workers' acceptance of more flexible labour conditions as well as generation of a "competition for job positions" where the more educated workers displace those of lower skills from their jobs (creating a situation of over-education among skilled workers).²⁴

A central theoretical discrepancy between the two views pertains to the distributive impact of unemployment. Whereas for the first one unemployment does not have an impact on the distribution of labour income²⁵, in the second one *generalized* unemployment not only limits the increase in aggregate real wages, but also induces a differentiation process among wages of different groups of workers, according to the degree to which each of them are exposed to the competition for their job positions. This argument is valid regardless of the factor associated with the increase in unemployment (i.e., workers losing their jobs or people entering the labour force from inactivity). In turn, different theoretical perspectives (such as efficiency wages theory or labour markets segmentation theory) can contribute to this vision.

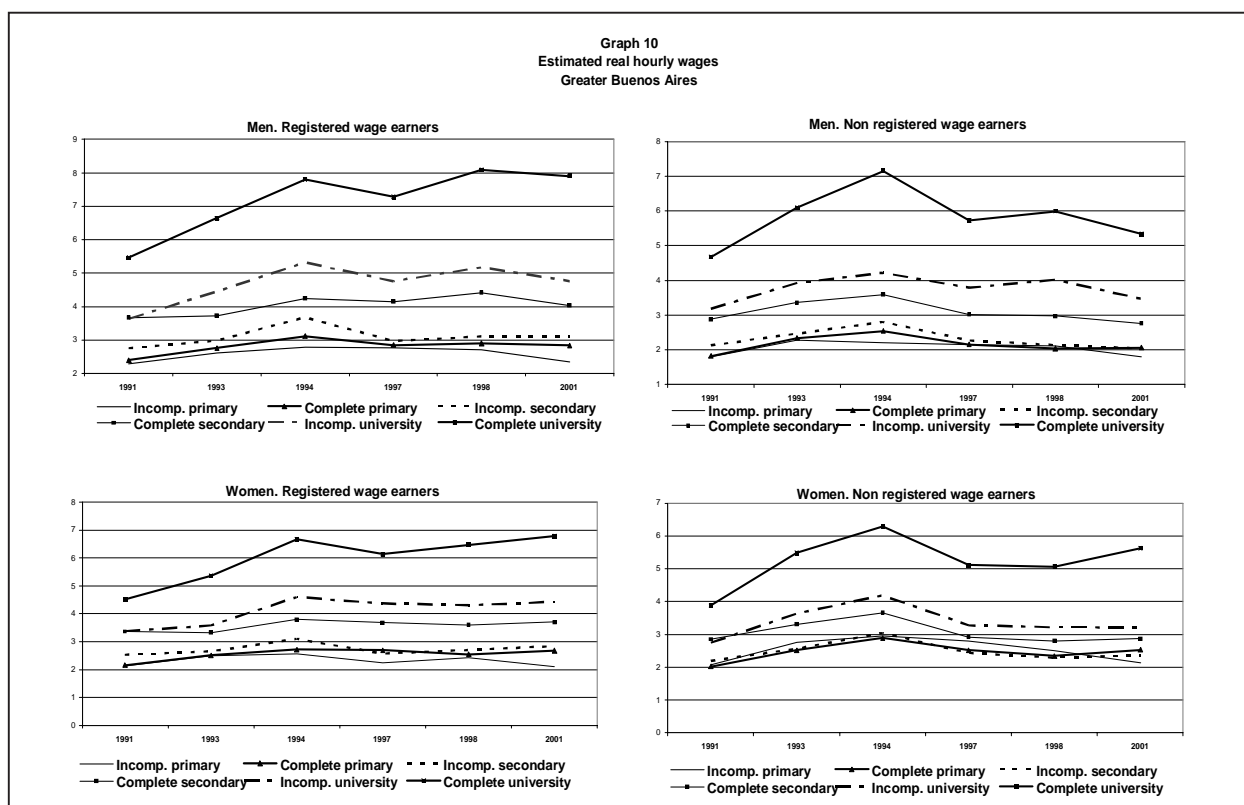
Of course, our argument does not ignore the distributive impact of technological change. However, our vision lays emphasis on the role of aggregate labour demand apart from employment structure and the adjustments between labour supply and labour demand.

In addition to theoretical aspects, another relevant issue pertains to existing empirical evidence for Argentina supporting each of these perspectives. The first of these arguments is fundamentally based on the idea that given the increase in the educational level of the labour force together with an increase in educational returns observed during the nineties, these facts are *interpreted* as evidence of a shift in the composition of

labour demand biased towards skilled workers. That is, in the case of Argentina, there is no direct evidence of changes in the composition of labour demand, but rather, they are inferred from the behaviour of labour supply and of the wage premium for skilled workers. However, this configuration of relative wages can also be consistent with other arguments, especially in the context of high persistent unemployment. Maurizio (2001) found that the educational level of the wage earners increased in all occupations during the nineties, a result that cast doubts on this indirect evidence. If the educational level of workers could be interpreted as an indicator of technological improvement, one would expect that the increase in skills was differentiated according the exposition of the occupation to technological changes. On the contrary, this evidence seems to be more related to the increasing skilled labour supply in a context of global labour surplus.

The existing evidence does not seem to completely support this type of argument. First, the increase in inequality among workers was observed in the second half of the nineties; in the first half they stayed relatively constant, as shown in Graph 8. Nevertheless, as has already been mentioned, the integration process was carried out in the first few years of the decade, indicating a timing imbalance between both processes. It could be argued, however, that there is a certain lag between openness and 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, which makes it difficult to argue that distributive worsening is *only* a consequence of technological changes.

Second, the hypothesis of excess 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 observed in a context of fall in the real and even nominal incomes, as shown in Graph 10.

