

## DEMOCRACY AND SOCIAL POLICY SERIES

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### THE WELFARE STATE IN CONTEMPORARY ARGENTINA

An Overview

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### Glossary of Acronyms Used Frequently in the Text

ANSSAL	Administración Nacional del Seguro de Salud National Administration of Health Insurance
BCRA	Banco Central de la República Argentina Central Bank
BHN	Banco Hipotecario Nacional National Mortgage Bank
CEPAL	Comisión Económica Para América Latina y el Caribe Economic Commission for Latin America and the Caribbean (ECLAC)
EAP	economically active population
FONAVI	Fondo Nacional de la Vivienda National Housing Fund
GDI	gross domestic investment
GDP	gross domestic product
HU	hidden unemployment
INOS	Instituto Nacional de Obras Sociales National Institute of Mutual Aid Societies
INSSJyP	Instituto Nacional de Servicios Sociales para Jubilados y Pensionados National Institute of Social Services for Retired and Pensioned Persons
MSyAS	Ministerio de Salud y Acción Social National Ministry of Health and Social Action
OU	open unemployment
PAF	Programa de Asignaciones Familiares Family Allowances Program
PAN	Plan Alimentario Nacional National Food Program
PSS	public social spending
SNIS	Sistema Nacional Integrado de Salud Integrated National Health Care System
SNPS	Sistema Nacional de Previsión Social National Social Security System
SNS	Seguro Nacional de Salud National Health Insurance
SSS	Secretaría de Seguridad Social Secretariat of Social Security
SVOA	Secretaría de Vivienda y Ordenamiento Ambiental Secretariat of Housing and Environment
TCPS	total consolidated public spending
UCR	Unión Cívica Radical Radical Civil Union
VAT	value added tax
VU	visible underemployment



## **A r g e n t i n a**

1946–55	Perón
1955–58	Military Dictatorship
1958–62	Frondiziz
1962–63	Guido
1963–66	Illia
1966–73	Military Dictatorship
1973–76	Peronist Government
[1975–beginning of chronic high inflation]	
1976–83	Military Dictatorship
1983–89	Alfonsín (UCR)
1989–	Menem (Peronist)

## 1. Historical Summary

### 1.1 Origins: Argentina's Social Problems in the Making

In the second half of the nineteenth century the bases for the construction of political institutions were laid in Argentina, with objectives and instruments belonging to the modern vision of the nation-state. Nevertheless, public activity in the social sphere maintained the traditional characteristics of 'beneficence,' and the typical strategy of intervention was a combination of confinement, segregation, and even repression of the 'beneficiaries.'

Around the turn of the century, some of the social groups excluded from the public agenda began to organize, and this modified the political climate. After the electoral reform of 1912 and the Radical Civic Union's (Unión Cívica Radical or UCR) subsequent access to government in 1916, several organized groups consolidated their pressure on state institutions.<sup>1</sup> However, the benefits typical of social insurance programs were not on the agenda of workers' demands of that period.

The appearance of the first institutions of this type—for example, the law on compensation for work accidents and the 1915 law that granted retirement benefits to private sector railway workers—can be explained principally as a state initiative to contain other types of demands from socially subordinated sectors. The 1923 law that established retirement benefits and pensions\* for industrial, commercial, and service workers was closely tied to the parliamentary elections of that year. This law aroused strong opposition from workers—including a strike that attempted to force its repeal—over its provisions concerning workers' contributions as the source of financing the system.

Under the leadership of immigrants with socialist and anarchist backgrounds, workers concentrated their demands on the recognition of professional associations, salaries, and working conditions. The benefits of social insurance seemed a 'sophisticated' good to labor interests of that era and only appeared on the agenda of those sectors whose demands for better salaries and working conditions had already been satisfied.

Up to the end of the nineteenth century only the military, some sectors of public administration, and teachers enjoyed retirement benefits. In 1904 coverage was granted to all public administration workers, and during the Radical governments of 1916–1930 retirement benefits were extended to public utility workers, bank workers, and employees of insurance companies. Despite its early appearance, the expansion of retirement coverage

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<sup>1</sup> Parts of the hypotheses presented here on the origins of social policy in Argentina are based on Isuani (1985), Isuani and Tenti Fanfani (1989b), and Mesa-Lago (1978).

\* Unless otherwise stated, 'retirement' should be understood to include related pensions, such as disability and survivors' benefits.—TRANS.

was very slow: in 1944 workers incorporated as members of the various retirement funds represented only slightly more than 7% of the economically active population (EAP).<sup>2</sup>

The creation of the first educational institutions was also a state initiative and, from its inception, aimed at universal coverage with specific regulations and resources. The national education system was instituted in 1884, and in 1905, with the so-called Láinez law, the national executive was authorized to install schools throughout the nation under the classic banners that state education was to be mandatory, secular, and free. The results were striking: despite a significant wave of immigration, the illiterate population fell from 80%, according to the first national census carried out in 1869, to less than a fourth, according to the third census of 1914. Furthermore, from the beginning the plan for education included the construction of secondary and tertiary level institutions (national high schools and universities) oriented toward education for leadership with administrative skills and specialized knowledge.<sup>3</sup>

In terms of health care, until the waves of immigration had settled and the first stage of urbanization in Argentina was complete (around the middle of the second decade of the twentieth century), the state concerned itself almost exclusively with sanitary conditions in public areas. The National Department of Hygiene (Departamento Nacional de Higiene), created in 1880, in addition to the task of ensuring hygiene in trains, ports, and depots, incorporated under its jurisdiction the Advisory Commission on Asylums and Hospitals (Comisión Asesora de Asilos y Hospitales) and created the School Hygiene Service (Servicio de Higiene Escolar). The central government and provinces dealt with environmental sanitation (particularly the potability of water). In 1895, a Commission of Health Works (Comisión de Obras de Salubridad) was created which in 1912 became the National Public Sanitation Works (Obras Sanitarias de la Nación).<sup>4</sup>

The first sanitation services were constructed as a response to serious epidemics caused by the lack of water and sewage treatment.<sup>5</sup> The city of Buenos Aires achieved high levels of coverage for the era: 400,000 persons by the end of the decade and, by 1940, more than 90% of the city's population was connected to the potable water system. At the same time, potable water and sewage systems were installed in some provincial capitals.

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<sup>2</sup> According to data from the "Primer Informe Técnico del Consejo Federal de Seguridad Social de la República Argentina," (December 1961), quoted in Feldman et al. (1986).

<sup>3</sup> The expansion of secondary schools came later since they were originally directed mainly toward urban elite leaders. The Census of 1914 registered only 3% of the population as having secondary education (Tenti Fanfani 1989, 212).

<sup>4</sup> A public enterprise that today serves the greater part of the metropolitan area of Buenos Aires.

<sup>5</sup> A number of epidemics devastated Buenos Aires after the middle of the last century. The most dramatic was that of 1870, when yellow fever caused more than 14,000 deaths (approximately 7% of the population).

The emergence of health care as a public policy issue was permeated by tensions between particularism and universalism. A strong mutualist tradition, originating not from unions but from the various ethnic communities that coexisted in Buenos Aires, served as a basis for the later development of the mutual aid societies for health care and insurance (*obras sociales*),\* the axis of the present health care system in Argentina.<sup>6</sup> On the other hand, political sectors and health care professionals promoted centralization and the transfer of health care issues to the public sphere. As early as 1883 the creation of the Public Assistance Directorate (Dirección de Asistencia Pública) of Buenos Aires was the first symptom of a tendency toward weakening the hegemonic model of beneficence.<sup>7</sup> Under the military dictatorship, which usurped political power in 1930, welfare policies were promoted anew with the celebration of the First National Congress of Social Welfare (Primer Congreso Nacional de Asistencia Social) in 1933.<sup>8</sup>

During the second decade of this century a series of laws were dictated for the protection of children and the family. In 1919, the Law on the Employment of Minors (Ley de Patronato de Menores) was passed, and in 1924 a law that regulated and restricted child and female labor extended this protection to cover maternity. In 1936 the Directorate of Maternity and Infancy (Dirección de Maternidad e Infancia) was created as part of the National Department of Hygiene.

The first public actions concerning housing took the form of granting mortgage loans through the National Mortgage Bank (Banco Hipotecario Nacional or BHN), founded in 1886.<sup>9</sup> These loans were granted sporadically, affected only a limited number of recipients, and did not result in a large or sustained increase in housing construction.

The economic crisis of the 1930s, the outbreak of the Second World War, political realignments among the major world powers, and the consequences of more than a decade of military dictatorship fed into the redefinition of the discourse and behavior of all social

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\* In addition to health care and insurance, the *obras sociales*, also provided some other services. The larger ones owned hotels, and provided tourism services, for example.—TRANS.

<sup>6</sup> Membership in the same sector of labor was not the organizing axis of the mutual aid societies. Although between 1880 and 1913 more than 1,000 mutual aid societies were created in Argentina, in 1910 48% of their members were from owner organizations, 45% from various ethnic groups, and only 7% could be considered union (Cortés 1985, 9 and 11).

<sup>7</sup> Beneficence continues even today, however, rooted in important sectors of Argentine society, mainly those tied to the Catholic Church and political groups and intermediate institutions that favor paternalistic action from the state toward economically and socially marginalized groups.

<sup>8</sup> The Congress's conclusions emphasized the idea—important for understanding the future evolution of social policy—that poverty in Argentina was not due to structural causes but was rather a transitory anguish of those currently impoverished.

<sup>9</sup> A historical analysis of the development of housing policy in Argentina can be found in Yujnovsky (1984).



actors. A generalized tendency to develop more centralized and coordinated state action arose.

In terms of social issues, professionals (sanitation workers, hygienists, social workers, etc.) came to constitute a bureaucracy that took over a large part of the representation and control of 'social problems' in different spheres of public life. In the mid-1940s, with the rise of Peronism to political power, the embryonic stage of social policy in Argentina ended and a new experience began in which the discourse, strategies, and institutions themselves substantively changed.

## 1.2 The Construction and Maturation of the Present System of Social Policy

In a period of increasing urbanization and industrialization, Peronism constructed a political system dominated by a paternalistic and clientelistic relationship between the state and society, mediated through professional associations.<sup>10</sup> This interaction was mutually reinforcing: the state defined lines of action, shaping and promoting the activities of the professional associations, whose leaders in turn actively and directly participated in the definition of public policy.<sup>11</sup>

In this way, professional associations were transformed into corporate bodies, in that they used the state's means to pursue their particular interests. The discussion of public policy came to take place between the executive branch and representatives of the corporations, while the legislative branch was relegated as an appendage of this political game.

It should not be surprising then that social insurance was the framework upon which the institutional arrangements of the principal social policies of Peronism were constructed. In an economic environment that supposedly fostered a kind of 'virtuous circle' of self-sustained development, universalization of social protection was equated with the aggregation of all the autonomous social insurance organizations identified with each labor group: belonging to a union organization was the way to gain access to the right to public coverage.<sup>12</sup>

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<sup>10</sup> The origin, nature, and projection of Peronism is the subject of continuing controversy. Ipola (1989) gives a recent review of the literature that attempts to 'interpret' the nature of Peronism, with the relevant bibliographic references.

<sup>11</sup> In the case of unions, the state even intervened in the negotiation and implementation of collective labor contracts. Although workers' activity had been intensifying considerably, still in 1943 only 20% of the urban work force was unionized.

<sup>12</sup> The consequences of this 'virtuous' conception of the economic circle for social policy are discussed in Lo Vuolo (1990).

The bases of the social security system were established in the same way. The Fund for Commerce Employees (*Caja para Empleados de Comercio*) was created in 1944 and two years later the Fund for Industrial Personnel (*Caja del Personal de la Industria*). In 1954 the retirement program for rural workers was established, together with retirement funds for self-employed workers, professionals, and businesspeople. When benefits were granted to domestic service workers in 1956 (the year following the fall of the Peronist government), all of the EAP was legally covered.

The attempts to standardize and centralize this system of autonomous organizations were aborted in their implementation stage. The National Social Security Institute (*Instituto Nacional de Previsión Social*) incorporated the various retirement funds (*cajas de previsión*) by sections, taking away their administrative independence but leaving them in charge of their own funds and their own legal regimes. Nevertheless, the retirement funds in fact continued to function in an independent way and in 1954 recovered their autonomy.

During the Peronist period the Argentine social security system abandoned its original structure of capitalization and advanced decisively toward a straightforward division of income from expenditures. Law 14370 of 1954, which established that benefits should be calculated on the basis of a scale independent of the total sum of accumulated contributions, could be considered the definitive rupture point. Law 14499 of 1958 consolidated this situation by establishing that the benefit would be equivalent to an indexing of 82% of the highest earnings received or assigned in the last period of work activity.

Financial difficulties played an important role in this change. The surplus derived from the initially high proportion of assets to liabilities was diverted to other ends. The transfer of these funds principally benefited housing construction: credits granted by the BHN to encourage building rose from 10% of the total new building in 1947 to 73% in 1953.<sup>13</sup> In addition to the effects of diverting the surplus, the national government further depleted the retirement funds by failing to enact rational investment policies in the face of inflation, which caused a drop in the real value of accumulated capital.

These factors contributed to the fact that all national retirement funds began to register financial deficits after 1966.<sup>14</sup> When the military dictatorship took power in that year, it immediately decreed that the assets of the national retirement funds could not be transferred to other public institutions, and the following year it began an institutional reform of the system.

During the two periods of Peronist government (1946–52 and 1952–55) other labor benefits were expanded. Paid vacations, indemnity against layoffs or disability, and an

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<sup>13</sup> Yujnovsky (1984).

<sup>14</sup> This situation is analyzed and quantified in Dieguez and Petrecolli (1974).



annual salary supplement (equivalent to one month's salary) were granted, and some sectors began to receive family allowances through collective bargaining agreements. There were also advances in the legislation that defined the state's tutelary function over minors.

Health policy also experienced a shift along two parallel lines. On the one hand, the Secretariat of Health (Secretaría de Salud) under Ramón Carrillo established the bases of the present system of public health care with the creation of the National Sanitary Code (Código Sanitario Nacional) in 1947. An investment plan was implemented for the accelerated growth of hospitals and mobile health centers.<sup>15</sup>

At the same time, a payroll tax financed the accelerated and heterogeneous development of union-sponsored mutual aid societies. While the smaller mutual aid societies adopted strategies of indirect services through contracts with medical federations, private clinics, and pharmacies, the more powerful ones developed direct services, including in-patient facilities, out-patient clinics, home visits by doctors, and their own pharmacies. The large mutuels also incorporated tourism services with their own hotels, recreational facilities, and even financing plans for the purchase of consumer goods and housing.

This bipolar organization differentiated health care policy from welfare policies. Everything that had to do with social service or welfare came under the responsibility of the Secretariat of Labor and Social Security (Secretaría de Trabajo y Previsión Social), created in 1944, and was carried out, in effect, by the Eva Perón Foundation.<sup>16</sup> In this way, the social assistance policy of the Peronist government became institutionally ambiguous. To a certain degree, it reproduced the formal framework of the old system of 'beneficence' by concentrating welfare activities in an institution located in an intermediate space between the public and the private. At the same time, the welfare policy of the state was developed without focusing on concrete needs or types of services, instead attempting to cover the whole range of needs of the poor sectors of the population.

The military dictatorship that overthrew the Peronist government in 1955 attempted, without much success, to transfer part of the centralized social services to the provinces and even to private agencies. In 1957 the National Institute of Mental Health (Instituto Nacional de Salud Mental) was created and in 1959, the School of Public Health (Escuela de Salud Pública). Various research institutes were also created, but no substantive modifications to the framework established by Peronism were introduced.

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<sup>15</sup> The number of beds in public establishments increased from 63,000 to 108,000 between 1946 and 1955 (Perez Irigoyen 1989, 176).

<sup>16</sup> The Foundation was named for the wife of President Juan D. Perón. It was founded with contributions established by law and with gifts and donations of every kind, even receiving transfers from taxes on annual salary supplements. By law it was established that the functions of the Foundation were "of a public nature and of national interest."

In 1957, family allowance funds (*cajas de asignaciones familiares*) with the legal character of private entities were created for commercial employees and industrial workers. In 1963, the creation of the Family Allowance Fund for Shipping and Receiving Personnel (Caja para el Personal de la Estiba) completed the institutional framework for the Family Allowances Program (Programa de Asignaciones Familiares or PAF).

Until the creation of these institutions, family allowances were systematized in collective bargaining agreements. From this point on, a mechanism of automatic and periodic compensation was established. Since all employers are obliged to contribute the same percentage of salaries to family allowances funds and to pay their employees their corresponding benefits directly, a monthly compensation results in credits or debits according to the relationship between both obligations.