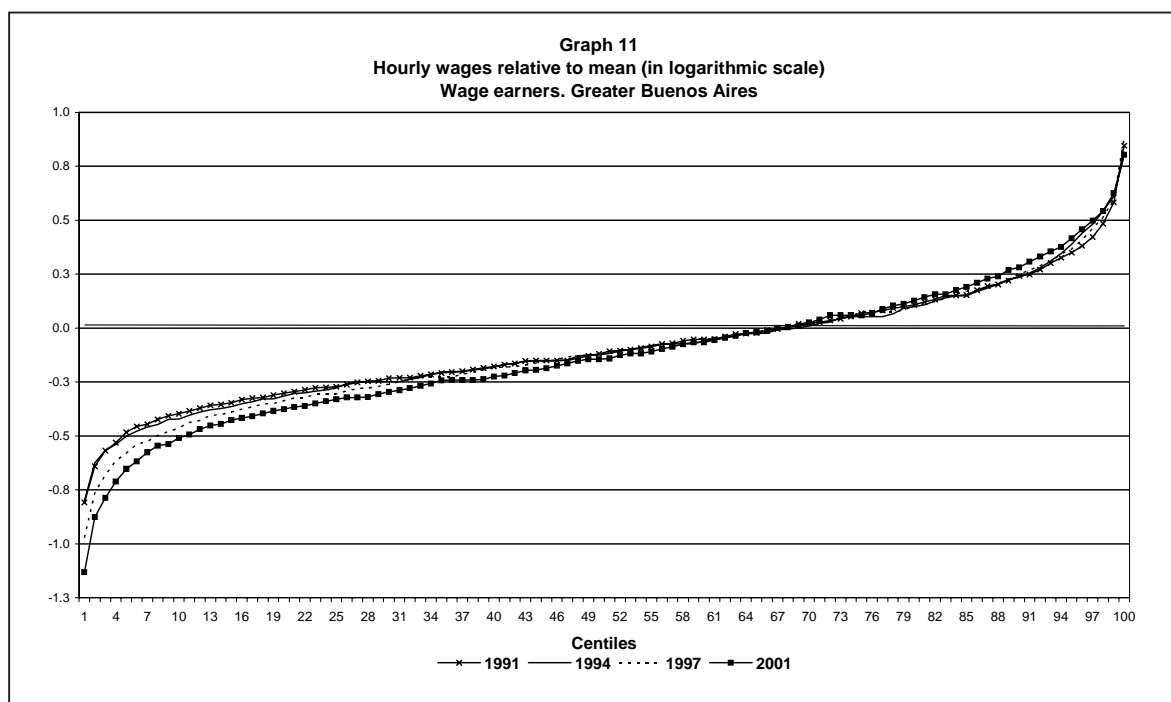


Source: Author's elaboration based on data from EPH (INDEC).

In particular, nominal and real wages of less educated workers increased up to 1994 and then systematically decreased during the second part of the nineties, especially among non-registered wage earners. In the case of registered wage earners with university level education, their wages also grew in the first half and then remained relatively constant until 2001. However, non-registered wage earners with university level education also experienced a reduction in their labour income from 1994 to 2001. The disparities between wages of registered and unregistered workers also suggest that it is not only the educational level that affects the wage gap, but the type of job is also a very significant factor associated with wage inequality.

Therefore, the higher wage inequality seems to be due to, at least in this stage, the deeper reduction of income among non-skilled workers and not because of a higher increase of wages of the most educated workers. The disarticulation, in the nineties, of certain labour market institutions which tend to protect particularly the lowest wage earners (i.e., minimum wages, trade unions, collective bargaining) would also

have contributed to these trends.²⁶ In fact, as shown in Graph 11, the increasing wage gap was explained more by the decline of relative wages at the bottom of the distribution than what had happened at the top.



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

Furthermore, during the second half of the decade, unemployment increased among all educational groups, even among the most educated. In particular, as shown in Annex Table 2, unemployment rate of those that have not completed secondary level education averaged around 10% during the first stage and 20% in the second stage of the nineties; for university graduates these figures were 4% and 7% respectively.

On the other hand, the argument about sectoral changes applying Stolper-Samuelson theorem is based on the evidence of strong reduction of employment in manufacturing activities and increase in professional services and public sector. The argument assumes that the Argentine manufacturing industry is, in relative terms, intensive in low-skilled labour. However, this theorem does not seem completely adequate to be applied to non-tradable sectors like financial and public sectors, whose dynamism during the nineties was due to reasons totally unrelated to economic openness. Also, as shown by 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 completely be consistent with that hypothesis.²⁷

Our argument, however, emphasises that the rapid reduction of the tariffs together with an appreciated exchange rate strongly affected the international competitiveness of the manufacturing industry as a whole, leading to a strong process of destruction of manufacturing enterprises. Additionally, 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 plant destruction, those enterprises that survived carried out a process of substitution of labour with capital resulting in a considerable reduction in the elasticity of labour demand. These productivity improvements were achieved both with a higher investment rate and with reorganization of the productive process (Altimir *et al* 2002; Damill *et al* 2002).

From the first perspective, the idea that seems to emerge is 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 it is suggested, 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, the hypothesis was not completely verified in the case of Argentina during the nineties. The high poverty level was partly due to the unsustainability of the macroeconomic regime. Towards the end of the regime, the strategy for sustaining the Convertibility regime generated higher unemployment and poverty levels. Additionally, during the nineties, inequality increased together with growing unemployment rates. Therefore, the trade-off between inequality and unemployment implicit in the Unified Theory has not been verified.

4. Reversion and Perdurability after the Macroeconomic Regime Change²⁸

As already mentioned, according to Esquivel and Maurizio (2005), the worsening of living conditions, especially during the last few years of the Convertibility regime, has been of such considerable magnitude that its effect should be taken into account when evaluating the performance of the new macroeconomic regime.

In 2002 Argentina experienced an economic and social crisis of unusual magnitude due to the fall of the Convertibility Plan. But the recovery that began towards the second part of the year was also intense,

especially with respect to the employment dynamic. In particular, the net generation of jobs—even excluding those generated in the “Plan Jefes y Jefas de Hogar Desocupados (PJJHD)”²⁹—was higher than that could be predicted taking into account the GDP evolution.

Immediately following the exit of the Convertibility regime, the nominal exchange rate increased significantly. The over-adjustment that this variable experienced 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. However, the adjustment of prices was smaller in magnitude than that of the exchange rate.

Unlike previous experiences, this significant rise of the general price level did not result in an inflationary process. This was due to the deep economic depression and the already very vulnerable labour and social situation before the regime change. The weak domestic demand, in particular, 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 that made the increase in price shock directly the purchasing power of the remunerations. The lack of liquidity caused by the maintenance of restrictions on 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 rise to a novel situation in Argentina’s recent economic history.

Domestic product went through different phases after the macroeconomic regime change. Initially, during the first quarter of 2002, it continued falling, stabilized in the following quarter and then started increasing from the third quarter, when it began a process of sustained growth that has extended into the fourth quarter of 2007 (Graph 5). In fact, by mid-2005 it had already exceeded the maximum level reached in 1998. The current economic regime rests, fundamentally, on 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 level of competitiveness of the tradable sectors.

Frenkel (2005), for instance, has argued that a regime of high real exchange rate promotes the generation of new job positions through its lower proclivity to macroeconomic imbalance (in comparison with a regime of low exchange rate), the change in the composition of domestic production (more biased towards

tradable sectors) and the alteration of relative prices favourable to a higher use of labour. However, whether or not one agrees with these arguments, immediately after the crisis more short-term reasons seem to have prevailed in the explanation of the performance of employment generation, such as the high degree of sub-utilization of installed capacity.³⁰

The change of macroeconomic model has had positive effects on the dynamism of labour market and income generation.³¹ After the negative shock caused by the collapse of the previous regime, all labour indicators have been able to break the trend towards systematic worsening, although with different intensity. Employment, in particular, has experienced three clearly differentiated phases (Graph 12). The first of these covers the period that immediately followed the model's change between October 2001 and May 2002, which was characterized by a significant contraction of the aggregate employment level. In the second one, between May 2002 and the fourth quarter of the same year, genuine employment growth was able to prevent its fall, while the implementation and expansion of the PJJHD generated a substantial number of new job positions.

The third phase begins at the end of 2002 and continues into the fourth quarter of 2007, in which a consolidation and accelerated recovery of employment has taken place. This process has been characterized by the creation of a large number of new jobs by the private sector that more than compensated the reduction of beneficiaries of PJJHD observed from about the middle of 2003.³² 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 completely recovered from the post-devaluation fall in the second quarter of 2003.



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

The dynamics of aggregate employment has been particularly positive in the case of industrial activities. From the fourth quarter of 2002 onwards, the manufacturing sector was able to arrest the falling trend in employment level that it had experienced during the previous decade. It experienced reductions during the first three quarters of 2002; thereafter it assumed an increasing trend that has been continuing even at the time this was being written. Since the fourth quarter of 2002 until the third quarter of 2007 it increased about 37%. Thus in 2007, the employment rate was 31% higher than the employment rate in October 2001, the last figure of the Convertibility regime.

Although the performance of industrial employment has been very good, since 2003 the growth of employment was sectorally generalized, as shown in Annex Table 3. From that year on, commerce and construction, together with industrial activities and financial services have made the highest contribution to total employment generation. On the whole, they explain about 70% of the net new employment. The intensity of occupational growth was related to the activity level; it was stronger where the domestic product grew more (especially in manufacture, construction and commerce).

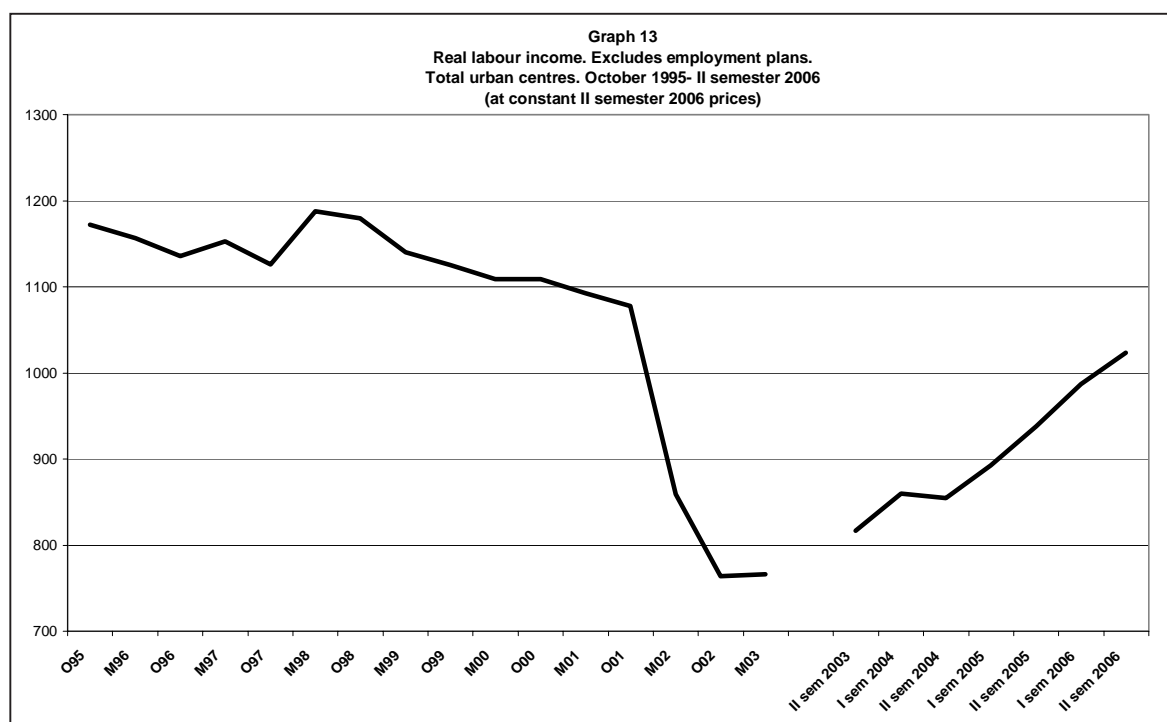
Another important dimension of the evolution of aggregate employment is the occupational category, which comprises of the registered wage earners (registered in social security), non-registered wage earners, non-wage earners (own-account workers and employers) and unpaid family workers. During the 2003-2006 period, the registered job positions increased 30%, explaining 72% of the total new employment. The non-registered jobs rose 15%, explaining 29% of the employment creation. The independent activities have shown a lower dynamism; they grew only 5% (Annex Table 3).

Therefore, registered wage earners have shown a significant and sustained growth, raising their participation in total employment from 40% in 2003 to 44% in 2006. However, following so many years of persistent unfavourable indicators, the generation of new jobs, especially at the beginning of the macroeconomic recovery, has been characterized by a significant degree of labour precariousness. Indeed, in the first quarter of 2006, non-registered wage earners still represented about 42% of total salaried employment (Annex Table 3). Precariousness is one of the most important signs of the strong deterioration suffered by the labour market, especially with the end of the previous decade. Given that the precarious workers obtain, on average, 40% of the remunerations of the registered workers, this aspect is important in explaining the existing inequality inside the workforce.

The recovery of occupational level was spread among workers with different skills; the intensity was lower among those with complete primary education or less (Annex Table 3). 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 skilled job positions. This dynamism is explained, partly, by the one shown at a sectoral level, especially with respect to employment creation by construction activities that, in relative terms, demand lower skilled workforce.

Similar 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. 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 fell around 30%, although more than two thirds of the fall was observed in the first half of the period following the collapse of the Convertibility regime. However, since October 2002 nominal labour incomes have started to grow at a similar pace to prices; hence the figure of May

2003 was similar to that of October 2002 (Graph 13). From 2003, both the greater dynamism of labour demand and the price stability allowed an increase in real labour incomes after a prolonged period of continuous fall. However, given the strong previous reduction, at the end of 2006, real wages were, on average, lower than those at the end of the Convertibility regime.



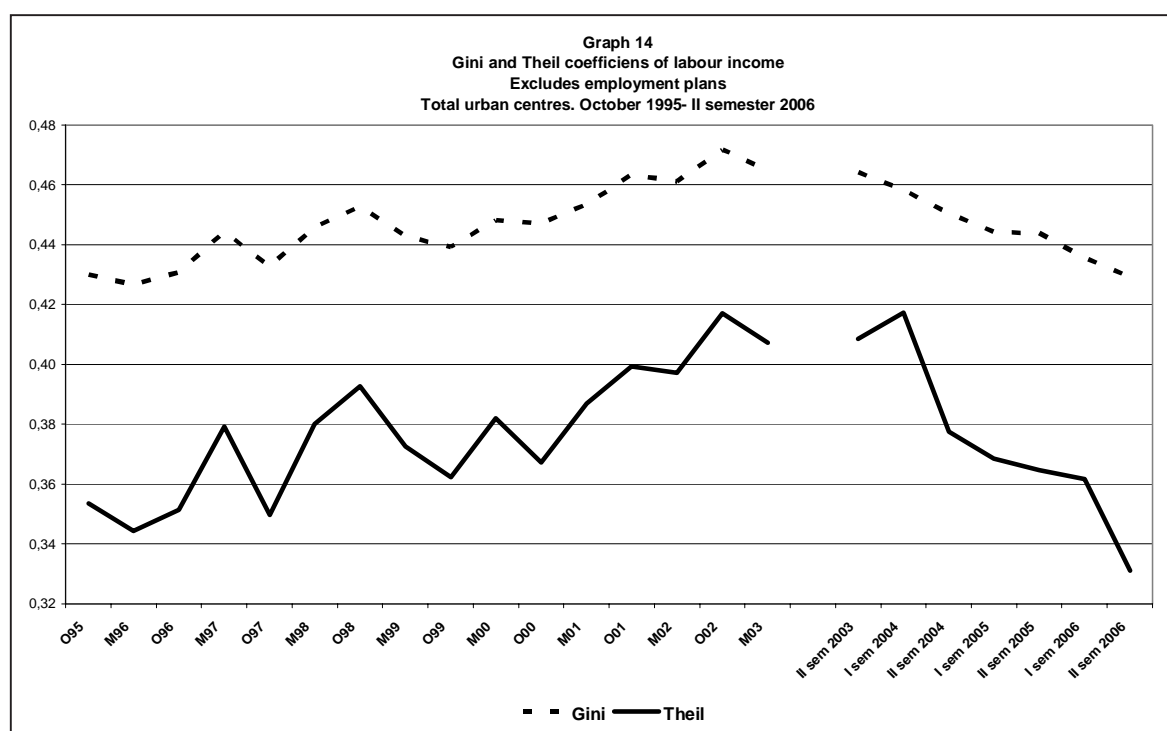
Source: Author's elaboration based on data from EPH (INDEC).