During the administration of the Radical government of 1963–1966 there were attempts to pass legislation on the production and use of medicine, to reinvigorate the Federal Sanitary Delegations (Delegaciones Sanitarias Federales), and to improve the regulation and control of the mutual aid societies. Some believe that these initiatives in the area of health care, given the interests they threatened, contributed to the destabilization of the government of Dr. Illia and accelerated its overthrow in 1966 by the military, headed by General Onganía.

In 1965 the Secretariat for Housing (Secretaría de Estado de Vivienda) was created, establishing the basis for the future organization of housing policy. The secretariat had two pillars: 1) the BHN (until then exclusively responsible); and 2) allocations for housing in the national budget, which were institutionalized with the creation of the National Housing Fund (Fondo Nacional de la Vivienda or FONAVI) by Law 19,929 of 1972.

After the military coup of 1966 a 'community development' model of social policy was made official, which proposed transcending specific areas of services to deal with social problems in an integral way. This model was based on a vision, advanced by international organizations, that conceived of the expansion of basic social services as indispensable for creating the 'prerequisites for economic progress.'

In Argentina, this international current was tied to other factors that help explain the adoption of the community development model: 1) the corporatist-communitarian ideology of some sectors supporting the 1966 military dictatorship which saw 'intermediate groups' (corporations and union organizations) as alternative political actors to political parties; and 2) the interests and predispositions of certain groups that favored 'field work' and the

'mobilization of popular sectors' over an institutionalized social welfare state of the European social democratic style.<sup>17</sup>

In the area of health care, for example, this translated into leveling the hierarchy of the public health institutions. Immediately after the military coup of 1966, the Ministry of Social Welfare (Ministerio de Bienestar Social) was created and, as part of it, the Secretariat of Community Promotion and Assistance (Secretaría de Promoción y Asistencia a la Comunidad). The Secretariat of Health was transformed to a subsecretariat and in 1970 its power to independently manage its own budget was taken away.

The mutual aid societies were consolidated by a 1970 law (Ley de Obras Sociales) that established, among other things, an obligatory floor for contributions and the administration of the mutuels by unions. This measure, together with the normalization of the General Workers Confederation (Confederación General de Trabajo or CGT) and the call to collective bargaining, can be considered the result of an expansive wave generated by the 'Cordobazo' in 1969 (a violent movement of social protest, headed principally by workers and students, which is considered a landmark in the movement toward more radicalized social demands in Argentina).<sup>18</sup>

The new legislation created the National Institute of Mutual Aid Societies (Instituto Nacional de Obras Sociales or INOS) as the regulatory agency for these organizations. The institute administered a redistribution fund that made compensatory financial transfers among the mutual aid societies. The result of this policy was an increase in the resources and coverage of the mutual aid societies and an increase in union power. Since the mutual aid societies generally preferred to contract out services rather than provide them directly, the increase in coverage also encouraged development of health care provision in the private sector.<sup>19</sup>

While communitarianism as a 'state ideology' was of short duration (ending in 1971 when General Lanusse rose to power), even today in some sectors it persists as a loose set of ideas concerning the modalities of state action and is incorporated in great measure in the more modern concept of 'social promotion.' In contrast to the welfare model, the central idea of social promotion is not distribution of goods and resources but development of human capabilities. Since the decade of the 1960s, at least on the rhetorical plane, in Argentina a communitarian-promotional paradigm coexists with traditional welfare activities.

<sup>17</sup> Tenti Fanfani (1987, 87–88).

<sup>18</sup> This issue is developed in O'Donnell (1982, especially Chapter 6).

<sup>19</sup> A survey by the Ministry of Public Health estimated that in 1969 approximately 26.7% of the population of the metropolitan region were covered by mutual aid societies (Isuani and Mercer 1986, 48).



Together with the reform of the Law of Mutual Aid Societies, the most important institutional modification of the end of the 1970s was the enactment of the new social security regime, whose basic structure endures today. Through Laws 18037 and 18038 of 1967, the 13 retirement funds existing at the time were regrouped into three: one for self-employed workers, one for state employees, and the third for workers in the private sector. The Armed Forces and security personnel kept their special regimes, as did employees of provincial and municipal administrations.

At the same time, the Secretariat of Social Security (*Secretaría de Seguridad Social* or SSS) was created to manage and supervise the national system, modifying the requirements for access to it. Among other provisions, termination of employment was dropped as a requirement for applying for retirement benefits, and criteria were modified for determining and indexing assets, as well as age requirements, years of service, and contributions. While the reform increased the centralization of the system, it was ineffective in attacking the structural causes of the financial deficit and in eliminating the many exceptions and privileges.

The new institutional order designed for the elderly population was finalized with the creation of the National Institute of Social Services for Retired and Pensioned Persons (*Instituto Nacional de Servicios Sociales para Jubilados y Pensionados* or INSSJyP). This was organized as a mutual aid society intended to cover the medical and social assistance needs of retired persons and their families, and it became the most important social insurance institution because of both the number of members and the amount of money that it administered. At the end of the military government, professional associations were incorporated into the managing and administrative organs of the national social security system and INSSJyP.<sup>20</sup>

### **1.3 Recent History: The Crisis of the Social Policy System in Argentina**

The Peronist government of 1973–1976 inherited and proceeded to aggravate the tension between particularism and universalism that characterized the development of social policy in Argentina. For example, when arduous negotiations finally resulted in a plan for an Integrated National Health Care System (*Sistema Nacional Integrado de Salud* or SNIS), pressures by some Peronist legislators, opposed to business organizations and to the private

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<sup>20</sup> An analysis of the role of INSSJyP in the Argentine social security system can be found in Golbert (1988).

sector, forced out of the system the entire sector of mutual aid societies, which meanwhile was treated favorably with an increase in its own special access to resources.<sup>21</sup>

There was similar lack of progress toward solving the structural problems of the social security system. Improved coverage for rural workers was paralleled by growing financial problems, another symptom of the government's loss of control over public accounts in that period. As access to the system and levels of benefits increased, the government found itself obliged to raise payroll taxes on nominal wages. The exhaustion of traditional sources of public sector financing, together with the exponential expansion of spending, resulted in a fiscal deficit of unprecedented levels which marked the beginning of a long period of inflationary pressure and instability in the Argentine economy.

The military dictatorship that overthrew the Peronist government in 1976 accelerated the expansion of the private health care sector through the growth in spending on the mutual aid societies. The new government took an active role in their administration and established the right to free affiliation.<sup>22</sup> The transfer of public health care services from the national to the provincial level accelerated likewise, but without a corresponding transfer of resources to finance them. In addition, fees were required in certain jurisdictions to gain access to public assistance services.

In 1980, Law 22,269 was passed, which increased the power of the SSS to the detriment of the Secretariat of Health. The SSS became the intermediary between the state and union organizations, provider organizations, and the various groups of beneficiaries. The associations of retired and pensioned persons increased their representation, replacing union organizations as the principal intermediaries with the government in social security issues. Among other things, the SSS was given discretion to set minimum benefits above what was legally established. All this facilitated the increase of coverage and significantly elevated spending in the national social security system, together with that of INSSJyP whose services improved and expanded.

In October 1980 the employer's contribution to social security and to the housing program was replaced by an equivalent sum transferred from collection of the value added tax (VAT). The change was justified by its supposedly positive impacts on hiring labor and on international competitiveness (which the available evidence does not corroborate).<sup>23</sup> The only sure result of this measure was that financial flows toward the system dropped notably,

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<sup>21</sup> Only three comparatively underdeveloped provinces adopted the SNIS, which gradually diminished and was abolished altogether after the military coup of 1976.

<sup>22</sup> Although people now had the freedom to join mutual aid societies outside of their particular areas of work, there were no significant changes in membership.

<sup>23</sup> See Lo Vuolo (1986) for a theoretical analysis and an assessment of the actual impact of this change on the Argentine labor market.

so that in September 1984 the tax on employers was reinstated and the amount of their contributions increased.

In 1978, national primary schools were transferred to the provinces, which was presented as a step toward a more rational decentralization of the educational system. Nevertheless, as with health care, the facts showed that the motive was fundamentally fiscal; the transfer of services was not followed by an equivalent transfer of resources.

Entrance restrictions and, later, the imposition of registration fees reduced enrollment in public universities, favoring private ones, which by the first years of the 1980s were absorbing close to 20% of university entrants. With the advent of democracy and the removal of restrictions, attendance at public universities exploded and the percentage of students enrolled at private universities returned to around 10% of the total.

The National Pedagogic Congress (Congreso Pedagógico Nacional) was the most ambitious educational project of the UCR government, which took power in December 1983. The government organized a series of local and provincial meetings, culminating in a national assembly, as an appeal to the whole country to defend the tradition of universal, secular, free education against corporate pressures. However, supporters of Catholic and other private education interest groups, mostly coordinated by Peronist sectors, succeeded in carrying important districts such as the Federal Capital and the provinces of Buenos Aires and Santa Fe. The only result of the government's attempt to mobilize mass support was a final document that toned down the private-public education conflict and failed to set any new policies in the most problematic areas.

The UCR's major health care project was National Health Insurance (Seguro Nacional de Salud or SNS). The original project attempted a reordering, managed by the state, of the total resources available in the area. It stipulated one unified system for beneficiaries of the mutual aid societies, beneficiaries of noncontributory sources, independent workers, and all those lacking insurance coverage. Private ('prepaid' in the Argentine lexicon) health insurance contracts were not incorporated.

Sent to Congress in September 1985, the SNS legislation inspired innumerable disputes which transformed its original content. One conflictive point referred to the election of administrators of the mutual aid societies who, according to the project, were supposed to be chosen by the direct vote of the beneficiaries and were to resign from any other organizational affiliation. Tenacious union opposition to these measures meant that not until the end of the UCR government, at its moment of greatest political weakness, would a highly modified law on SNS be passed, together with a new regime for mutual aid societies. The present Peronist government regulated part of this legislation by decree in February 1990 but various articles remain inoperative.



Among the UCR government's welfare programs was the National Food Program (Plan Alimentario Nacional or PAN), which distributed boxes of basic foods for family consumption. This was intended as a temporary program for immediate relief of malnutrition. The failure to define precisely who the beneficiaries were to be and the lack of reliable information left the implementing organizations free to 'construct' their target population. The Peronist government, which assumed office in 1989, canceled this program and attempted to replace it with direct monetary subsidies, but the experiment failed and today there are no large-scale programs of this type.

In housing, while FONAVI increased its activity in construction, the most notable and conflictive activity was that of the BHN. The criteria for granting credits and the impact of implicit subsidies, financed in the last resort by the Central Bank (Banco Central de la República Argentina or BCRA) through mechanisms of rediscounts or waiving legal requisites for reserves, were strongly questioned aspects of its policy. Some provincial banks, principally that of Buenos Aires Province, also launched programs financed by the issuance of public debt instruments, but these programs were not a significant source of housing financing.

Recessive conditions, high inflation, and economic uncertainty permeate the recent history of social policy. During the postwar period, fiscal and monetary policies seemed to have no limits other than occasional crises in the external balance of trade. In recent years, by contrast, the need for a surplus of foreign exchange for payment of the external debt has become a severe constraint on the public budget and the balance of payments. This situation occurs under the pressure from the international context to open the domestic economy to foreign commercial and financial flows, from the rapid restructuring of productive sectors in search of more efficient patterns of competitiveness, and from the liberalization of labor legislation as a mechanism for the rapid reduction of costs. Economic instability and failed attempts to reverse a situation in which the social dynamic appears to have escaped the control of public policies is the recurrent history of contemporary Argentina.

In this context the system of social policies encounters enormous difficulties in redefining its operational framework and readjusting to new conditions. Institutional fragmentation, poor quality of services, and the inequities within existing programs form a panorama in which institutions originally designed as legitimizers of political power actually end up eroding the legitimacy of the new democratic regime.

## 2. The Present Functioning of the Social Policy System in Argentina

### 2.1 Social Security

Argentina's National Social Security System (Sistema Nacional de Previsión Social or SNPS) is headed by the SSS which manages and supervises three retirement funds: one for self-employed workers, one for state employees, and one for private sector workers. The National Directorate of Retirement Collections (Dirección Nacional de Recaudaciones Previsionales) administers the income of the entire national system.<sup>24</sup>

The Institute of Financial Aid for the payment of Military Retirement Benefits and Pensions (Instituto de Ayuda para el pago de Retiros y Pensiones Militares) and the Retirement Benefits and Pensions Institution of the Federal Police (Caja de Retiros, Jubilaciones y Pensiones de la Policía Federal) function independently with different standards. Personnel of provincial and municipal administrations also have independent systems and there is a considerable range of complementary funds—the majority are for professionals—as well as the option to invest in various privately run retirement insurance plans.

Membership in SNPS is obligatory for every citizen with a paying job unless he/she contributes to other obligatory regimes. The benefits granted by the system are: a) ordinary retirement benefits; b) retirement for advanced age; c) disability pensions; d) survivors' pensions; and e) subsidies for burial. To qualify for retirement benefits from age 60 for men and 55 for women, normally employees must accrue 30 years of service and pay contributions for at least 15. Self-employed men and women have to fulfill the same requirements to receive retirement benefits at 65 and 60 years of age, respectively.

In the case of formally employed workers, the calculation of the retirement benefit is based on the average of the three years of highest earnings within the last ten years of contributions. The retirement benefit to be paid is between 70% and 82% of those earnings, calculated according to the age at which retirement is taken. For the self-employed, the benefit base depends on contributions scaled according to work categories. Retirement for advanced age is equal to 70% of the retirement benefit for normal retirement age and is granted to formally employed workers over 65 and self-employed over 70, when these have accrued only 10 years of computable service. A disability pension is granted at any age when the loss of labor capacity is estimated to be at least 66%. Survivors' pensions are

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<sup>24</sup> The analysis of the social security system is based on Golbert and Lo Vuolo (1989), Lo Vuolo (1989), Schulthess (1990), and Schulthess and Lo Vuolo (1991).

granted to the dependents of the principal beneficiary on his/her death and are equivalent to 75% of the normal retirement benefit.

While general rules passed in 1967 (Laws 18037 and 18038) replaced some of the special privileges of the previous system, numerous groups still enjoy exceptions from age, contribution, and calculation of benefits requirements.<sup>25</sup> Retirement legislation concerning unhealthy work has been very permissive, granting numerous special provisions to labor groups with significant political weight within the state (for example, teachers and railroad workers).

Despite the prevalent image of the social security system as one of funded individual contributions, in fact for more than three decades the system has been financed by the distribution of current income and only the retirement fund of private sector employees is self-financing. In recent years the number of beneficiaries of the self-employed retirement fund has increased, aggravating the financial problems of the fund, which practically from its creation has operated at a deficit.

The combination of an abrupt drop in payments by contributors relative to claims of beneficiaries and difficulties in controlling fiscal evasion has severely reduced the amount of resources available to the SNPS to meet its obligations. My own estimates for 1986 put the average evasion of the system at about 40% of required contributions, with major differences according to the level of formality in employment: in the private salaried sector (excluding rural and domestic) it reached 23% and among the self-employed 62%. To this must be added the inclusion of noncontributive earnings in payments to formally employed workers.

Gradually and unsystematically, SNPS has appropriated money from other sources (transfers from the family benefits institutions, taxes on public services), but this has done little to relieve the pressures of a huge membership and a swollen debt.<sup>26</sup> The significant fiscal impact of the system with its large mass of beneficiaries gives it a key position in any project to reform public policy in Argentina. Given the aging population and the enormous difficulties for the economy to generate productive and formal employment, it seems that under its present rules of operation the SNPS has reached a limit both in its capacity to expand coverage and to fulfill its current obligations.

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<sup>25</sup> In the State Retirement Fund, for example, it is estimated that privileged retirements account for 0.7% of the total number but represent more than 6% of total fund expenditures (Schulthess 1990, 40).

<sup>26</sup> The most recent estimates place that debt at close to US \$6 billion, approximately equivalent to the annual expenditure of the whole system.

## 2.2 Education

Despite the universalist aspirations with which the Argentine educational system was founded, today it is characterized by considerable institutional and legal diversity, which makes its regulation highly complex. In 1987, 80.6% of the existing educational establishments belonged to the public sector. That year almost 9,340,000 Argentines attended, regularly or irregularly, the country's 51,797 public and private educational establishments: 67.8% at elementary level (primary and preprimary); 21.2% at secondary level; and the remaining 11% in higher education, university and nonuniversity. The 1980 Census gives the following rates of attendance by age group: approximately 60% of children 5 years old; 93.4% of those between 6 and 12; 63% of those between 13 and 17; and 18% of the population between 18 and 24.<sup>27</sup>

The same source reports that within the public sector, 19% of students were registered in national, 60% in provincial, and the rest in municipal schools. Considering the distribution between the public and private sectors by levels, 80% of primary school students were enrolled in public provincial schools, 2% in national public schools, and 18% in private schools. At the secondary level, 26% of students matriculated from provincial public, 45% from national public,<sup>28</sup> and 19% from private sector schools. Finally, 90% of university students were enrolled in national public universities and the rest in private establishments, while nonuniversity higher education (mainly teacher training colleges) had the most balanced distribution: 32% national public, 37% provincial public, and 31% in the private sphere.

The legal system that is supposed to govern all this complexity is both old and unsystematized. The law that establishes secular, free, and compulsory education dates from 1884; only part of it is in force and not for all jurisdictions. Private education is regulated by laws from 1878 and 1947 and apprenticeship and labor of minors by laws from 1959 and 1971. The law governing the operation of secondary schools dates back to 1943 and preschool education, which has expanded significantly in recent years, is not governed by any laws. There is no national education law to establish overall goals for the system. To complicate matters further, the Armed Forces and security personnel have their own educational institutions independent from the rest of the system.

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<sup>27</sup> This information and the following discussion of current education is principally based on Tenti Fanfani (1989).

<sup>28</sup> As of the final revision of this paper, all public secondary school administration had been transferred from the national to provincial jurisdiction.



A substantial portion of the public education budget goes to subsidize private education. This subsidy has ranged from 0.3% of gross domestic product (GDP) in 1973 to 0.5% in 1985, an amount almost equivalent to public financing of the whole university system in the latter year. In 1987, the subsidy benefited 90% of private schools, 80% of which covered all their salary costs with it.

The question of subsidies to private establishments, together with issues concerning pedagogical techniques and the content of the curriculum, is a source of permanent tension between the state and the Catholic church. Of close to 1,600 establishments subsidized by the National Superintendent of Private Education (Superintendencia Nacional de Enseñanza Privada), 62% are religious, most of them Catholic. Furthermore, private education—particularly religious education—has traditionally benefited from state donations of land and buildings.<sup>29</sup>

There is not a great deal of current information about the infrastructure of the educational system, but some indicators speak eloquently of obsolescence and inadequacy. According to a survey conducted in 1980, 42% of Argentina's educational buildings were constructed before 1929 and additional space provided for education between 1967 and 1978 represented only 20% of the total available in 1980.<sup>30</sup> In that year, 70% of educational buildings were state owned and, of these, only 67% had been constructed for the purpose for which they were now used. Furthermore, the survey estimated that 40% of the buildings had inadequate classrooms with deficient lighting, ventilation, etc. The drop in public investment during the 1980s leads us to assume that the situation has worsened.

Secondary schools seem to suffer most from obsolete infrastructure, especially in the most developed provinces where public secondary education was introduced earlier and where most schools were built in the large urban areas. While there are no data on the condition of rural schools, it seems likely that they too have inadequate infrastructure, in addition to transportation problems because of the distances involved.

More than 85% of total public spending on education goes to wages and salaries. This figure conceals a number of variations in the employment and salary policies affecting education personnel. These variations are seldom dictated by educational needs; more often they reflect the general policies of public administration. (See sections 3 and 4 for a discussion of public spending tendencies and their effects.)

The scene in the education field is recurrently focused on demands for better teachers' salaries. The serious deterioration in salaries created tensions within the teachers' unions. For example, a division exists between those who demand a basic unified salary at

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<sup>29</sup> See Beccaria and Riquelme (1985, 37 and Table III.2).

<sup>30</sup> Cited by Tenti Fanfani (1989, 226).

the national level and those who prefer negotiations within each of the jurisdictions. Meanwhile, repeated and prolonged work stoppages and lack of motivation of personnel seriously affect the process of teaching and research.

### 2.3 Health

In Argentina, the institutional framework of public health care is made up of two subsystems: 1) the institutions dependent on national, provincial, and municipal public administrations; and 2) the mutual aid societies, including those that cover state employees. These subsystems interact with the private sector, which is made up of a complex network of diagnostic businesses, clinics, and hospitals (including hospitals of various national groups). In addition, there are medical insurance or prepayment plans which contract their services with the private sector. Developed under the sponsorship of insurance firms, the great majority of these plans belong to professional associations or to organizations of physicians.<sup>31</sup>

The subsector dependent on public administration finances its activities with resources from general revenues. The health units of the National Universities fall into this category, since they generate few resources of their own. In 1980 this sector had a capacity of approximately 95,000 beds distributed over 1,334 establishments, making it the sector with the greatest number of beds per establishment. These establishments are located in the principal urban centers and treat both chronic and mental illnesses.

Provincial establishments represent more than 65% of the total number of institutions and more than 60% of the available beds in the health sector. According to the 1980 Census, of the 160,000 workers registered in the public health sector, 53% worked in the provincial sphere, 25% in the municipal, and only 6% for the National Ministry of Health and Social Action (Ministerio de Salud y Acción Social or MSyAS), while the rest worked in other public jurisdictions. The majority of medical professionals work part time in this sector, and their practice as well as their professional careers are regulated by different laws in each jurisdiction. These laws generally agree, however, in considering seniority the principal factor in promotion policy and establishing hierarchies.

The system of mutual aid societies is made up of more than 300 organizations. While the total number of members in 1985 represented approximately 74% of the country's population, this percentage exaggerates coverage because of the problem of estimating the numbers of those who drop out and the near impossibility of estimating multiple

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<sup>31</sup> The principal source for the development of the health sector is Perez Irigoyen (1989). Complementary works are Isuani and Mercer (1986), and González García et al. (1985).



membership. Given the obligatory nature of membership and contributions, each citizen and each member of the family group may be affiliated with several different mutual aid societies. At the same time, there is a high concentration of beneficiaries in a few associations: in 1985, 12 mutual aid societies concentrated 40% of total membership.<sup>32</sup>

Even though the majority of the services of the mutual aid societies are carried out through contracts with the private sector, some have constructed their own health care establishments for their beneficiaries. In this case there is also a high level of concentration: in 1985, of the total of 118 establishments owned by mutual aid societies, 40 belonged to the railroad workers union and 10 to the metalworkers.

According to the new National Health Insurance Law (Ley del Seguro Nacional de Salud), the implementing authority is the National Secretariat of Health (Secretaría de Salud de la Nación), in whose jurisdiction the National Administration of Health Insurance (Administración Nacional del Seguro de Salud or ANSSAL) functions as an entity of public law with financial autonomy, and the mutual aid societies serve as health insurance agents. Also, the new Law of Mutual Aid Societies created the National Directorate (Dirección Nacional de Obras Sociales) which coordinates and integrates those activities that are not directly tied to the SNS.

This complex system has a high level of institutional fragmentation, with evident management deficiencies. Neither the Secretariat of Health nor the Federal Health Council (Consejo Federal de Salud or COFESA), made up of the representatives of the respective ministries of the provinces and the city of Buenos Aires, fulfills an effective role in coordinating public health policies. Nor is ANSSAL, any more than INOS previously, effective in coordinating the system of mutual aid societies. To this is added the anarchic expansion of human resources tied to the sector: in 1985 Argentina had 65,000 doctors, 22,000 dentists, 29,000 pharmacists, and 9,500 biochemists, but only 16,000 nurses and 25,000 nurses aides.

Institutional fragmentation reinforces the weight of the three principal groups of agents that compete in the market: 1) doctors and their associations (including odontologists, biochemists, etc.); 2) clinics, sanitariums and, to a lesser extent, hospitals; 3) pharmaceutical manufacturers. The agents involved in these sectors constitute a market model of oligopolistic supply, characterized by differentiation of products and prices to capture abnormal returns.<sup>33</sup> This obviously hurts the 'consumer' of health services by

<sup>32</sup> According to Golbert (1988, Table 5), INSSJyP covered 3,171,000 members in 1986. Given that 89% were 75 or older, their weight in total spending of the mutual aid societies is even more important.

<sup>33</sup> The characteristics and consequences of this distributive struggle are analyzed in Katz and Muñoz (1988).

inflated billing in both consultations and medical practices: excessive use of medicines, overbilling of inputs, charges for complementary services over what is legally established, etc. The profile of supply is constituted to a large extent by the private sector, which in 1980 had approximately 47,000 beds (31% of the total). This sector has a greater percentage of highly complex equipment, uses a substantive percentage of its infrastructure for acute care, and had an estimated total spending in 1985 of 3.1% of GDP.<sup>34</sup>

The high capitalization of the private sector is largely due to the captive market of the mutual aid societies, spendthrift in its use of resources. The excessive number of doctors in certain areas of the country, the unequal geographic distribution of medical services, the consequent promotion of specialization as a means of increasing income, and the decentralization of general and clinical practice all contribute to a model that stimulates depersonalization in the provision of health services and the incorporation of highly complex technologies that cater to a relatively small high-income sector.<sup>35</sup>

## 2.4 Family Allowances

The Family Allowances Program, PAF, in Argentina covers formally employed workers and is administered by the pension funds for commerce, industry, and shipping. While these funds are private entities, supposedly administered by equal representation of owners and workers, since their creation the state has often intervened in their operations. The funds' personnel are in charge of managing a compensatory fund that covers the difference between the employers' fixed contributions based on salaries and the allowances that employers periodically pay to their personnel. The state pays its allowances directly according to the eligibility of its personnel.<sup>36</sup>

In 1974 those drawing benefits from the private pension funds for both salaried and self-employed workers were incorporated as PAF beneficiaries, and in 1981 payment of family allowances to federal public sector retirees was also transferred to the pension funds. On the other hand, as in the social security system, active and retired provincial public employees and Armed Forces personnel are covered by special regimes. Since 1985 the funds have taken charge of an unemployment benefit which, given the tight requisites for qualifying, does not so far represent substantial expenditures.

The incorporation of pension fund members as beneficiaries of family allowances explains the fact that in the last 18 years family allowance recipients have increased by 94%

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<sup>34</sup> González García et al. (1985).

<sup>35</sup> Pérez Irigoyen (1989, 197–98 and Table 4).

<sup>36</sup> For an analysis of the program of family allowances, see Holsberg (1989).

and paying members only by 22%. This situation, added to the permanent transfer of funds from the pension funds to other social programs, has resulted in the deterioration of the real value of benefits and their relative weight in the total income of salaried workers.

Family allowances are currently made in three ways: 1) monthly; 2) yearly; and 3) according to particular circumstances. In the first group are the allowances for spouses, children (up to 15 years of age or 21 if they study), large families (for each child after the third), and for primary, middle, and higher education (for each child who regularly attends an educational establishment at any of these levels). In the second group are the complementary vacation benefits and primary school aid. Finally, a nine-month prenatal allowance is also paid to pregnant women.

## 2.5 Housing

The Secretariat of Housing and Environment (Secretaría de Vivienda y Ordenamiento Ambiental or SVOA) estimated the total housing deficit in Argentina for the year 1980 at close to 2.4 million (33% of total occupied housing). Of this deficit, 13.5% was defined as 'absolute,' using criteria of family crowding and precarious housing. Of the rest, 840,000 houses were considered 'subnormal' but capable of rehabilitation, while the remaining 1,200,000 were houses that required reconstruction. Estimates made for 1986 placed the total deficit in a range of between 2.4 and 2.6 million.<sup>37</sup>

These figures depend on the criteria used to define the housing situation, on the rate of obsolescence considered in the projections, and on the estimations made of unregistered (clandestine) construction. The first estimates of the *Census of Population and Housing* (*Censo de Población y Vivienda*) carried out in May 1991 registered 9,800,000 houses—that is, approximately 1,600,000 more than in 1980. Considering that the number of official construction permits is much lower, one may conclude that in the past decade unregistered construction was very high and the annual average of total housing construction was slightly higher than the rate of population growth.

Public housing policy in Argentina has been implemented through two principal instruments: 1) the National Housing Fund, FONAVI; and 2) the policy of subsidized credits which the National Mortgage Bank, BHN, has developed with varying intensity. There is no mechanism of coordination between the two.

FONAVI was created in 1972 to finance multifamily housing, infrastructure works, and community facilities for the lowest income sectors. Its resources are derived almost

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<sup>37</sup> Lumi (1989, Table 4). Lumi's work is used here as the principal source for information about the housing sector.



exclusively from taxes on salaries. It has been estimated that in the period 1973–1987 the implicit subsidies due to low interest rates (below inflation) were approximately 3 billion dollars. FONAVI is administered by SVOA, which in turn depends on MSyAS, and its financial agent is the BHN. The majority of construction is contracted by the Provincial Housing Institutes (Institutos Provinciales de Vivienda or IPV's), which also are responsible for the collection of the loans.<sup>38</sup>

The operations of the BHN were traditionally directed at middle-income sectors, financing new projects, both individual and large scale, while also granting credit for renovations, additions, finishing, and even the acquisition of already constructed housing. Originally its funds were obtained through mortgage titles that were traded in the capital market, but in the last decades the BHN functioned on the basis of a policy of subsidized credit from the BCRA through rediscounts of loans, most of which turned out to be uncollectable or lost their value because of the low interest rate charged.

The scarcity of funds, the segmentation of the financial market, and new policies in rediscounts by the BCRA imposed severe rigidity on the operations of the BHN in recent years.<sup>39</sup> It was only by failing to fulfill various legal and sound banking requirements that the BHN was temporarily able to increase its loans: in December 1987 it captured 2% of the total bank deposits and made 17% of loans, making it the entity with the highest loans/deposits ratio in the system. In the group of official banks, the deposits of the BHN represented 4% of the total and its loans 25%.

This BHN policy, together with the high construction cost of FONAVI's housing, the methods of contracting with the private sector, and the frequent failure to fulfill construction deadlines, aroused strong criticism. Today the whole housing program appears to be dismantled with the virtual deactivation of the BHN and pressure to shift FONAVI funds toward the deficit-ridden social security system.

## 2.6 Sanitation

Various studies undertaken in the suburban areas of Greater Buenos Aires provide evidence of the growing impact of water-borne pathologies on the population's health.<sup>40</sup> This is consistent with hospital registers which show treatment of infectious and parasitic

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<sup>38</sup> The collection of loans was almost always insignificant: in the period 1967–87 it represented as a maximum 1% of the total income.

<sup>39</sup> Every segment of deposits had a different minimum deposit requirement, with a large dispersion in the interest rates paid by the BCRA for their retention. The lack of transparency in the operation and transfers between these segments makes it very difficult to estimate the final impact of the quasi-fiscal obligations of the different operations.

<sup>40</sup> The observations are based on Barbeito (1989).

diseases as the most frequent of the services provided (excluding normal births). Furthermore, diarrhea resulting from these diseases is one of the principal causes of infant mortality.

A number of institutions are involved with sanitation. In 1987 the National Sanitation Works (Obras Sanitarias de la Nación), a national public enterprise, serviced 31% of the country's potable water delivery in the federal capital and parts of Greater Buenos Aires. Provincial agencies covered 43%, those of municipalities 16%, and cooperatives covered the rest. While in 1989 the law governing the Federal Council of Water and Sanitation (Ley del Consejo Federal de Agua y Saneamiento) was approved with the objective of coordinating all sanitation activity, in practice it served only to negotiate external financing.

There are serious management deficiencies. In the productive sphere, the principal problems are the lack of maintenance and the loss of water through inadequate operational processes and leaks (in plants, reservoirs, pumping stations, and piping systems), especially in the system of distribution and residential connections.<sup>41</sup> In the distribution of water, many errors in the control and registration of users were verified which seriously affect the billing and the control of user's payments. The general absence of measurement of the production and consumption of water completes a situation in which real levels of production, cost, and use are unknown.

The absence of stable sources of financing has produced increasing restrictions on the sanitation works programs, affecting not only construction plans and expansion of services but also the operating levels themselves. In the five-year period 1981–1985, annual investment in the sector was reduced to a third (US \$3 per inhabitant) of the levels registered in the previous decade.<sup>42</sup> Attempts to reverse this lack of investment through external financing have encountered enormous difficulties in the disposition of local matching funds and in the absence of rationally elaborated and evaluated portfolios of investment projects.

## **2.7 Welfare and Social Promotion**

In Argentina, welfare and social promotion are residual in character: they do not form part of more systematic and organized plans. The diversity and discontinuity of these programs, as well as their diffuseness and lack of definition, result in a high degree of indeterminacy with respect to the object population of each policy. From an organizational

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<sup>41</sup> Maintenance (both preventive and corrective) of the network of potable water is so deficient that the leaks are estimated in many cases at close to 25% (Barbeito 1989).