Real wages increased for all groups of workers defined according to their occupational category, although with different intensities (Annex Table 4). In particular, between 2003 and 2006, there was a 24% increase in the real wages of registered wage earners whereas the increase for non-registered wage earners was lower although significant (17%). At the beginning of the new regime, the increase in labour income was higher for the latter group than for the former. This fact constitutes a novel phenomenon since during previous periods of wage recovery, wage increases had taken place fundamentally among registered wage earners.

The wage dynamic has also been according to the educational level of workers. In particular, there has been a relative improvement in the incomes of the less educated throughout this period: while the real

income of workers with incomplete secondary school education or less increased 30%, for those with university level education the increase was about 20% (Annex Table 4). As a result, there has been a reduction in the wage gap between the extremes of the distribution that has contributed to the reduction of inequality among workers, reversing, in the process, the previously increasing trend.

In particular, due to the generalized fall of real wages in the period following the collapse of the Convertibility regime, the Gini and Theil coefficients of labour income remained practically unchanged. After a small increase in inequality between May and October 2002 the trend towards less concentration of incomes started, in a reversal of the process experienced throughout the nineties. The Gini coefficient of labour income fell from 0.464 to 0.429 between the second half of 2003 and the second half of 2006 (Graph 14 and Annex Table 5).³³ The Theil coefficient registered a more intense reduction.



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

Therefore, the change in the trend in inequality since 2003 merits finding factors associated with this dynamic. However, it is hard to estimate the importance of each of them. On the one hand, since the macroeconomic regime change there have been several contemporaneous events that could have had an

impact on income distribution. On the other hand, the proximity of the changes in macroeconomic and labour performance³⁴ do not allow us to differentiate completely the initial effect of the change in macroeconomic regime from the one associated to its “normal” functioning.

However, it is possible to mention at least some factors associated with the reduction in inequality. Regarding labour income distribution, the recovery in labour demand that allowed both growth in employment and wages across workers with different skills is likely to have been the base that made a reduction in the wages gap possible. However, another factor that has probably contributed to this process has been the incomes policy implemented by the National Government since mid-2002 through lump-sum rises and increments in the minimum wage, measures that have greater impact on lower income groups, as is the case with least skilled workers and non-registered wage earners.³⁵ Additionally, the process of registration of non-registered wage earners observed in the last few years must also have triggered the growth in wages in the bottom extreme of the distribution.

In spite of the reversal of 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 (Annex Table 6). In the second half of 2006, whereas the first quintile of employed workers received 4% of total wages, the fifth quintile received approximately 47%. Moreover, the average income of the latter group was 12 times the average income of the first quintile (this ratio was of 14 times at the end of 2003).

Occupational category is one of the dimensions through which the strong heterogeneity among workers is clearly seen; this is particularly so for the condition of being registered or not among the wage earners. In effect, in the second half of 2006, those wage earners not covered by social security received, on average, incomes that represented 43% of the incomes of registered wage earners (Annex Table 4). Thus, despite the strong job creation, there still exist two clearly differentiated groups among workers: those who receive high incomes and are covered by social security; and those with low wages, precarious jobs and without social security protection.

As a result of the positive evolution of employment and the recovery of wages, as well as public policies, real HPCI started growing in 2003. Between the second half of that year and the end of 2006 they grew about 40% in real terms, allowing the full recovery of purchasing power after the strong reduction in 2002 (Annex Table 7).

Contrary to what happened among workers, in the period that followed the collapse of the Convertibility regime, family income inequality rose, mainly as a consequence of the increase in unemployment. This is reflected in the deterioration of the Gini coefficient of HPCI that rose from 0.520 to 0.541 between October 2001 and May 2002 (Annex Table 7). After reaching the maximum level in May 2002, the concentration trend reversed. One of the factors that initially explained this reversal was the implementation of the PJJHD since it gave employment and/or incomes to the poorest families. Its impact is reflected in the fall of the Gini coefficient of total family income between May and October 2002, which in the absence of this programme would have recorded 0.505 instead of 0.489. From 2003 the inequality among households has shown a sustained decreasing trend that allowed a 5 percentage point reduction in the Gini coefficient, from 0.532 to 0.483, between the second half of that year and the second half of 2006.

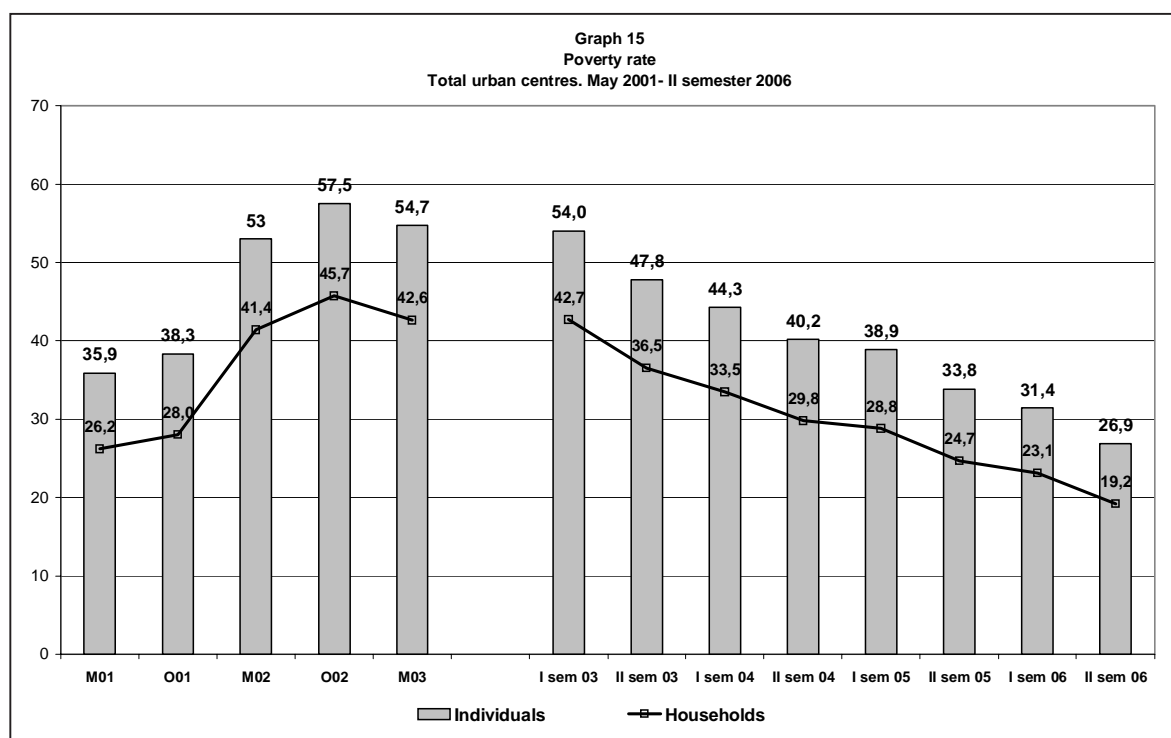
In addition to the factors responsible for the reduction of the wage gap, the significant fall of open unemployment (which affects, to a greater extent, those households in the lower extreme of the distribution) due to the increase of employment and several public policies implemented during the last few years should be added to the factors explaining the decline in household inequality. Of the public policies, the most important were the implementation and extension of the PJJHD and the recovery of the value of real pensions and the extension in their coverage.

In spite of this dynamic, the concentration of family income is still extremely high. In the second half of 2006, the 20% poorest households received only 4% of total income, whereas the fifth quintile captured 50% (Annex Table 8). This situation of high inequality precludes the scope for greater poverty reduction as a result of economic growth, although, as will be shown below, the fall in poverty rates has been important.

Indeed, after reaching 57.5% in October 2002 in the total urban centres, poverty headcount ratio has been falling systematically since then. This allowed the percentage of individuals in poor households to decrease by 27 percentage points—from 54% to 26.9%—between the first half of 2003 and the second half of 2006 (Graph 15), while in the case of indigent individuals in urban areas, the proportion fell 19 percentage points in the same period—from 27.7% to 8.7%.

Given the strong dynamic of poverty rate during the last few years, it is important to quantify the relevance of the changes in average real wages and in income distribution for social conditions. The variations in the level of poverty can be decomposed into two effects³⁶: the growth effect is the change experienced as a

consequence of the variations in real average household income, maintaining the distribution constant; and the distribution effect is the consequence of distributive effects, with a constant average income. The growth effect can in turn be decomposed into the “inflation effect” and 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 Annex Table 9.³⁷



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

In 2001 the fall in household total incomes explained 75% of the increase in poverty (income effect), even though deflation slightly attenuated the fall in real incomes since it lowered the poverty line. The deterioration in income distribution explained the remaining 25% increase in poverty. From then on, the distribution effect loses its relevance and the increases in poverty levels are mainly explained by the deterioration of real incomes due to inflation in the first half 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 slower pace than in the previous

half of the year. The increase in family incomes in this period is explained, to a great extent, by the rapid expansion of the PJJHD.³⁸

The negative trend of the social situation has been reversing since 2003. 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. As it is shown in Annex Table 9, both the “growth effect” and the “distribution effect” have been important in the reduction of poverty (although the effect of the former was clearly greater at 79% as against 21% of the latter). In addition, real incomes rose despite the increase in the value of the poverty line (which is reflected in the negative sign of the inflation effect), especially in the more recent periods.

Therefore, the improvement of labour market conditions appears as an important factor contributing to the strong poverty reduction in the country. However, despite this favourable dynamic in social conditions, deprivation levels are still very high: one in three persons continues to live below the poverty line.

In addition, poverty incidence and evolution have not been homogeneous across households with different composition and household head labour status. Maurizio *et al* (2008) showed that while in the second half of 2006 households with children (18 years old or less) represented nearly 49% of total households, this figure reached 76% among poor families. This clearly indicates the significant differences in the poverty rates of each group of households: 30% in the case of households with children and 9% among the rest of families. Furthermore, the poverty situation is bad among households with children but without spouse, especially so in the case of female household heads. Therefore, children constitute a group with very high social vulnerability. While the poverty rate among individuals in the second half of 2006 was 27%, this figure rose to 40% among children. The reduction of poverty since 2006 was stronger among households without children, indicating that the rest of the households did not benefit much from the improvement of social conditions registered during the last few years.

In relation to the labour status of household heads, as expected, poverty incidence is higher among unemployed and inactive (without pension) heads of family. However, getting a job is not enough for one to escape poverty. At the end of 2006, approximately 33% of households whose heads were employed as non-registered wage earners and 27% working as independent workers were poor. On the other hand,

only 7% of the household heads working in a registered job were poor. In fact, 70% of poor households' heads were employed.

Clearly, it is not only the lack of job that explains the still high poverty rate in the country; the deficient occupational insertion characterized by labour precariousness and part-time work is also a significant factor. This constitutes the *poor worker phenomenon*.

Therefore, along with a macroeconomic regime that enables strong and sustainable job generation, a labour policy oriented to improving the quality of jobs as well as to reinforcing the real wage recovery is needed. However, this will probably not be enough to significantly reduce poverty incidence in the short and medium term. It is necessary, then, to complement labour and income policies with social policies focused on more vulnerable groups—households with children, adults without pensions and unemployed people—in order to achieve a reasonable level of social welfare.

1. CONCLUSIONS

In the last three decades Argentina has experienced dramatic changes in its social composition, labour structure and income distribution as a result of macroeconomic performance, structural reforms and changes in the productive and labour structure. From the mid-70s, the labour difficulties, the fall in real wages and the increase in inequality have been eroding the basic principle of social cohesion, deepening the income gaps between various social strata. From being a country characterized 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 conditions.

From the foregoing analysis, it can be concluded that the macroeconomic regime matters in terms of distributional and living conditions outcomes. Argentina shows that very high GDP growth rates can coexist with increasing and elevated unemployment rates and precariousness and inequality. During the nineties, the combination of rapid trade opening, real appreciation of the currency and structural reforms resulted in very weak labour demand even in the presence of significant dynamism of the GDP.

Moreover, the negative effects that the macroeconomic configuration had on the labour market and the income distribution persist even after the economy has returned to its growth path. In this sense, it seems that a pattern has emerged whereby successive crises acted to worsen the income distribution as the recovery cycles have been unable to completely reverse these trends.