<sup>42</sup> Asociación Argentina de Ingeniería Sanitaria y Ciencias del Ambiente (1989).

point of view, one notes a clear superimposition of objectives and marked functional conflict among different administrative bodies.

In the case of programs for minors, the 24 institutes for minors under the Secretariat of Human and Family Development (Secretaría de Desarrollo Humano y Familia), located in the federal capital and the province of Buenos Aires, served 1,800 minors in 1984, half the number of those served in 1974; those served in private institutes were estimated at 400. More innovative programs include in-house help for needy families, foster families for minors, and adoption services. Programs for needy elderly persons and aid to the disabled also exist.<sup>43</sup> All these programs, however, are of severely reduced scope, due to funding and personnel limitations.

Since the return to democracy in 1983, two nutritional programs that deserve mention are the Social Nutritional Promotion Program (Promoción Social Nutricional) and PAN, the national food plan. In the first case, the basic objective is to improve the nutritional level of school-age and pre-school-age children. This program uses almost all the resources of the Secretariat of Social Promotion (Secretaría de Promoción Social) of MSyAS, together with provincial bodies and private communitarian services which complement it with their own resources.

PAN, created by law in March 1984, was intended to ameliorate the situation of the population with severe food deficiencies and was implemented through the monthly distribution of a box of nonperishable food. In 1986 PAN had an annual budget of nearly US \$200 million. This was the second largest, after housing, of the programs under MSyAS. As previously mentioned, the Peronist government, which assumed office in mid-1989, eliminated PAN and attempted to replace it with a policy of distribution of vouchers for purchasing basic goods. However, in a short time this program was deactivated and today there is no general policy for confronting this problem.

### **3. Public Social Spending**

#### **3.1 Public Social Spending and the Global Economic Context**

As in the majority of capitalist economies, the growth in public spending is one of the notable elements of the Argentine economy's performance in the last decades. In the late 1980s total consolidated public spending (TCPS) was estimated above 50% of GDP, peaking at over 55% in 1981 and 1983. In 1961–1963 it was equal to approximately 37% of GDP.

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<sup>43</sup> Tenti Fanfani (1987).



Compared with other spending, public social spending (PSS) was the most dynamic component: in 1961 it represented little more than 12% of GDP and in 1987–1988 it approximated 21%.<sup>44</sup>

The increase in the weight of PSS with respect to domestic disposable income is more significant than the PSS/GDP quotient suggests. The enormous transfer of resources to the exterior during the 1980s substantially widened the gap between GDP and gross national income (GNI). Between 1982 and 1989 the latter was, on average, 10% below the former. The greater dynamic of PSS with respect to the other components of TCPS and the creation of wealth was consistent during the last three decades (Graph 1). Between 1961 and 1988, GDP grew at an average annual cumulative rate of 2.1%, population at 1.5%, TCPS at 4%, and PSS at 4.8%.

Various stages can be distinguished in these tendencies. After sustained growth in the 1960s, both TCPS and PSS were checked in 1971 and spending dropped in 1972. This was followed by an explosion of growth during the first years (1973–1974) of the Peronist government. In 1975 spending fell again, reaching a floor in 1976–1977, the first years of the military dictatorship which remained in power until the end of 1983. After 1977, there was renewed growth until 1981, followed by a drop in 1982 as one of the repercussions of the breakdown of the second stage of the military dictatorship's economic plan. From that point on, spending grew again, PSS climbing more steeply than TCPS although PSS's growth was held back twice—in 1985 with implementation of the stabilization plan known as the Austral Plan, and in 1988, with the plan's disarticulation. (Graph 2 compares the rates of variation of the different indicators over the selected periods.)

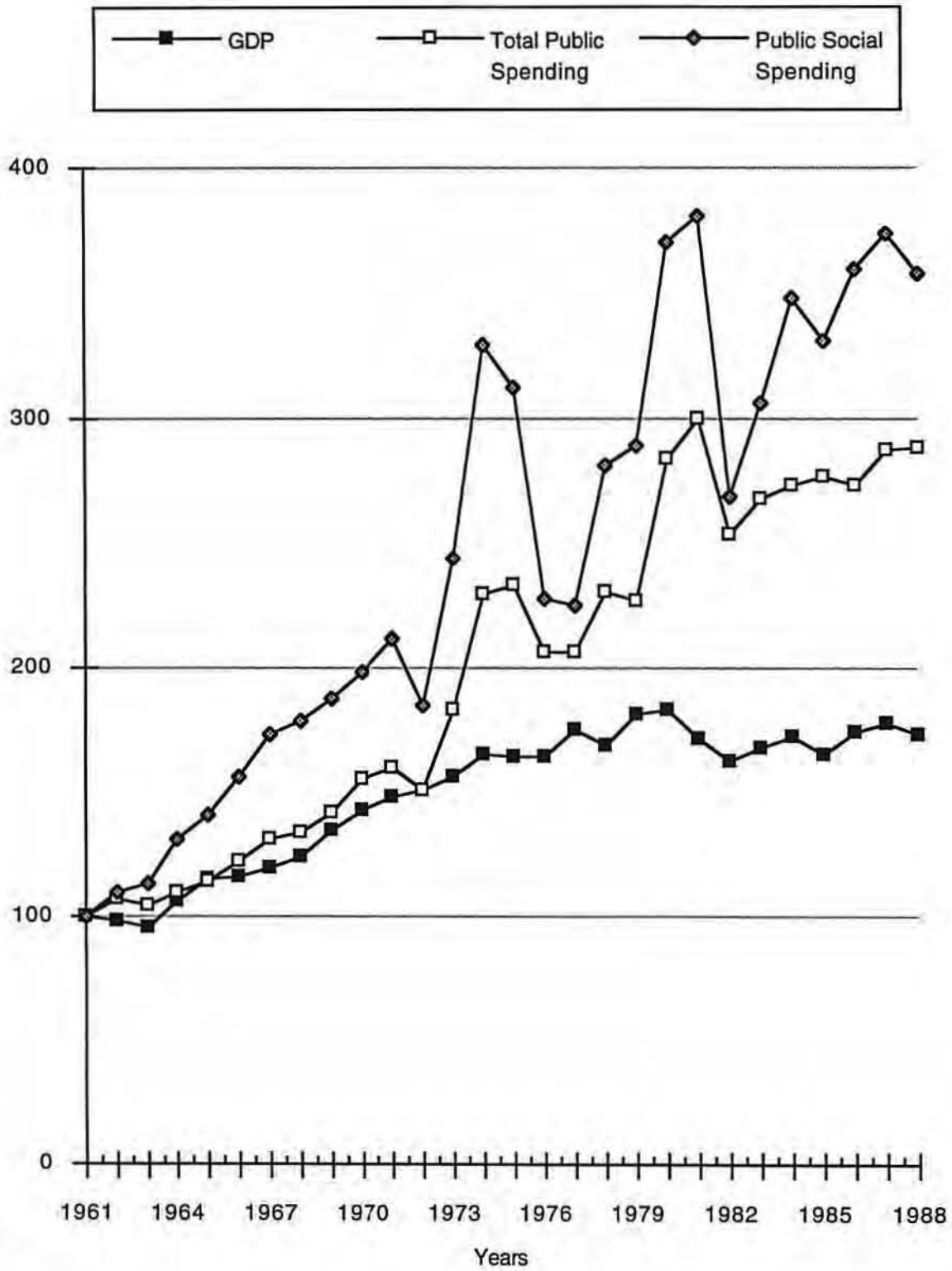
The correlation between PSS and TCPS seems to be diluted in recent years as result of a policy of accelerated and irrational fiscal adjustment. The stagnation of GDP during the last fifteen years explains a great part of the increase in the relationship TCPS/GDP and PSS/GDP in that period.<sup>45</sup>

From a theoretical point of view, these patterns of behavior introduce questions that are difficult to answer. Is there a causal relationship between the growth in public spending and that of GDP in Argentina? Under what conditions does the multiplier effect foreseen by Keynesianism function? What is the role of social spending in this case? In what measure

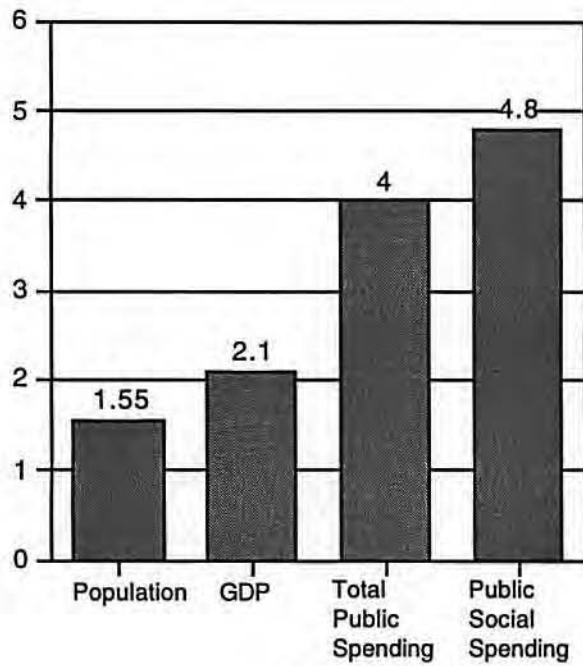
<sup>44</sup> The statistical information and observations on public social spending are based on Barbeito and Lo Vuolo (1991).

<sup>45</sup> Attempts to quantify functional relations between these macroeconomic indicators did not obtain satisfactory results. For the series between 1961 and 1988 the coefficient  $R^2$  is greater when values taken from the same year are employed (0.88), and is reduced as relationships with lags are introduced. When dividing by stages, a very high  $R^2$  is obtained for the period 1961–1972 (0.94), falling significantly in 1972–1982 and recuperating again in recent years.

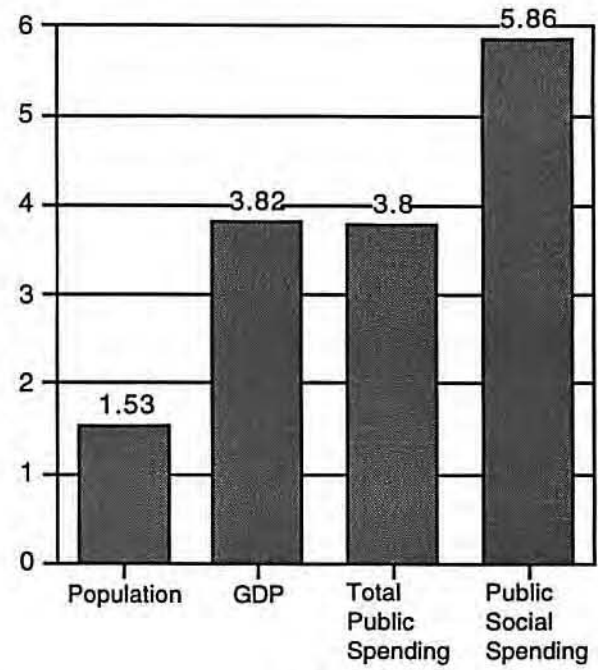
**Graph 1**  
**Index of GDP, Total Public and Public Social Spending**  
**1961=100**



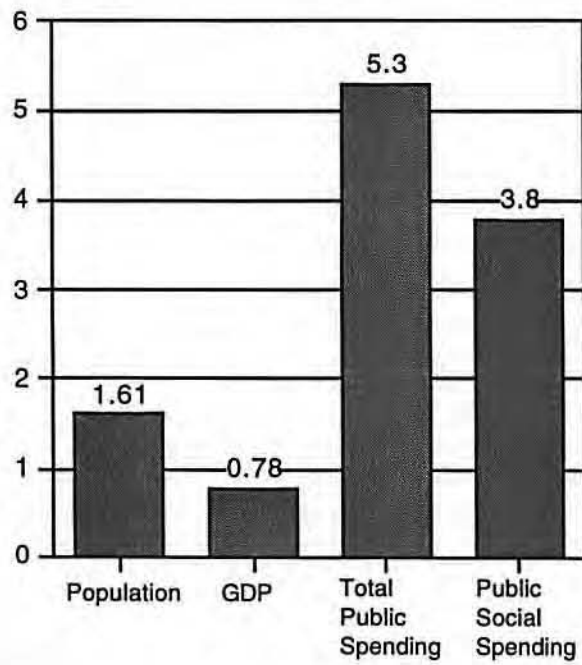
**Graph 2**  
**Annual Cumulative Variation Rates**  
**(in %)**



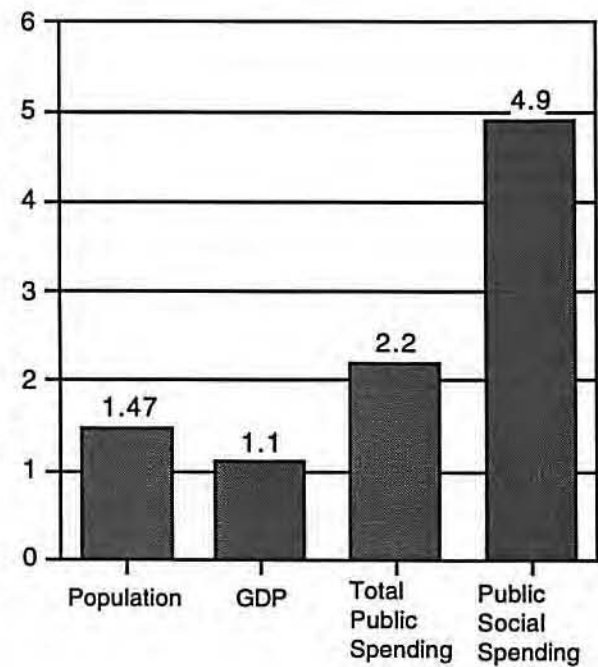
1961/88



1961/72

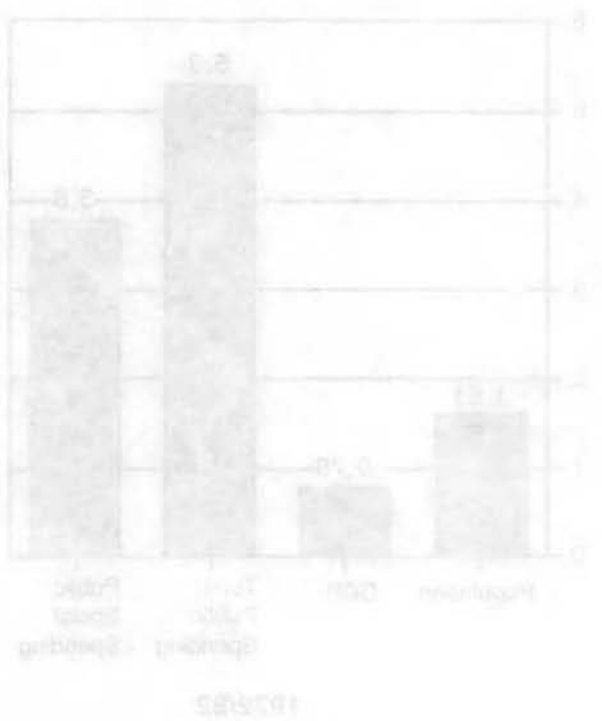
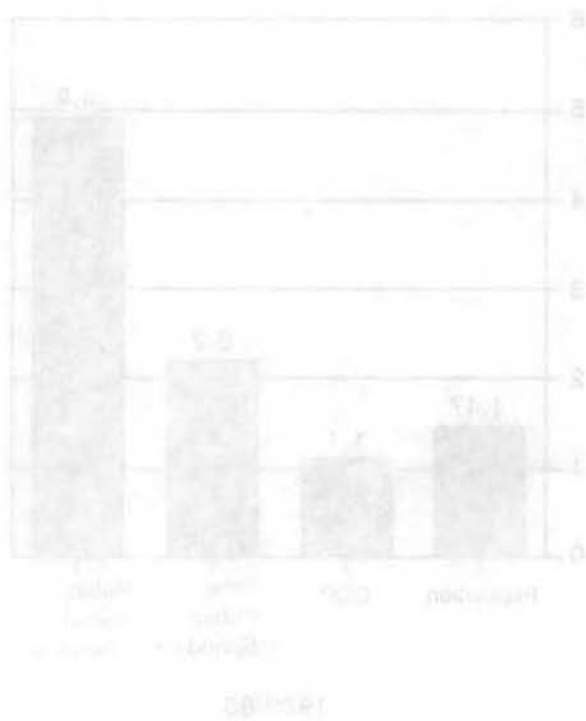
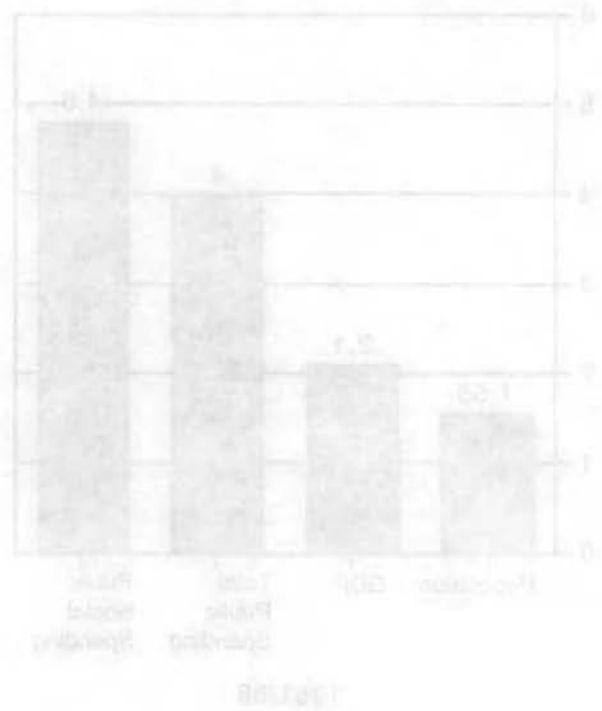
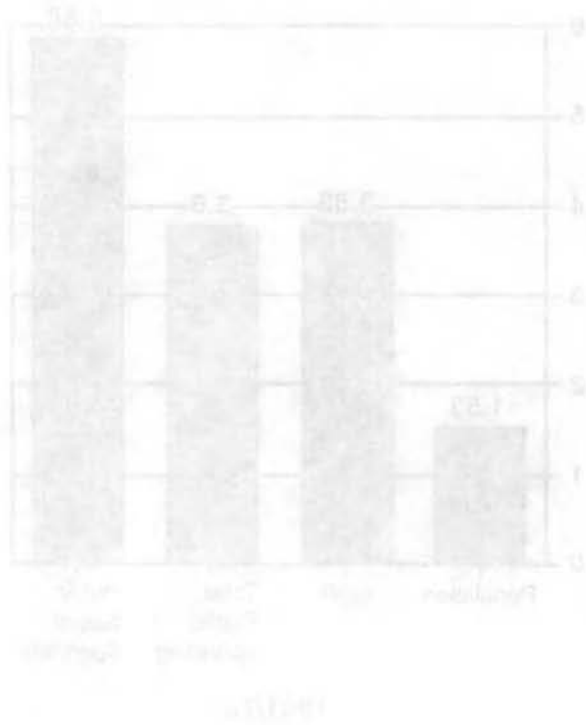