Notes

- * An earlier version of this paper was presented at the International Conference on ‘Policy Perspectives on Growth, Economic Structures and Poverty Reduction’, IDEAs, 7-9 June 2007, Tsinghua University, Beijing, China. I would like to thank Francis Cripps, Saúl Keifman, Luis Beccaria, Ana Laura Fernández and Mariana González for their comments.
- ¹ Data for the “Greater Buenos Aires” (GBA) urban centre is from EPH-INDEC. GBA is the largest Metropolitan Area in Argentina with a population of more than 12 million, representing 37% of the total urban population and 33% of the total population. Encuesta Permanente de Hogares (EPH) is the official regular household survey carried out by the National Statistical Office (INDEC).
- ² Data for all urban centres for which EPH is collected.
- ³ Wage earners not registered in the social security system.
- ⁴ Data for all urban centres.
- ⁵ EPH is available since 1974 for GBA; data for all urban centres is available only since 1995. Until 2003 it was collected twice a year, during May and October, in 28 urban centres. In 2003, the survey underwent methodological changes (from “EPH Puntual” to “EPH Continua”), producing both quarterly labour market data and semi-annual poverty data. These methodological changes have led to a discontinuity in the labour market series. Due to the lack of necessary information, it is not possible to match the series for all variables; hence this has made comparison difficult. For a detailed description of the survey’s methodology, see www.indec.gov.ar. The analysis, however, ends in the second half of 2006 due to the lack of microdata.
- ⁶ In Argentina, the identification of poor households is done through the absolute poverty line approach. The incidence of poverty is the proportion of households (or population) that cannot afford a basic basket of goods and services. The value of the reference basket is calculated based on domestic prices and patterns of consumption.
- ⁷ For more details about inequality and polarization in Latin America, see Altimir (1997); Londoño and Székely (2000); and Gasparini *et al* (2006).
- ⁸ Monetary Base must be guaranteed with foreign reserves. For more details about the Convertibility regime, see Heymann (2001); and Damill *et al* (2002, 2003).
- ⁹ For a discussion of labour market deregulation, see Beccaria and Galín (2002).
- ¹⁰ It is important to point out that the real exchange rate had already appreciated at the beginning of the Convertibility regime, and this appreciated level lasted through the nineties.
- ¹¹ For an in-depth analysis of the labour market during the Convertibility regime, see Lindemboin (1996); Altimir and Beccaria (1999a); Altimir *et al* (2002); Damill *et al* (2002); and Beccaria and Maurizio (2005).
- ¹² Beccaria *et al.* (2005).

- ¹³ The equations were corrected for sample selection bias (“lambda” covariate). The control group is comprised of women with complete primary level education, non-household head, unmarried, registered wage earner, full-time workers in manufacture activities and in small enterprises.
- ¹⁴ Measured by the number of employees in the firm.
- ¹⁵ Microeconomic decompositions confirm the importance of the increase in the returns to education in the growing income inequality. See, Gasparini *et al* (2004); and Beccaria and González (2006).
- ¹⁶ Blank (1994, 1997). Atkinson (1999) calls this process “Transatlantic Consensus”.
- ¹⁷ Howell and Huebler (2001) find little evidence of a trade-off between inequality and unemployment across OECD countries. According to them “A convincing explanation of differences in earnings and employment trends across developed countries requires moving beyond simple supply and demand stories”. They suggest a “neoinstitutionalist” vision of the labour market where “bargaining power and labor market institutions can be expected to play important and complicated roles, with outcomes not always consistent with the determinate textbook model”. Atkinson (1999) also critically reviewed the “Transatlantic Consensus”. In particular, he criticises the extended belief that rising inequality has been inevitable due to the process of technological change or trade globalization. In his view, changes in the social norms have played an important role; there has been a shift from a redistributive pay norm to a dominance of the market force leading to widening wage gaps.
- ¹⁸ This view particularly points out the effects of the trade opening of the US and European countries with the NICs (Atkinson, 1999).
- ¹⁹ There is no unanimous agreement about the relative abundance of productive factors in Argentina. Galiani and Sanguinetti (2003) suggest that Argentina is abundant in unskilled labour compared to developed countries like the United States and European Union countries. However, compared to Latin American countries and China, Argentina is abundant in skilled labour, according to Porto and Galiani (2008). Keifman (2006) argues that the country has a comparative advantage in natural resources, mainly in land.
- ²⁰ Keifman (2006) is critical of the theoretical foundations of the neoliberal propositions regarding economic openness and income inequality. Keifman did not find these propositions rigorously grounded in mainstream economics.
- ²¹ Although the privatization process also contributed to the reduction of jobs, it only partially explained the increase in open unemployment (Altimir *et al*, 2002).
- ²² The “wage curve” links the wages with the unemployment rate. Specifically, this curve refers to the inverse relationship between a worker’s wages and the unemployment rate. According to Blanchflower and Oswald (1994, 2005) the elasticity of the wage curve of the US is approximately -0.1 . For Howell and Huebler (2001) higher levels of unemployment entailed lower wages, and there is a positive association between earnings inequality and unemployment.
- ²³ For an estimation of the Argentine case, see Damill *et al* (2002).
- ²⁴ For the Argentine case, see Maurizio (2001); and Groisman (2003).
- ²⁵ This argument is based on the idea that unemployment growth is due to an increase of the labour force instead of a reduction of employment. Let us suppose that an individual, previously inactive, enters the labour force and becomes unemployed. The individual will not obtain any labour income in either case; so, his entering the labour force does not have any impact on the wages’ distribution. However, it is worth mentioning that unemployment was not only associated to an increase of the labour force (as shown above) but that the pressure on wages of the unemployed individuals is not the same as that of people who are not part of the labour force.
- ²⁶ Marshall (2000) suggests that the process of decentralization of the bargaining of wages would be another factor associated with increasing salary dispersion and inequality. Additionally, from a comparative perspective, she concludes that the economic and labour market performance was more important than changes in labour legislations in the worsening of income distribution. However, these changes are not irrelevant, rather they reinforced the negative effects of the macroeconomic regime.

- ²⁷ Additionally, studies for Argentina conclude that the most important distributive changes were due to the skilled-biased technological change while trade liberalization had a lower impact. Galiani and Sanguinetti (2003) and Cicowiez (2002) found a small increase in income inequality owing to trade openness and the reduction of tariffs.
- ²⁸ This section is partly based on Damill, Frenkel and Maurizio (2007).
- ²⁹ The PJJHD was implemented in 2002 by the National Government in 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; later it systematically reduced its coverage.
- ³⁰ Beccaria, Esquivel and Maurizio (2005).
- ³¹ For an analysis of the labour market situation after the Convertibility regime, see Monza (2002).
- ³² The beneficiaries of the PJJHD that fulfilled the programme's counterpart work requirements represented around 8% of the total urban employment in 2003; in 2006 their participation was reduced to 3%.
- ³³ This reduction is statistically significant with a 95% level of confidence.
- ³⁴ This is especially so because the analysis ends in 2006.
- ³⁵ Even though the non-registered wage earners are not covered by labour legislation, it is argued that the wages earned by those workers that are covered by social security have a certain impact on the wages paid to the rest of the wage earners.
- ³⁶ This decomposition is based on Mahmoudi (1998).
- ³⁷ The negative sign means that the effect in consideration worked in the direction opposite to the variation of poverty.
- ³⁸ Even though the PJJHD correctly focused on the poorest population, the impact on poverty incidence was small because the amount of the transfer was low in relation to the value of the poverty line. 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.