1972/82



1982/88

Graph 2  
Annual Cumulative Variation Rates  
(in %)





does a trade-off exist between the necessity for stabilizing investment in recessive cycles and that of stabilizing income with policies typical of the welfare state?<sup>46</sup>

A fundamental factor for understanding the complex relationships among macroeconomic aggregates in Argentina is their high level of instability. Graph 3 portrays the wide oscillations of GDP and PSS with the turbulence that followed the year 1972 and the greater convergence between them after 1983. In a context characterized by this degree of oscillation, planning and evaluation of public policy is very difficult.

This instability is defined in great measure by external restrictions and seems endogenous to the mode of accumulation of underdeveloped economies.<sup>47</sup> It is interesting to observe that, in the chaotic and irregular period 1972–1982, the two expansive cycles—one corresponding to Peronism (1973–1976) and the other to the second stage (1980–1982) of the military dictatorship's economic plan—coincide with a relaxation of external restrictions on the economy. In both cases there was a relative improvement in the terms of trade with the exterior and, under the military regime, greater availability of external financing.<sup>48</sup> But after the debt crisis of 1982, the problem of external restrictions took on a dramatic character.

Table 1 shows the increasingly negative tendency of the net income from foreign factors after 1975 and the alleviation experienced in the period 1979–1981 produced by the favorable effects in the terms of trade. This, in addition to the inflow of short-term capital attracted by the lag in the exchange rate, delayed the explosion of the external debt problem until 1982. From then on, given the lack of resolution of the external debt problem, the economic system has been reaccommodated to obtain favorable commercial results with the exterior, and inflows are recycled as payments in the capital balance.

In addition to the reduction of goods available for internal absorption, this situation has several consequences for the economy and public finances. In contrast to other Latin American economies, since Argentine exports are made by the private sector, the state finds itself obliged to buy foreign currency to meet its obligations with the exterior. This generates two effects: 1) a close relationship among the fiscal impact of servicing the external debt, the necessity of financing the public sector, and the gap in the balance of trade; and 2) permanent pressure on the exchange rate.

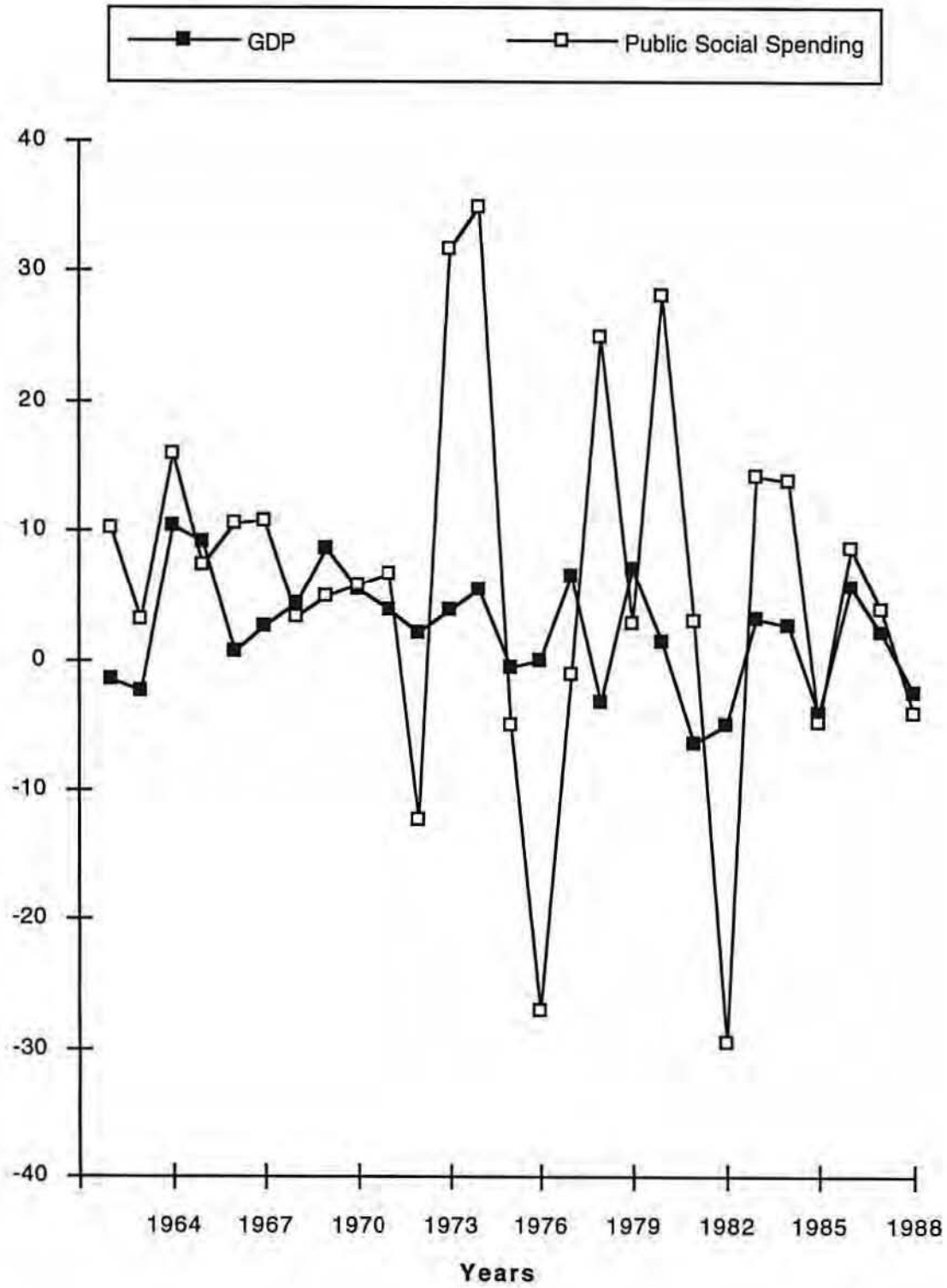
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<sup>46</sup> Some of the theoretical issues that underlie these and other questions tied to the macroeconomic and distributive impacts of institutions of the welfare state in Latin American nations are discussed in Lo Vuolo (1991a).

<sup>47</sup> The characteristics and restrictions of the process of capital accumulation of an underdeveloped economy such as Argentina are discussed in Lo Vuolo (1991a).

<sup>48</sup> See Table 1, which clearly shows that from 1982 the terms of trade and the flow of international capital turn against domestic absorption of goods and services in Argentina.

Graph 3  
GDP and Public Social Spending  
Annual rates of variation (%)



Graph 2  
GDP and Public Social Spending  
Annual rates of variation (%)



Attempts to resolve these dilemmas are very conflictive. On one hand, one must opt between adjusting consumption or investment and define which economic agents are going to adjust. On the other hand, the pressures to devalue the exchange rate are transferred to fiscal accounts and inflation. These adjustments must be made in a context of loss of financing, with external credits either closed or tied to the payment of debt service or to programs that primarily serve to ensure debt repayment.

TABLE 1

**National Income and Savings**  
(in % of GDP, based on figures at 1970 prices)

Year	GDP (market prices)	Net Income from Foreign Factors <sup>a</sup>	Gross National Income	Total Con- sumption	Gross National Savings	Foreign Savings	Net Commercial Balance	Gross Domestic Investment
1970	100.0	-1.2	98.8	78.6	20.2	1.0	0.2	21.2
1971	100.0	-1.4	99.7	79.0	20.7	2.0	-1.7	22.7
1972	100.0	-1.5	99.9	78.6	21.3	1.2	-1.0	22.4
1973	100.0	-1.5	101.7	79.2	22.5	-1.9	0.2	20.6
1974	100.0	-0.8	100.3	80.5	19.8	-0.1	-0.2	19.8
1975	100.0	-0.9	98.5	80.9	17.5	2.7	-1.2	20.2
1976	100.0	-1.0	97.8	75.3	22.5	-0.9	3.1	21.6
1977	100.0	-1.1	98.8	72.4	26.5	-1.9	3.0	24.6
1978	100.0	-1.4	97.8	73.9	23.9	-2.5	4.7	21.4
1979	100.0	-1.4	99.2	78.5	20.7	1.3	-0.5	22.0
1980	100.0	-2.2	100.0	83.2	16.8	6.9	-6.9	23.7
1981	100.0	-5.4	97.7	85.4	12.3	7.1	-4.8	19.4
1982	100.0	-7.7	92.6	80.3	12.3	4.1	3.3	16.4
1983	100.0	-9.4	90.9	81.0	9.9	4.4	4.8	14.2
1984	100.0	-9.8	91.6	83.7	7.9	4.3	4.0	12.3
1985	100.0	-9.2	90.5	82.1	8.4	2.0	7.6	10.3
1986	100.0	-7.0	90.9	84.1	6.8	4.7	4.5	11.4
1987	100.0	-6.1	90.2	83.3	6.9	6.1	3.7	13.0
1988	100.0	-6.3	89.3	79.9	9.4	2.6	8.2	12.0
1989	100.0	-7.6	88.7	80.2	8.5	0.3	11.0	8.8

Source: CEPAL (1988 and 1991)

<sup>a</sup> Deflated by the price index for imports



If to this we add the pressures to open the economy and to deregulate markets in search of a more competitive productive profile, the effects on income distribution and the situation of the less socially integrated sectors of the productive system are particularly severe. The abrupt drop in disposable income and savings leads to drops in consumption and, more markedly, in investment.

The investment process deteriorates under the impact of economic adjustment to external restrictions, drawing the economy into a vicious circle of deaccumulation of capital. In 1989 gross domestic investment (GDI) was equivalent to 34% of that of 1980 (30% in per capita terms) and represented less than 9% of GDP (Tables 1 and 2). This means that net domestic investment (NDI) was practically nil in recent years, at least according to the methods used in estimations of the national accounts.<sup>49</sup>

Despite the drop in public investment, parallel to the increase in debt service payments, it is interesting to note that from 1980 to 1986 average public investment was 7.76% of GDP, higher than in the 1960s.<sup>50</sup> Nevertheless, GDI for 1980–1986 represented on average 15.3% of GDP, in contrast to values above 20% in the 1960s. This suggests that, at least in the first seven years of the 1980s, the adjustment of investment was substantially greater in the private sector than in the public. Nevertheless, a great part of public investment pertains to previous commitments of doubtful productivity, and in the late 1980s its decline was significant.

This multiple play of pressures on the budget disarticulated the fiscal framework in force until then, creating serious difficulties for lowering spending and incorporating new sources of public financing. The inflationary pressures fed by this situation led to recurrent strategies among all economic agents to defend their positions in the distribution of income. In recent years deterioration of the price system and of the domestic currency as universal referents of transactions submerged the Argentine economy in a traumatic hyperinflationary process.

This situation puts strong restrictions on the operation of almost all social policies. Not only do their resources deteriorate but demands for services increase given the drop in personal income. These processes modify the structure, level, and sources of financing of

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<sup>49</sup> There is currently much debate about the reliability level of official statistics of the national accounts. It is very difficult to estimate the incidence of unregistered economic activity and it may be supposed that, in relative terms, the observed income and investment gaps may be compensated in some measure by the growing informal economy. For an analysis of the characteristics and level of the informal economy in Argentina, see Guissarri (1989).

<sup>50</sup> An analysis of the fiscal and semifiscal impacts of the interest on external debt can be found in Bekerman (1990).

social spending. Faced with the absence of a policy that would modify the social policy institutional arrangements, the perverse play of the economic system defines the dynamic of the whole social system.

TABLE 2

**Per Capita Macroeconomic Indicators**  
(1970 = 100)

Year	GDP (market prices)	Gross National Income	Total Consump- tion	Gross National Savings	Gross Domestic Investment
1970	100.00	100.00	100.00	100.00	100.00
1971	102.10	103.06	102.70	104.45	109.09
1972	102.49	103.60	102.53	107.75	108.42
1973	104.53	107.60	105.36	116.27	101.59
1974	108.32	109.95	110.95	106.10	100.98
1975	105.90	105.53	109.09	91.72	101.10
1976	104.17	103.14	99.83	116.03	106.33
1977	109.05	109.08	100.44	142.64	126.51
1978	103.85	102.77	97.69	122.53	104.65
1979	109.38	109.81	109.23	112.04	113.54
1980	109.15	110.47	115.63	90.61	121.79
1981	100.71	99.59	110.27	61.21	92.94
1982	94.40	88.48	95.58	57.38	73.23
1983	95.97	88.30	98.84	46.95	64.62
1984	97.23	90.14	103.59	37.95	56.19
1985	91.76	84.05	95.84	38.09	45.48
1986	95.63	87.98	102.34	32.13	52.43
1987	96.41	88.01	102.17	32.87	59.74
1988	92.59	83.68	93.94	43.01	52.61
1989	87.24	78.32	88.78	36.64	36.61

Source for population figures: own elaboration based on INDEC-CELADE (1982) and INDEC (1986) and own estimates for 1980–1989 on the basis of provisional figures from the 1991 census

Source for macroeconomic indicators: own elaboration based on CEPAL (1988) for 1970–1979 and on CEPAL (1991) for 1980–1989

### 3.2 The Components of Public Social Spending

In 1988, according to our estimates in Tables 3, 4, 5 and 6, Argentina's social policy system spent approximately US \$15,350 million (US \$490 per capita), equivalent to almost 21% of GDP. The maximum value of the series 1961–1988 is registered in the year 1981 with more than US \$16,300 million, or approximately US \$570 per capita and 22.8% of GDP.<sup>51</sup>

Social security used the most funds: close to US \$4,900 million (32% of PSS), or 6.6% of GDP and almost US \$160 per capita. Spending on education was US \$3,500 million (23% of PSS), equivalent to 4.7% of GDP and to US \$113 per capita. US \$4,500 million was spent on health care (6.1% of GDP and US \$145 per capita), which represented almost 30% of the total PSS.<sup>52</sup> The remaining US \$2,450 million (15% of PSS) was divided among family allowances, housing, and spending classified as welfare.