ANNEX

Table 1
Mincer Equations
Hourly wages. Wage earners.
Greater Buenos Aires

Covariates	1991	1993	1998	2001
Educational level				
Incomplete primary or less	-0.091 (-2.23)*	-0.111 (-2.89)**	-0.111 (-2.55)*	-0.186 (-3.43)**
Incomplete secondary	0.235 (7.01)**	0.144 (4.75)**	0.181 (5.94)**	0.167 (4.35)**
Complete secondary	0.473 (12.56)**	0.384 (11.02)**	0.474 (13.52)**	0.418 (9.64)**
Incomplete university	0.566 (11.54)**	0.565 (12.74)**	0.756 (17.10)**	0.64 (11.68)**
Complete university	0.872 (17.29)**	0.892 (19.07)**	1.065 (22.64)**	0.957 (15.72)**
Other personal characteristics				
Men	0.084 (1.93)	0.204 (4.79)**	0.209 (5.26)**	0.105 (2.34)*
Household' head	0.121 (3.09)**	0.142 (4.09)**	0.119 (3.52)**	0.159 (3.70)**
Married	0.106 (3.46)**	0.015 (0.5)	0.055 (2.10)*	0.09 (3.03)**
Age	0.04 (4.05)**	0.076 (6.87)**	0.057 (4.97)**	0.062 (3.79)**
Age*Age	0.00 (3.50)**	-0.001 (-6.46)**	-0.001 (-4.24)**	-0.001 (-3.30)**
Industry				
Construction	0.149 (2.58)*	0.102 (1.87)	0.076 (1.6)	0.26 (3.88)**
Trade	-0.022 (-0.61)	-0.069 (-2.10)*	-0.136 (-4.01)**	-0.11 (-2.84)**
Transport	0.015 (0.32)	-0.033 (-0.82)	-0.112 (-2.84)**	-0.086 (-1.9)
Financial services	0.113 (2.40)*	0.072 (1.67)	-0.011 (-0.29)	0.138 (2.98)**
Personal services	-0.218 (-3.89)**	-0.207 (-4.45)**	-0.09 (-2.04)*	0.001 (0.02)
Domestic services	0.096 (1.96)*	0.105 (2.13)*	0.234 (4.60)**	0.229 (4.09)**
Public sector	-0.224 (-5.24)**	-0.212 (-5.47)**	-0.117 (-3.11)**	-0.074 (-1.65)
Other industries	0.085 (1.78)	0.013 (0.29)	0.059 (1.43)	0.042 (0.9)
Occupational category				
Non-registered wage earner	-0.163 (-5.44)**	-0.084 (-3.14)**	-0.188 (-7.43)**	-0.187 (-6.08)**
Size of the firm				
16-50 workers	0.007 (0.21)	0.018 (0.6)	0.129 (4.36)**	0.127 (3.68)**
51-100 workers	0.062 (1.38)	0.065 (1.66)	0.124 (3.42)**	0.189 (4.16)**
More than 100 workers	0.163 (4.68)**	0.156 (5.01)**	0.277 (9.27)**	0.359 (10.05)**
Underemployed	0.31 (9.10)**	0.307 (10.38)**	0.231 (8.67)**	0.357 (12.03)**
Lambda	0.161 (2.13)*	0.327 (4.01)**	0.206 (2.31)*	0.155 (1.23)
Constant	8.516 (34.88)**	-1.036 (-3.89)**	-0.742 (-2.55)*	-0.935 (-2.18)*
Observations	2042	2494	2892	2440
R-squared	0.33	0.31	0.43	0.45
Absolute value of t statistics in parentheses				
* significant at 5%; ** significant at 1%				

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

Table 2
Unemployment rate by educational level
Average in each subperiods

Educational level	May 1991– May	May 1995–	October 1998–
	1995	October 1998	October 2001
Incomplete primary or less	11%	21%	21%
Complete primary	11%	19%	19%
Incomplete secondary	12%	20%	20%
Complete secondary	9%	16%	17%
Incomplete university	9%	15%	17%
Complete university	4%	7%	7%
Total	10%	17%	17%

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

Table 3
Evolution of employment by category, educational level and sector
Total urban centres. II semester 2003- II semester 2006
Excludes employment plans

	II Sem. 2003	I Sem. 2004	II Sem. 2004	I Sem. 2005	II Sem. 2005	I Sem. 2006	II Sem. 2006	Var.2003/ 2006	Contrib. to employment growth
Total employment	100	100	100	100	100	100	100	16%	100%
Category									
Registered wage earner	39.6	40.8	40.5	41.2	41.9	43.6	44.0	29%	72%
Non-registered wage earner	31.5	32.0	32.1	32.2	31.7	31.2	31.2	15%	29%
Own-Account	22.4	21.5	21.6	21.4	20.9	20.1	19.4	1%	1%
Employer	4.0	4.0	4.4	4.0	4.3	4.1	4.2	21%	5%
Family worker without remuneration	2.5	1.7	1.4	1.1	1.3	1.1	1.1	-26%	-3%
<i>% Non-registered / Total wage earners</i>	44.3	44.0	44.2	43.9	43.1	41.7	41.4		
Educational level									
Incomplete primary or less	7.2	7.2	6.9	6.7	7.1	6.8	6.9	13%	6%
Complete primary	21.7	22.5	22.4	22.5	21.5	21.4	20.5	10%	13%
Incomplete secondary	18.3	17.4	17.3	17.0	17.0	16.9	17.0	8%	9%
Complete secondary	20.5	20.8	21.3	21.4	21.1	21.9	21.9	24%	31%
Incomplete tertiary	13.6	14.0	13.9	14.0	14.1	14.2	14.5	23%	20%
Complete tertiary	18.8	18.1	18.3	18.4	19.3	18.7	19.2	18%	22%
Sector									
Manufacture	14.4	14.6	14.9	14.9	14.4	14.7	14.2	15%	13%
Construction	7.4	8.0	8.1	8.2	8.8	8.6	8.9	39%	18%
Trade	24.7	25.0	25.4	24.0	24.3	23.9	24.4	15%	23%
Transport	7.0	6.8	7.3	7.0	7.0	6.7	6.6	8%	4%
Financial services	9.6	9.7	9.2	10.3	9.7	10.3	10.2	23%	14%
Personal services	6.7	6.4	6.4	6.3	6.5	6.5	6.7	15%	6%
Domestic services	8.1	7.9	7.9	8.1	8.0	8.0	8.1	17%	9%
Public sector	14.3	13.4	13.6	13.5	13.5	13.9	13.7	11%	10%
Other industries	7.2	7.8	7.0	7.5	7.5	7.2	6.9	12%	6%

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

Table 4
Evolution of real labour income by category and educational level
Total urban centres. II semester 2003- II semester 2006
Excludes employment plans

	II Sem. 2003	I Sem. 2004	II Sem. 2004	I Sem. 2005	II Sem. 2005	I Sem. 2006	II Sem. 2006	Var. 2003/2006
Total employment	816	860	854	892	938	987	1023	25%
Category								
Registered wage earner	1057	1104	1076	1123	1191	1244	1309	24%
Non-registered wage earner	480	496	518	529	541	551	559	17%
Own-Account	639	682	698	713	744	810	806	26%
Employer	2020	1877	1793	2139	2100	2174	2210	9%
<i>% Non-registered / registered wage earners</i>	45%	45%	48%	47%	45%	44%	43%	
Educational level								
Incomplete secondary or less	543	586	582	617	627	691	704	30%
Complete secondary-incomplete tertiary	847	886	891	915	973	1019	1045	23%
Complete tertiary	1441	1533	1474	1565	1620	1669	1731	20%

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

Table 5
Real labour income
Average, Gini coefficient and Theil coefficient
Total urban centres. October 1995- II semester 2006
Excludes employment plans