Spending on public health and education maintained their participation in PSS between 1961 and 1988, growing at an average rate of approximately 5%. The share of the mutual aid societies increased (6.3% annual cumulative rate), as did that of housing (8.2%) and welfare (7%), while that of social security (4.5%) and especially that of family allowances (1.2%) fell. Within the system of Argentine social policy, these latter two programs are closest to the conception of income maintenance since they are made effective through individual transfers of money. (The other program typical of income maintenance is unemployment insurance, but in Argentina it is almost nonexistent.)

Policies involving money transfers are particularly sensitive to inflationary processes. Table 6 portrays two notable phenomena in the year 1975, usually considered the beginning of a chronic regime of high inflation: 1) it is the year with the lowest participation of social security spending in total PSS; and 2) the participation of family allowances dropped. The drop in family allowances was also significant in 1981 when the military dictatorship's stabilization plan failed.

<sup>51</sup> The statistical series are calculated with 1986 as the base, deflating the current values by an index constructed as the simple average of the annual variations between the general wholesale price index and that of consumer prices. Given that the relationship between the austral and the dollar was on average equivalent to one in 1986, the series thus deflated can be considered as valued in current dollars for that year (Barbeito and Lo Vuolo 1991).

<sup>52</sup> The mutual aid societies' budget—equivalent to 60% of health care spending—is included here as part of public spending for the following reasons: During this period the state took over management of the mutuals to a considerable extent. [The government dismissed existing staff and installed its own managers.—TRANS.] The mutuals are financed by a payroll tax and workers' membership is compulsory in most cases. Their legal status is established by a special national law, i.e., they do not fall under general civil or commercial legislation.

TABLE 4

**Social Spending of Consolidated Public Sector<sup>a</sup>**  
(annual cumulative rate of growth in %)

Years	Public Health	Mutual Aid Societies	Total Health <sup>b</sup>	Education	Welfare	Housing	Social Security	Family Allowances	Total
1961-88	5.03	6.25	5.74	4.93	7.03	8.22	4.50	1.16	4.83
1961-66	7.23	11.08	9.39	9.98	5.65	-2.56	9.36	10.31	9.33
1966-72	4.38	2.27	3.17	3.21	14.63	12.63	0.83	3.13	2.88
1972-75	27.80	16.00	21.52	18.78	34.38	71.02	15.03	4.96	19.02
1975-82	-4.37	7.02	2.23	-2.32	-8.01	-2.39	2.58	-8.01	-0.25
1982-88	7.04	-0.22	2.20	6.32	11.02	2.67	1.35	3.21	3.17

<sup>a</sup> Includes national and provincial administrations and that of the municipality of Buenos Aires.

<sup>b</sup> The sum of public health and mutual aid societies expenditures

Source: Own elaboration on the basis of Table 3

TABLE 5

**Consolidated Public Social Spending**  
(in % of GDP)

Year	Social Protection					Social Insurance				Total
	Public Health	Education	Housing	Welfare	Subtotal	Social Security	Family Allowances	Mutual Aid Societies	Subtotal	
1961	1.30	2.70	0.30	0.30	4.60	4.22	1.77	1.55	7.53	12.13
1962	1.30	2.80	0.20	0.40	4.70	3.78	2.08	1.86	7.73	12.43
1963	1.30	2.90	0.20	0.40	4.80	3.97	2.16	2.03	8.17	12.97
1964	1.30	3.10	0.20	0.30	4.90	4.41	1.98	2.11	8.50	13.40
1965	1.40	3.00	0.20	0.30	4.90	4.06	2.09	1.91	8.06	12.96
1966	1.40	3.30	0.20	0.30	5.20	5.01	2.20	1.99	9.19	14.39
1967	1.50	3.30	0.20	0.30	5.30	5.58	2.51	2.07	10.16	15.46
1968	1.40	3.30	0.30	0.30	5.30	5.91	2.39	2.02	10.32	15.62
1969	1.50	3.40	0.30	0.40	5.60	5.14	2.24	1.88	9.26	14.86
1970	1.60	3.53	0.41	0.41	5.95	5.05	2.32	1.96	9.32	15.27
1971	1.56	3.41	0.45	0.48	5.90	5.21	2.46	2.10	9.77	15.67
1972	1.48	3.26	0.33	0.56	5.63	4.30	2.16	1.86	8.32	13.94
1973	1.70	4.02	0.57	0.61	6.91	4.84	2.54	2.27	9.65	16.56
1974	2.26	4.49	1.00	0.97	8.72	5.74	2.83	2.60	11.17	19.89
1975	2.43	4.29	1.31	1.06	9.09	5.15	1.96	2.28	9.39	18.48
1976	2.09	2.69	1.03	0.66	6.48	4.22	1.76	2.08	8.07	14.54
1977	1.93	2.64	0.52	0.75	5.84	4.32	1.53	1.94	7.79	13.63
1978	2.38	3.62	0.68	0.97	7.65	5.71	1.97	2.39	10.06	17.72
1979	2.04	3.51	0.63	0.71	6.88	5.98	1.52	2.63	10.13	17.01
1980	2.22	4.02	1.19	0.62	8.05	7.32	2.08	3.21	12.62	20.67
1981	2.32	4.09	0.71	0.73	7.85	8.29	1.60	5.03	14.93	22.78
1982	1.86	3.26	0.78	0.49	6.39	6.68	0.90	4.25	11.82	18.22
1983	1.91	4.00	1.21	0.61	7.73	7.09	1.13	4.40	12.62	20.35
1984	1.91	5.05	1.06	1.00	9.02	6.50	1.24	4.13	11.87	20.89
1985	1.50	4.85	0.88	1.22	8.45	6.75	1.19	3.93	11.88	20.33
1986	2.45	4.62	1.02	0.97	9.05	6.89	1.23	3.59	11.72	20.77
1987	2.45	5.05	1.12	1.02	9.64	6.60	1.23	3.62	11.45	21.09
1988	2.34	4.74	1.21	0.90	9.19	6.62	1.16	3.80	11.58	20.77

Source: Own elaboration, based on Table 3



TABLE 6

**Composition of Public Social Spending  
(in % of total)**

Year	Public Health	Mutual Aid Societies	Total Health <sup>a</sup>	Education	Housing	Welfare	Social Security	Family Allowances	Total
1961	10.71	12.74	23.45	22.25	2.47	2.47	34.74	14.61	100
1962	10.46	14.98	25.44	22.53	1.61	3.22	30.42	16.78	100
1963	10.03	15.65	25.67	22.36	1.54	3.08	30.65	16.69	100
1964	9.70	15.77	25.48	23.14	1.49	2.24	32.89	14.76	100
1965	10.80	14.73	25.54	23.15	1.54	2.31	31.36	16.10	100
1966	9.73	13.79	23.52	22.93	1.39	2.08	34.80	15.28	100
1967	9.70	13.37	23.07	21.35	1.29	1.94	36.12	16.23	100
1968	8.96	12.91	21.87	21.12	1.92	1.92	37.86	15.31	100
1969	10.10	12.64	22.74	22.88	2.02	2.69	34.59	15.08	100
1970	10.45	12.83	23.28	23.13	2.69	2.69	33.04	15.18	100
1971	9.94	13.39	23.34	21.78	2.86	3.06	33.26	15.71	100
1972	10.61	13.31	23.91	23.37	2.39	3.99	30.84	15.50	100
1973	10.29	13.69	23.98	24.30	3.44	3.69	29.24	15.35	100
1974	11.36	13.07	24.43	22.55	5.03	4.88	28.87	14.23	100
1975	13.13	12.32	25.46	23.23	7.10	5.74	27.85	10.63	100
1976	14.38	14.31	28.69	18.51	7.09	4.57	29.01	12.13	100
1977	14.16	14.25	28.41	19.35	3.80	5.54	31.69	11.21	100
1978	13.45	13.50	26.94	20.46	3.84	5.46	32.21	11.10	100
1979	11.98	15.44	27.42	20.61	3.71	4.16	35.14	8.96	100
1980	10.72	15.54	26.27	19.46	5.77	3.00	35.43	10.06	100
1981	10.17	22.10	32.27	17.96	3.12	3.21	36.42	7.02	100
1982	10.21	23.32	33.53	17.92	4.28	2.67	36.67	4.92	100
1983	9.37	21.62	31.00	19.64	5.97	3.00	34.84	5.56	100
1984	9.13	19.77	28.90	24.19	5.07	4.79	31.12	5.94	100
1985	7.40	19.34	26.74	23.87	4.30	6.00	33.22	5.88	100
1986	11.77	17.29	29.06	22.23	4.90	4.68	33.19	5.93	100
1987	11.62	17.16	28.78	23.94	5.31	4.84	31.29	5.84	100
1988	11.27	18.30	29.57	22.82	5.83	4.33	31.88	5.57	100

<sup>a</sup> The sum of public health and mutual aid societies expenditures

Source: Own elaboration on the basis of Table 3

Two phenomena stand out in Table 4: on the one hand, the big jump of PSS during the Peronist period 1973–1975, and on the other, its lower dynamism during the military dictatorship, when the rate of annual variation of PSS was practically nil.<sup>53</sup>

The most 'harmonious' growth of all social policies occurred during the period 1961–1966 (with the exception of spending on housing, which only became significant around the

<sup>53</sup> To interpret these indicators it is important to take into consideration that the rates vary according to the criteria with which the extremes are selected and that they hide oscillations within each period.

end of the 1960s). Within the health sector the mutual aid societies grew much more than public health services, while under the military dictatorship of 1966–1972 the situation was the reverse. In the latter period, with the exceptions of welfare and housing, the rates of growth of all social policies declined, especially that of social security.

The instability of the 1973–1975 period was so great that it is difficult to reach conclusions concerning the evolution of social spending. The increase in state employment and the growth in public salaries must have influenced the expansion of policies in public health and education. Nevertheless, other social areas grew at even higher rates. As a consequence, it is difficult to find any rationality in the massive expansion of social spending which appears to have resulted from a political-institutional dynamic that totally ignores the limits derived from the economic situation.

The behavior of PSS during the last military dictatorship (1976–1982) is consistent with the privileged treatment afforded social security and the mutual aid societies, the only two programs with positive rates of growth. The other side is the strong drop in spending on welfare, public health, family allowances, and education.

This situation may be observed from another perspective in Table 5, where social spending is grouped according to the relative preponderance of elements consistent with the institutional model of 'social insurance' or that of 'social protection.'

The discussion of alternative models for organizing a system of social policies is permeated by different visions of the relationship between labor and social rights. The social insurance model (*seguro social*), linked to German tradition since Bismarck, tends to limit its coverage to the salaried labor force and some of their dependents. Thus, it is principally financed by contributions from the insured and their employers. The benefits granted are at least partially tied to contributions, and the system is organized according to a number of, usually separate, programs, each identified with a particular 'contingency' or 'social risk' that prompts coverage. In this model indemnization-type social benefits predominate: the responsible condition is the determining element for juridical norms as well as for the institutions that are organized around these conditions: health, education, work-related accidents, unemployment insurance, aging, family dependents, etc. Indemnizations are granted to the signatories of a labor contract—the axis of the 'social contract.' In this model of social policy the rights derived from the labor relation come before those of the citizenry as a whole.

The social protection model (*seguridad social*), in the Anglo-Saxon labor tradition, attempts to cover the whole population regardless of participation in the labor force and contributions record. The services are financed from various sources including general revenues. The benefits are more homogeneous than those of social insurance and the

system is centrally organized or at least all programs are coordinated (even those dedicated to social promotion and welfare which, because they cover all citizens, in a way lose their identity).

Although in some cases the classification is confusing, the overall picture in Argentina is that the group of policies tied to social insurance lost weight among social policies. In 1966–1972 and 1973–1975 social protection policies grew more than social insurance policies, though the opposite occurred under the last military dictatorship. During the last government of the UCR, spending on social protection again became more dynamic.

These results seem to contradict the usual images of the operation of these institutional arrangements. Supposedly, social insurance should be more procyclical: increasing in periods of economic growth (when jobs and salaries increase) and declining in those of economic depression (when the opposite occurs). However, the legal structure of social insurance has a countervailing anticyclical force: rights are fixed individually by legal norms, independent of economic situations, which permit individuals to successfully bring the government to court to demand payments. The usual result is that, unable to pay the huge total amounts ruled by the courts, in periods of economic depression the Treasury increases its debts to the beneficiaries of social insurance.

This is confirmed by the operation of the social security system in recent years. While recession, inflation, and drops in salaries pushed the value of benefits and salaries down, judicial decisions in favor of the rights of beneficiaries caused a public debt of great proportions to accumulate.

One might suppose that financing for social protection programs is less cyclical because it comes from general revenues rather than a payroll tax. However, in Argentina this is not so because most taxes are indirect (Table 7). Furthermore, since the budgetary process is not rational, tax receipts become an area of permanent political dispute.

The conflicting tendencies outlined here help to explain some paradoxes that arise from an analysis of the figures. For instance, the preeminence of spending in the public health sector over that of the mutual aid societies during the military dictatorship of 1966–1972 and in the Peronist government from 1973–1975: A priori, one would suppose that the practice of negotiating with union leadership should have promoted more spending on the mutuals, at least after the Law of Mutual Aid Societies was passed at the end of the 1960s. On the contrary, however, the greatest increase in spending on mutual aid societies occurred with the rise to power of the military dictatorship of 1976. To explain this situation, one must consider the expansive cycle of the economy during those periods, the scarcity of fiscal restrictions and, in the case of the Peronist government, a policy of sustained increases in employment and in public salaries.

The trends during the last military regime and the recent UCR government are more predictable. The military regime favored social insurance policies, with the exception of family allowances. Under the UCR government, by contrast, there was sustained growth in welfare, public health, and education; the counterpart was the notable increase of the social security system's debt and the marked deterioration of the services of the mutual aid societies.

TABLE 7

**Tax Resources**  
(as % of GDP)

Year	National Total	Payroll <sup>a</sup>	Foreign Commerce	Income & Wealth	Transactions <sup>b</sup>	Provincial	Total
1966	18.6	8.2	1.7	3.5	5.2	—	—
1967	21.9	9.9	2.9	4.0	5.1	—	—
1968	21.0	9.5	2.3	3.3	5.9	—	—
1969	20.1	8.8	2.2	3.3	5.8	—	—
1970	20.3	8.9	2.0	3.8	5.6	2.7	23.0
1971	19.2	9.2	1.9	3.0	5.1	2.2	21.4
1972	17.1	7.9	2.2	2.4	4.6	2.0	19.1
1973	18.9	9.5	2.2	2.8	4.4	1.9	20.8
1974	25.3	11.3	2.1	3.5	8.4	2.2	27.6
1975	18.4	9.5	1.7	1.4	5.8	1.0	19.4
1976	18.7	8.9	2.7	1.7	5.4	1.6	20.4
1977	21.1	8.1	1.8	3.2	8.0	2.9	24.0
1978	21.6	9.5	1.4	2.7	8.0	3.5	25.1
1979	20.1	9.2	1.4	2.2	7.3	3.8	23.8
1980	22.1	9.8	1.8	2.7	7.8	4.4	26.5
1981	24.0	10.0	1.8	2.6	9.6	3.7	27.7
1982	22.4	8.1	1.9	3.3	9.1	3.3	25.7
1983	23.4	8.6	3.0	2.8	9.0	2.5	25.9
1984	22.1	8.8	2.6	2.0	8.7	3.2	25.2
1985	24.5	9.8	3.4	2.4	8.9	3.4	28.0
1986	25.0	10.4	2.8	2.6	9.2	3.9	28.9
1987	24.5	10.8	2.2	3.1	8.4	3.5	28.0
1988	24.0	10.3	1.8	3.1	8.8	3.8	27.8

<sup>a</sup> Includes contribution to the retirement system, FONAVI, mutual aid societies, and family allowances. The latter two are estimated based on spending.

<sup>b</sup> Includes value added tax, combustibles, internal taxes (since 1979), and bank withdrawals (since 1983).

Source: Own elaboration based on data from CEPAL, Buenos Aires office

Part of the explanation of these data has to do with jurisdictional changes in responsibilities for spending on each item. In 1970, the first year for which reliable data are available concerning distribution by jurisdiction, national spending represented 21% of PSS,



provincial about 18%, and social insurance (mutual aid societies, social security, and family allowances) spending the other 61%. In 1988, these proportions had been modified to 13.5%, 30.8%, and 55.7%, respectively.

From the data, one can also observe the takeoff in provincial spending after 1978 and its resistance to the adjustment marked by the drop in PSS in 1985–1986. Since the increase in provincial spending is tied to social protection spending, this resistance largely explains the escalation of protection over social insurance programs during the last period.

This also would explain part of the behavior and characteristics of fiscal adjustment in the 1980s. The provincial governments succeeded in eluding fiscal adjustment, turning not so much to increased local taxes but to financing from banks they controlled. This generated additional pressure on interest rates. In some cases provincial governments issued mandated public bonds in their provinces, with which they paid their obligations, including the salaries of their employees.

#### **4. The Financing of the Public Sector and Social Policies**

##### **4.1 Fiscal Problems in the Public Sector**

Both the neoliberal interpretation, which likes to attribute Argentine fiscal problems to a sort of 'statist inertia,' and interpretations that consider those problems a result of the economic adjustment of the 1980s offer highly simplistic views of the issue. The Argentine fiscal crisis is the result of complex cumulative processes, difficult to identify with precision, which are lost in a tangle of actions and reactions exempt from social accountability, and which are largely characterized by bilateral relations between pressure groups and civil servants.

Even though the structural causes of the Argentine fiscal deficit go further back, it is the first five years of the 1970s when the initial signs of loss of fiscal control can be observed: the budget deficit jumped from 1.87% of GDP in 1970 to more than 15% in 1975 as a result of the combination of a drop in total current resources from 31.4% to 24.3% of GDP and a parallel increase in total expenditures of 33.2% to 39.4%.<sup>54</sup>

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<sup>54</sup> Spending on personnel grew at an annual cumulative rate of 6.15% in those five years, due to an increase in salaries (facilitated by the equalization of different government levels) as well as the increase in public employment, which went from approximately 1,456,000 in 1970 to 1,761,000 in 1975. In the national administration, employment grew by 2.2%, in public enterprises at 3.6%, and in the provinces at 6% (Carciofi 1990, 11). For an analysis of the evolution of public employment in Argentina, see Orlansky (1989).

The principal answer to the problem of financing this deficit was to print money and this, combined with a relatively stable monetary demand, fed pressures on prices which soared out of control in 1975. From then on, a new pattern was established in the collection of public income. The collection of taxes on income and wealth was reduced as a percentage of total tax revenue from 16.5% to 7.2% and of provincial tax revenue from 12% to 5%. Meanwhile, taxes on transactions (including VAT, fuel, internal taxes, and bank withdrawals) jumped from 24% to 30% and payroll taxes from 38.6% to 49% (Table 7).

In those years, the government also undertook institutional reforms whose economic impact would not take full force until later. In 1973, Law 20,560 was introduced in an attempt to unify at the national level various tax exemptions that were designed as fiscal investment incentives. On the other hand, new taxes were established over this period which were linked to the financing of infrastructure works, particularly in the areas of roadways and energy.<sup>55</sup>

Also in 1973, Law 20,221 was sanctioned, which raised the percentage received by the provinces in the Regime of Federal Tax Coparticipation (Coparticipación Federal de Impuestos) to its historic maximum—48.5%. At the same time, a series of provincial taxes was eliminated, which made the provinces more dependent on transfers from the central government though they retained independence in the spending decisions.

This is a key aspect for interpreting fiscal questions in Argentina. Through the framework of Federal Coparticipation of Taxes, the provinces cede to the central government the collection of certain taxes which are then distributed among both jurisdictions. This generates a permanent tension, not only because of the magnitude of the resources to be transferred but also because these transfers result in additional pressure for raising taxes under the coparticipation regime, the great majority of which are indirect. In fact, the permanent fiscal deficit of the provinces has meant that contributions from the National Treasury have been made beyond what was determined by the policy of coparticipation.<sup>56</sup>

In the first stage of the military dictatorship that took power in 1976, the inherited fiscal deficit was reduced through an increase in resources and a drop in current spending, while capital spending continued to grow. Nevertheless, public investment was directed to

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<sup>55</sup> Through the creation of special accounts, the destination of important parts of the budget were made independent. The allocation of funds collected in this way was tied to the financing of specific capital spending, but the organism or enterprise in charge of its execution could go to the Treasury if it had deficits in other areas, without touching the tied funds.

<sup>56</sup> The mechanism used for extra transfers were the so-called transitory advances since they were supposed to be from coparticipation accounts. Nevertheless, these advances were not in fact returned and in many cases came to surpass coparticipation in their relative importance.

areas with scant impact on general economic efficiency, such as security and defense, the 1978 organization of the Soccer World Cup, the construction of highways in the city of Buenos Aires, and the initiation of large-scale energy projects (Yacyretá, nuclear programs). The prolonged period of maturation of these investment projects, the recourse to external credit for their financing, and their inherent incapacity to generate their own resources, in addition to irrationality in the allocation of funds, created a major budgetary problem for the future.

Current spending was more cyclical, combining reductions in spending on personnel with increases in other areas, particularly transfers to the national social security system. The reductions in spending on personnel are explained by the drop in salaries—which recuperated at the end of the decade—as well as the decline in employment, mainly in public enterprises.<sup>57</sup> While provincial employment increased in this period, the increase was equivalent to the decline registered at the national level by the transfers of services (preschool and primary education, some hospitals, and the provision of potable water), which largely explains the increase in provincial spending in the period.<sup>58</sup>

The most important changes affecting taxation were Decrees 22,193 and 22,293 which eliminated the employer's payroll-based contribution to the national social security system and FONAVI, replacing the employer's share with transfers from VAT. In addition to reducing labor costs and lowering fiscal revenues, this measure produced an important modification in the policy of Federal Coparticipation of Taxes, since transfers of VAT to the social security system henceforth took priority over transfers to the provinces.<sup>59</sup>

The military dictatorship's economic policy fell apart in the first trimester of 1981. That year, the public deficit began to grow again to more than 13% of GDP and in 1982–1983 it surpassed 15%. The disintegration of the stabilization plan also showed in the balance of payments. In 1980 the trade balance had already become negative again, while the external debt reached unsustainable proportions for Argentina's levels of creation of wealth and exports.<sup>60</sup>

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<sup>57</sup> The decline in employment in public enterprises was partly due to the privatization of some services. Spending on personnel fell from a maximum of almost 12% of GDP in 1975 to a minimum of less than 7% in 1977 (Heymann and Navajas 1989, 315).

<sup>58</sup> The transfer of schools alone accounted for an increased cost to the provinces of approximately 0.6% of GDP (MEJ/UNDP 1987).

<sup>59</sup> While in 1980 transfers to SNPS and FONAVI represented 10.4% of resources under the coparticipation regime, in 1984 this proportion rose to more than 43%. In the latter year Law 20,221 also became invalid on federal coparticipation of taxes, so that the arbitrariness in this area increased substantially.

<sup>60</sup> The negative result of the commercial balance reached almost 7% of GDP while external debt jumped from US \$7,900 million in 1975 to US \$35,700 million in 1981, almost 3.8 times the level of exports in that year (CEPAL 1991).



Much of the deficit in the public account was covered by the use of credit which in 1981 surpassed 8% of GDP. In 1982 access to external financing was cut off, so the regime resorted to internal credit and inflationary taxation. The financial liberalization and the pressures of the fiscal deficit, together with the explosion of inflation after the maxidevaluations of the currency with which the military regime tried to overcome the crisis created by its own economic policies, resulted in the shrinking of the formal financial system. The other side of these processes was the denationalization of savings, the dollarization of transactions involving physical assets, the shortening of financial contracts, and the appearance of informal credit markets. The local currency lost many of its functions, and with that the state was deprived of the monopoly power conferred by the right to create money.

As a result, the democratic government began its administration in 1983 with profoundly impaired instruments of economic policy. Pressures for better standards of living and expectations that the UCR government would redeem the country from the economic chaos of the last years of the dictatorship were set against a recessive, chronically inflationary scenario in which the conduct of economic agents was characterized by: 1) not demanding domestic money beyond what was necessary for transactions that could not be postponed, and 2) contracting and committing themselves on a very short-term horizon. In this context, the traditional sources of public sector financing were exhausted. The National Treasury's access to credit was reduced while the cost of using credit increased. The recourse to printing money was exhausted given the drop in demand for money and the need to attack the inflationary problem on all fronts.

The turning point in the UCR government's economic policy was the Austral Plan of June 1985. In its first year and a half the UCR administration attempted a gradualist policy of management of effective demand, with a fiscal deficit close to 12% of GDP. The Austral Plan, by contrast, was a shock based on braking inflationary expectations through the institutional mechanisms of deindexation of contracts and an incomes policy that attempted to control the key prices of the economy.

From the fiscal point of view, the progressive exhaustion of this stabilization attempt is explained principally by the state's inability to increase tax revenues. The numerous measures implemented to reverse the situation were as varied as they were unsuccessful. In some cases the government resorted to extraordinary taxes to meet specific demands, mostly related to social policies. For example, the Fund for Servicing Provincial Deficits (Fondo de Atención de Desequilibrios Provinciales) was created in 1988 to pay provincial teachers' salaries. Taxes on certain public services (gas and other fuels, and telephone) were levied to finance the deficitary social security funds.



Public spending during the UCR government was reduced in comparison with that of the military dictatorship and the average ratio TCPS/GDP remained relatively stable. But while the administration and national public enterprises reduced their expenditures, the provinces increased theirs substantially. The most dynamic element in this increase was employment, which between 1983 and 1987 grew 23% in provincial jurisdictions and 9.3% in the national sphere, while in public enterprises it fell almost 3%.<sup>61</sup> Given that the law of Federal Coparticipation had expired in 1984 and a new law was not approved until the end of 1987, this period was permeated by strong tensions over fiscal issues between provincial governments and the National Treasury.

Inherited rigidities from previous periods are another source of Argentine fiscal problems in recent years. For example, although the UCR government attempted to limit expenses on industrial promotion by establishing spending limits in the budget law, the fiscal cost of the incentives continued to be "high and increasing over time: 1.2% of GDP in 1982, 1.3% in 1983, 1.4% in 1984, 2% in 1985 and 2.6% in 1986."<sup>62</sup> In addition to the previously contracted infrastructure projects, another example of inherited rigidities are the contracts of public enterprises. In the preamble of the budget law for 1989 it is suggested that the strong increase in the expenditures of public enterprises on goods and nonpersonal services during the 1980s was largely due to previous contracts with the private sector.

As a result of all these factors, fiscal policy in Argentina today is fragmented by unavoidable legal obligations. This largely eliminates the national government's room to maneuver at a time when macroeconomic conditions require a detailed review of all expenditures and the origins of all funds. On the other hand, innumerable fiscal exemptions generate a fiscal cost that places pressures on other sources of revenue.

The exhaustion of traditional sources of fiscal financing gives international financial aid institutions and the most important private economic groups considerable power to monitor and veto public policy decisions. The need for harsh and indiscriminate fiscal adjustment translates into even greater dependence of social policies on the specific resources assigned to them.

## 4.2 Financing Social Spending

The issue of the sources of direct financing of spending on social policy does not refer exclusively to an instrumental problem but is tied to the very conception of the existing institutional model. An institutional arrangement based on the notion of social insurance

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<sup>61</sup> Carciofi (1990, Table IV.5).

<sup>62</sup> SHN (1989, 273).

entails a greater contributive component on the part of the beneficiary. This contribution, calculated and deducted from the nominal salary, is usually considered a measure of the right the member has to receive a certain benefit. On the other hand, a model based on the notion of social protection does not tie the source of financing to the rights of the beneficiary. Consequently, it is usually financed through general revenues.

In Argentina, both models coexist. In 1988 spending on programs financed by payroll taxes (mutual aid societies, social security, housing, and family allowances) represented approximately 61.6% of PSS.<sup>63</sup> While in practice the whole tax on the nominal salary is charged as a labor cost, in 1989 16% was contributed by the worker (for social security, mutual aid societies, and INSSJyP), while 33% was made up of employer contributions to various programs (Table 8).

The social security system receives the greatest share of payroll taxes, though its participation has declined from 60% in 1970 to 49% in recent years. Contribution rates to the majority of the programs increased in the last two decades, with the exceptions of social security and FONAVI. In 1980, the employer contributions to the latter two programs were eliminated, bringing total payroll tax to 31.5%, its lowest level between 1970 and 1989.

In addition to the reimplementation of employer contributions in 1984, the financial crisis of the social security system meant that a substantial part of the contributions to the program of family allowances had to be transferred to social security in November 1985. The collision among social policies in the dispute over the tax base that they share came to the fore.

According to our estimates, the total payroll tax collected during the period 1966–1988 oscillated between a minimum of close to 8% of GDP (1972) and a maximum of 11.3% (1974), hovering at around 10.5% in recent years (Table 7). Payroll taxes and indirect taxes on transactions bring in most of the country's revenue: together they accounted for 80% of national tax revenue in 1988. This profile confers a strong regressive tendency on the Argentine tax system, which not only has impacts in terms of fiscal equity but also makes it strongly dependent on the economic cycle and the movement of prices.<sup>64</sup> When this is tied to the chronic inflationary process in Argentina, one may understand why the tax system is characterized by marked inequity, fragility, and volatility in its revenue collection (Table 9).

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<sup>63</sup> Given the existence of deficits and surpluses in each program, the level of spending does not necessarily coincide with the revenue from the affected tax.

<sup>64</sup> Provincial taxes, which are presented here as a whole, include direct taxes such as real estate taxes and automobile licenses, as well as indirect ones such as those on gross income.

TABLE 8

**Evolution of the Rate of Payroll Taxes Destined for Social Policy  
(in % of the taxable salary)**

Date	Social Security			Family Allowances	Mutual Aid Societies			FONAVI	INSSJyP		TOTAL	Social Security/ Total
	a	b	Subtotal	b	a	b	Subtotal	b	a	b		
3/70	5.0	15.0	20.0	10.0	1.7	2.0	3.7	—	—	—	33.7	59.3
10/70	5.0	15.0	20.0	12.0	1.7	2.0	3.7	—	—	—	35.7	56.0
4/72	5.0	15.0	20.0	12.0	1.7	2.0	3.7	—	1.0	—	39.2	54.5
11/72	5.0	15.0	20.0	12.0	1.7	2.0	3.7	2.5	1.0	—	39.7	51.0
4/74	5.0	15.0	20.0	12.0	1.7	2.5	4.2	2.5	1.0	—	40.7	50.4
4/75	6.0	15.0	21.0	12.0	1.7	2.5	4.2	2.5	1.0	—	42.7	51.6
8/75	8.0	15.0	23.0	12.0	1.7	2.5	4.2	2.5	1.0	—	45.7	53.9
11/75	8.0	15.0	23.0	12.0	2.7	4.5	7.2	2.5	1.0	—	46.7	50.3
12/75	9.0	15.0	24.0	12.0	2.7	4.5	7.2	2.5	1.0	—	48.7	51.4
3/76	11.0	15.0	26.0	12.0	2.7	4.5	7.2	2.5	1.0	—	51.2	53.4
5/77	11.0	15.0	26.0	12.0	2.7	4.5	7.2	5.0	1.0	—	51.5	50.8
8/80	11.0	15.0	26.0	12.0	3.0	4.5	7.5	5.0	1.0	—	31.5	50.5
10/80	11.0	—	11.0	12.0	3.0	4.5	7.5	5.0	1.0	—	35.5	34.9
4/84	11.0	—	11.0	12.0	3.0	4.5	7.5	5.0	1.0	—	36.5	30.1
9/84	11.0	7.5	18.5	12.0	3.0	4.5	7.5	5.0	1.0	—	44.0	42.0
11/85	11.0	10.5	21.5	9.0	3.0	4.5	7.5	5.0	1.0	—	44.0	48.9
1/87	11.0	12.5	23.5	9.0	3.0	4.5	7.5	5.0	1.0	—	46.0	51.1
7/88	10.0	11.0	21.0	9.0	3.0	4.5	7.5	5.0	3.0	2.0	47.5	44.2
2/89	10.0	11.0	21.0	9.0	3.0	6.0	9.0	5.0	3.0	2.0	49.0	42.9

<sup>a</sup> Employee's contribution

<sup>b</sup> Employer's contribution

Source: Own elaboration on the basis of modifications in the legislation

TABLE 9

**Tax Pressure by Income Level  
(in percentages of family income of each decile of the population)**

Year	Deciles of population from lowest to highest family income										
	Average	I	II	III	IV	V	VI	VII	VIII	IX	X
1975	14.60	16.80	15.60	14.30	14.20	14.60	14.70	14.00	14.50	14.40	14.60
1980	28.00	30.60	28.70	26.80	26.70	27.50	27.60	26.40	27.60	27.00	29.30
1985	26.10	30.50	28.00	25.60	25.30	25.70	25.80	24.70	25.60	25.90	26.70
1986	26.13	29.30	27.30	25.30	25.00	25.60	25.70	24.70	25.80	25.60	27.00

Source: Santiere (1989)

Here it is necessary to digress. Acceleration of inflation has two fundamental impacts on the tax structure. On one hand, it substitutes inflation for explicit taxes. On the other, it increases pressure for increases in taxes related to price levels (including payroll taxes). These taxes are collected with greater frequency, they are the easiest to monitor, and their value is automatically linked to prices.