	Average real labour income (at constant II Sem. 2006 prices)	Gini coefficient			Theil coefficient		
		Coefficient	Interval (95% of confidence)		Coefficient	Interval (95% of confidence)	
Oct-95	1172	0.4301	0.4227	0.4388	0.3535	0.3362	0.3774
May-96	1157	0.4266	0.4173	0.4346	0.3442	0.3247	0.3630
Oct-96	1136	0.4308	0.4211	0.4395	0.3513	0.3316	0.3704
May-97	1153	0.4442	0.4357	0.4552	0.3793	0.3572	0.4065
Oct-97	1126	0.4328	0.4244	0.4412	0.3498	0.3316	0.3640
May-98	1188	0.4458	0.4361	0.4562	0.3800	0.3536	0.4053
Oct-98	1180	0.4527	0.4420	0.4646	0.3926	0.3652	0.4206
May-99	1140	0.4428	0.4321	0.4516	0.3727	0.3513	0.3946
Oct-99	1125	0.4393	0.4323	0.4494	0.3623	0.3437	0.3864
May-00	1109	0.4482	0.4377	0.4570	0.3821	0.3574	0.4045
Oct-00	1109	0.4471	0.4396	0.4546	0.3673	0.3535	0.3825
May-01	1092	0.4535	0.4453	0.4636	0.3870	0.3687	0.4123
Oct-01	1078	0.4634	0.4513	0.4715	0.3995	0.3727	0.4212
May-02	859	0.4612	0.4524	0.4701	0.3971	0.3706	0.4226
Oct-02	764	0.4717	0.4573	0.4845	0.4170	0.3855	0.4488
May-03	766	0.4647	0.4529	0.4770	0.4072	0.3747	0.4404
II sem 2003	816	0.4642	0.4541	0.4763	0.4086	0.3806	0.4456
I sem 2004	860	0.4584	0.4477	0.4742	0.4173	0.3703	0.4945
II sem 2004	854	0.4504	0.4427	0.4620	0.3776	0.3529	0.4148
I sem 2005	892	0.4443	0.4369	0.4524	0.3685	0.3515	0.3881
II sem 2005	938	0.4438	0.4360	0.4499	0.3646	0.3444	0.3842
I sem 2006	987	0.4356	0.4270	0.4442	0.3615	0.3315	0.3959
II sem 2006	1023	0.4292	0.4232	0.4357	0.3310	0.3204	0.3445

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

Table 6
Quintile distribution of labour income
Total urban centres. II semester 2003- II semester 2006
Excludes employment plans

QUINTILE	II SEM 2003	I SEM 2004	II SEM 2004	I SEM 2005	II SEM 2005	I SEM 2006	II SEM 2006
1	3.7%	3.9%	3.9%	4.1%	4.0%	4.1%	4.0%
2	9.4%	9.6%	9.7%	9.8%	9.7%	10.1%	10.1%
3	14.3%	14.7%	14.9%	15.3%	15.5%	15.5%	16.1%
4	21.5%	21.3%	22.4%	22.0%	22.4%	22.1%	22.6%
5	51.0%	50.5%	49.1%	48.7%	48.4%	48.2%	47.2%
TOTAL	100%	100%	100%	100%	100%	100%	100%
5 quintile/ 1 quintile	13.7	13.0	12.9	12.0	12.4	11.9	12.0

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

Table 7
Household per capita income
Average, Gini coefficient and Theil coefficient
Total urban centres. October 1995- II semester 2006
Includes employment plans

	Average real family income (at constant II Sem. 2006 prices)	Gini coefficient			Theil coefficient		
		Coefficient	Interval (95% of confidence)		Coefficient	Interval (95% of confidence)	
Oct-95	620.2	0.4880	0.4781	0.4987	0.4596	0.4287	0.5032
May-96	608.0	0.4859	0.4754	0.4979	0.4557	0.4282	0.4970
Oct-96	612.3	0.4972	0.4840	0.5131	0.4869	0.4469	0.5408
May-97	628.6	0.4917	0.4793	0.5033	0.4675	0.4340	0.5078
Oct-97	647.2	0.4957	0.4818	0.5184	0.4880	0.4292	0.6191
May-98	677.4	0.4990	0.4884	0.5087	0.4752	0.4486	0.5045
Oct-98	676.2	0.5049	0.4951	0.5160	0.4899	0.4558	0.5352
May-99	658.5	0.5015	0.4910	0.5136	0.4787	0.4510	0.5133
Oct-99	639.2	0.4928	0.4844	0.5030	0.4561	0.4334	0.4855
May-00	620.2	0.5035	0.4928	0.5136	0.4817	0.4580	0.5136
Oct-00	639.8	0.5098	0.4990	0.5184	0.4985	0.4643	0.5319
May-01	615.8	0.5158	0.5059	0.5278	0.5102	0.4795	0.5517
Oct-01	592.1	0.5206	0.5101	0.5301	0.5127	0.4789	0.5424
May-02	452.3	0.5416	0.5299	0.5526	0.5839	0.5434	0.6373
Oct-02	410.3	0.5203	0.5055	0.5320	0.5062	0.4733	0.5431
May-03	431.8	0.5192	0.5016	0.5332	0.5059	0.4613	0.5457
II sem 2003	510.5	0.5326	0.5228	0.5466	0.5611	0.5182	0.6107
I sem 2004	529.6	0.5212	0.5024	0.5478	0.5784	0.4797	0.7928
II sem 2004	561.4	0.5090	0.4931	0.5236	0.5181	0.4539	0.5874
I sem 2005	566.5	0.5004	0.4914	0.5098	0.4730	0.4458	0.5000
II sem 2005	622.0	0.4920	0.4833	0.5018	0.4489	0.4256	0.4765
I sem 2006	635.5	0.4861	0.4773	0.4965	0.4453	0.4239	0.4735
II sem 2006	695.7	0.4827	0.4733	0.4914	0.4421	0.4034	0.4925

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

Table 8
Quintile distribution of total household income
Total urban centres. II semester 2003- II semester 2006
Includes employment plans

QUINTILE	II SEM 2003	I SEM 2004	II SEM 2004	I SEM 2005	II SEM 2005	I SEM 2006	II SEM 2006
1	3.4%	3.9%	3.9%	4.0%	4.2%	4.1%	4.2%
2	8.3%	8.9%	8.9%	9.1%	9.0%	9.0%	9.2%
3	13.6%	13.7%	14.1%	14.1%	14.4%	14.3%	14.4%
4	21.6%	21.8%	22.1%	22.2%	22.2%	22.5%	22.6%
5	53.1%	51.7%	51.0%	50.6%	50.2%	50.0%	49.5%
TOTAL	100%	100%	100%	100%	100%	100%	100%

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

Table 9
Decomposition of poverty variation (household)
Total urban centres. October 2000- II semester 2006

Period	Variation (p.p)	Growth effect	Nominal income effect	Inflation effect	Residual	Distribution effect
Oct00-Oct01	4.3	75%	81%	-6%	0%	25%
Oct01-May02	13.4	93%	27%	65%	1%	7%
May02-Oct02	4.3	94%	-60%	160%	-6%	6%
Oct02-May03	-3.1	73%	53%	18%	1%	28%
II sem03-II sem04	-6.7	78%	98%	-21%	0%	22%
I sem04-I sem05	-4.7	75%	113%	-45%	8%	25%
II sem04-II sem05	-5.1	78%	140%	-63%	1%	22%
I sem05-I sem06	-5.7	72%	146%	-67%	-7%	28%
II sem05-II sem06	-5.5	78%	120%	-39%	-3%	22%
II sem03-II sem06	-17.3	79%	118%	-37%	-1%	21%

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

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