On the other hand, the collection of taxes on personal income becomes difficult to monitor in an inflationary situation because of the constant change in the values of assets and liabilities, in addition to the projection and distribution over time of its flow into the Treasury being very complicated. The permanent instability of the interest rate also conspires against an efficient administration of this type of tax.

This generates a vicious circle: increases in indirect taxes on transactions and payroll taxes generate extra inflationary pressure in an economy characterized by oligopolistic control of the majority of the markets, thus facilitating the practice of mark-up as a mechanism for fixing prices. In addition, it generates a competitive difference between businesses that can transfer payroll taxes to prices and those unable to do so because of their weak position in the market, and encourages unregistered employment and the payment of salaries that are not legally declared.

In terms of social policies, this situation produces another distortion because it stimulates tax evasion. Here we do not refer only to the well-known negative impact payroll taxes have on the absorption of the work force, on international commerce, and on the choice among alternative productive inputs. The evasion of this tax is largely due to its enormous weight within the total tax burden, resulting from the very low collection of personal and corporate income taxes.

The volatility of the tax base in this case—total salaries—is another factor that complicates the functioning of social policies. Furthermore, there are elements that suggest a 'trade-off' between the income of economically active workers and the tax burden on salaries: as the latter increases, given its impact in labor costs, the former income decreases. On the other hand, the recession and failure to create productive employment stimulates multiple employment, self-employed and informal work, generating an additional pressures on the financing and functioning of social policy.

Unfortunately, the Central Bank, BCRA, stopped keeping official statistics on total salaries in 1974, so all we have are estimates based on the evolution of employment and salary indicators from various periodic surveys. The better estimates on long-term tendencies



suggest a decline in the participation of salaries in total available income in Argentina.<sup>65</sup> (Table 10 presents the deterioration in earnings of selected labor groups.)

These negative tendencies were reinforced in the 1980s when employment and salaries suffered negative growth. The economic crisis of the past decade brought to the surface many distortions in the Argentine labor market and in its relationship with economic behavior and the institutional arrangements of social policy.

**TABLE 10**

**Evolution of Earnings of Selected Labor Groups**  
(Index: 1983 = 100)

Year	Minimum Wage	Industry	Commerce	Banks	Construction	Central Administration	Teachers
1980	81.40	96.30	108.50	95.50	70.20	126.17	—
1981	63.90	86.40	95.80	98.70	71.30	122.20	—
1982	67.70	77.30	83.50	84.50	64.30	91.12	—
1983	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1984	109.60	121.60	121.50	113.10	97.30	101.75	114.38
1985	73.90	99.00	108.60	103.40	63.70	78.76	88.29
1986	71.90	103.80	96.60	115.80	64.40	74.33	65.15
1987	79.00	95.80	89.50	110.40	59.40	73.40	56.53
1988	61.20	90.90	81.00	103.30	54.70	77.90	56.73
1989	29.30	72.20	71.10	95.90	56.00	58.13	43.32
1990	26.30	77.50	75.50	94.30	41.60	45.05	45.40

Source: Own elaboration based on surveys by INDEC and the Ministry of Labor and Social Security

<sup>65</sup> For example, Sánchez and Llach (1984) estimated that the participation of total salaries in GDP evolved as follows: 1950 = 45.6%, 1960 = 33.64%, 1970 = 42.42%, and 1980 = 37.13%. Monza et al. (1986) made an alternative estimate based on the participation of salaried spending in disposable income and obtained the following sequence: 1950 = 45%, 1960 = 32.3%, 1970 = 34.9%, and 1980 = 27%.

### 5. The Successes and Failures of the System of Social Policy

Evaluation of the performance of an institutional system should necessarily begin with an identification of its foundational objectives. In this way the field of analysis can be delimited, separating the expressed intentions of the institution from the effectiveness of the operative rules constructed to achieve them.

The Argentine system of social policy—like those of many other countries—was not constructed with the principal objective of protecting the poorest sectors of society. Historical analysis and an examination of its actual operation show that, in the majority of programs, its rationality is principally explained by the dynamic of 'meritocracy,' with merit defined as a combination of occupational position, level of income, and belonging to certain political pressure groups. Poor sectors are excluded because they do not qualify to enter the system by any of these doors.

An evaluation of the rationality of the Argentine system of social policy must transcend the simple cost-benefit relationship. In highly fragmented societies with tendencies toward political authoritarianism as in Argentina, social policy is a key instrument for social integration. As a consequence, the issues become increasingly complex: Should the welfare state limit itself to looking after the poor sectors as well as possible? Does a meritocratic welfare state strengthen or weaken social integration? Does an emerging democratic order require a smaller system of social policy focused on marginal sectors or a broader framework that also integrates more powerful groups? What are the trade-offs among the different alternatives?

The analysis—and the critique—cannot be confined to asserting that social policies do not succeed in eliminating poverty or reversing the unequal distribution of income, since they were not constructed with those objectives. To argue this is to dispute the foundational objectives themselves but not the efficacy of institutions as they are constructed. The issue of greater or lesser equity in the distribution of income is not a measure of the 'output' of the system but its main conditioning factor. There is a contradiction between the model of capital accumulation generated by economic policies and the logic of the institutional arrangements of the system of social policy.<sup>66</sup>

Since the mid-1970s the indicators of income distribution in Argentina show a sustained process of concentration (Table 11). The relationship between the income of the lowest 40% and the highest 10% fell from 0.71 to 0.41 between 1974 and 1988, reaching 0.28 in the hyperinflationary year 1989. In that year, the real income of the families of the

<sup>66</sup> This contradiction is discussed in Lo Vuolo (1990).

four lowest deciles in the distribution was 40% less than in 1980.<sup>67</sup> The result is a greater number of families with incomes below the poverty line.

TABLE 11

**Distribution of Family Income, 1976–1989**  
**(Federal Capital and Greater Buenos Aires)**

Quintiles	1976	1980	1983	1985	1988	1989
Lowest—I	6.79	6.26	5.57	5.67	4.73	3.90
II	11.43	10.75	10.16	10.40	7.75	7.80
III	16.24	15.30	14.74	14.52	13.41	11.55
IV	22.73	22.29	21.24	21.78	22.13	19.10
Highest—V	42.81	45.40	48.29	47.63	51.98	57.65
	100	100	100	100	100	100

Source: Barbeito (1990) based on data from CEPAL (Buenos Aires office) from records of the *Encuesta Permanente de Hogares* (INDEC)

This context negatively influences the performance of social policies because, due to their pattern of financing, social policies in practice function with procyclical logic with respect to the economic system.<sup>68</sup> Furthermore, implementation of these policies does not have an explicit redistributive purpose but responds more to the idea of universal coverage resulting from the sum of the various sectoral social insurance programs. The idea that basic services should be the axis of the programs never had much weight in Argentina.<sup>69</sup>

Given that there are currently no means to systematically evaluate the performance of social policy, we will attempt in the following to reach some conclusions based on analyses of the institutional organization and coverage of social policy and of the level, quality, and distributive equity of the benefits.

### 5.1 Redistributive Impact

A common characteristic of social policies is their role in distributing demand through mechanisms independent of the exchange of wealth in the market. For this purpose, a 'social currency' is created—that is, entitlements capable of being transformed into demand for certain goods and services. The progressive or regressive nature of the distribution of this

<sup>67</sup> Barbeito (1990, Tables 4 and 5).

<sup>68</sup> This question is discussed in Lo Vuolo (1991a and 1991b).

<sup>69</sup> The minimum wage policy was undermined from the moment it was utilized as the accounting unit for severance pay.

social currency depends as much on its institutional setting as on its capacity to maintain the real value of these entitlements in the market.<sup>70</sup>

Evaluation of the effective functioning of this social currency is very complex. Attempts to measure the redistributive impact of social spending in Argentina are scarce and methodologically limited. Given the lack of transparency of fiscal processes and the difficulty of identifying the real beneficiaries and providers of each program, the studies that deal with the issue tend simply to reaffirm and quantify their own original suppositions.

Without attempting to qualify the redistributive effects of social policies, some general observations can be made. There is a consensus that the methods of financing Argentine social policy are regressive in that they rely heavily on specific payroll and consumption taxes as well as on general Treasury revenues obtained from regressive indirect taxes (Tables 7 and 9).

With respect to the distribution of social spending, some recent works estimate that in 1986 24.1% of PSS accrued to the highest income quintile while 21.3% accrued to the lowest and represented 85% of that group's personal income. In other words, although the distribution of social spending is not progressive, the portion captured by the poorest families is still a significant component of their total resources. The areas with the greatest distributive progressiveness seem to be the nutrition programs, public health, and elementary education, while social security and higher education are the most regressive.<sup>71</sup>

Several studies have attempted to demonstrate that targeting spending alone is the most effective tool for increasing progressivity in social expenditures without reference to the impact of revenue sources. We have attempted to show, however, that the regressivity of financing the Argentine system is an important determinant of the final impact, given the insignificance by international standards of progressive taxes on income and wealth in the collection of Argentine public revenues.

## 5.2 The Allocation of Social Spending

Over the last three decades four programs have accounted for 88% of the growth in PSS social expenditures. Of the \$11 billion increase in PSS expenditures between 1961 and 1988, 31% was directed to social security, 23% to education, 21% to the mutual aid societies, and 14% to public health care.

Differences in these increases do not appear to be determined solely by institutional considerations. Two of these programs (social security and the mutual aid societies) are

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<sup>70</sup> Lo Vuolo (1991a, 31–33).

<sup>71</sup> ITDT/WB (1990).



associated with the social insurance model and two (education and public health) with that of social protection. Programs in the first group depend on payroll taxes and while social security benefits are paid in cash, the mutual aid societies usually contract services with the private sector. Education and public health programs, on the other hand, typically provide goods and services directly and are financed by general revenues.

### 5.2.1 Social Security

Fully 60% of the growth in spending on SNPS between 1961 and 1988 is explained by demographics: the population of retirement age increased from 10.8% to approximately 15% of the total population.<sup>72</sup> Meanwhile, the apparent coverage<sup>73</sup> of the program, measured as the relationship between the total number of benefits (retirements and pensions) and the population of retirement age, also expanded from 35.5% in 1961 to 61% in 1988, which alone explains more than 44% of the growth in spending. As a consequence, average spending per beneficiary had to decline during the period (Table 12).

**TABLE 12**

**Factors of Expansion of Spending of the National Social Security System (SNPS)  
(% cumulative annual variation)**

Period	Public Spending SNPS	Population of Retirement Age <sup>a</sup>	Apparent Coverage	Spending per Beneficiary
1961-88	4.71	2.73	2.03	-0.10
1961-72	5.79	3.26	2.05	0.40
1972-82	5.36	2.52	3.02	-0.24
1982-88	1.69	2.11	0.35	-0.76

<sup>a</sup> Men 60 and older; women 55 and older

<sup>b</sup> Total social security benefits from the SNPS retirement funds

Source: Own elaboration on the basis of data from INDEC-CELADE (1982), INDEC (1986), Lo Vuolo (1989) and Schulthess.

<sup>72</sup> The legally established minimum retirement age is 60 for males and 55 for females. The data for 1988 have been estimated on the basis of INDEC/CELADE (1986) and will probably be modified in light of the Population Census of May 1991.

<sup>73</sup> The effective social security coverage of the Argentine population is very difficult to estimate because: 1) information is available only on the number of benefits and not the number of beneficiaries; 2) reliable figures on the age of beneficiaries are not available; and 3) there are no current data on the special regimes of provincial and municipal employees and university professionals.

The importance of this demographic factor has been declining and a stagnation in the expansion of coverage can be noted since 1982. This phenomenon can be explained in large part by the situation of the labor market and the deterioration in the real value of benefits which promotes longer participation in the labor force before retirement. Increasing numbers of retirees now receive only minimum benefits and represent a substantial proportion of the population below the poverty line. Despite the drop in incomes (Table 10), between 1986 and 1990 minimum retirement benefits averaged 30 to 38% of average salaries, while average retirement benefits ranged between 38% and 43%.

As previously explained, apparent coverage measures the relationship between the number of total benefits paid by SNPS—including survivor's benefits—and the population of retirement age. Roughly, it is estimated that the various benefits granted by all existing programs reach two-thirds of the population above the minimum retirement age (including women who were exclusively housewives and never entered the labor market).

The national average is far from reflecting the reality of the country as a whole. On the basis of apparent coverage of SNPS, estimates made for 1983 registered an over-coverage for the Federal Capital and high coverages for the most developed provinces (Buenos Aires, Santa Fe, Córdoba) while, at the other extreme, provinces such as Misiones and Formosa showed a relationship of 34% and 21% respectively.<sup>74</sup> It must be taken into consideration, however, that public employment which has its own coverage is very important in the provinces.

The level of coverage also differs according to occupational category and type of labor relation. The low contribution rate of a wide sector of self-employed workers, plus the inefficiency of tax collection among the self-employed with the highest incomes, results in the self-employed having the lowest coverage among all the employed. At the same time, the system is incapable of capturing the underemployed and the whole range of precarious laborers who are an increasing share of the work force in Argentina. In addition, within SNPS multiple and varied situations of privilege exist to qualify for access to various levels of benefits, particularly among the beneficiaries of the state retirement fund.

The problems in expanding coverage, the deterioration of benefits, the drop in the maintenance rate, and the accumulation of public debt for failure to fulfill legal obligations are significant symptoms of the poor performance of the social security system. If to these we add the big financial burden that the system implies for the public accounts, it is clear why social security reform must be included in the system of social policy.

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<sup>74</sup> Golbert and Lo Vuolo (1989, Table 3). The situation of the provinces improves if local public employees are considered, but differences with respect to possibilities for access to SNPS are maintained.

### 5.2.2 Education

The causes of the increase in spending on education are almost equally divided among growth of the school-age population (under 24 years old), the expansion of nominal coverage (registered students over school-age population), and the rise in cost per registered student (Table 13).<sup>75</sup>

While demographic growth continued at a stable rate, spending per student and nominal coverage (which went from 40% to 60%) oscillated during the period 1961–1988. Between 1972 and 1982 both factors register undynamic behavior as a result of the military dictatorship's policy which restricted enrollment while discouraging technical training and decreasing fiscal transfers to the system. This situation was reversed with the return to democracy; coverage and spending per student expanded, principally through the expansion of educational opportunities and employment of more teachers in the provinces.

Neither the increase in spending per student nor the expansion in coverage necessarily led to improvements in the quality of service. While the student/teacher ratio fell from 14.1 to 13 between 1983 and 1987 and the number of students per establishment declined from 184 to 172, teachers spent a significant amount of time completing redundant administrative tasks. The deterioration in teachers' salaries (Table 10) diminished work incentives, which was reflected in permanent labor conflicts and a reduction in effective teaching time.

**TABLE 13**

**Factors of Expansion in Spending on Education**  
(% annual cumulative variation)

Period	Spending on Public Education	Coverage <sup>a</sup>	Enrollment <sup>b</sup>	Spending per Student
1961–88	4.93	1.57	1.72	1.56
1961–72	6.23	1.52	3.17	1.43
1972–82	1.05	0.94	-1.49	1.63
1982–88	9.24	2.74	4.55	1.68

<sup>a</sup> Thousands of persons from 0–24 years

<sup>b</sup> Excludes nonformal education.

Source: Own elaboration based on data from INDEC and the National Ministry of Education and Justice

<sup>75</sup> Both public and private establishments are considered here, because of the high component of state subsidy in the latter.

The increased enrollment in basic education (preschool, primary, and secondary) conceals strong differences. The illiteracy rate for the population over age 14 was 6.1% in 1980, but during the last 30 years the actual number of illiterate persons has remained practically stable at about 1,200,000. Strong regional differences are also apparent. Illiteracy rates range from 1.4% in the Federal Capital to 16.5% in Chaco Province. In 1980, 89% of eligible children in the Federal Capital attended preschool, while only 29% did so in Chaco and 37% in Misiones. The rates of schooling at the intermediate and higher levels register similar imbalances.<sup>76</sup>

Overcoming these difficulties exceeds the capabilities of the educational system itself. The inequalities promoted by socioeconomic conditions and cultural habitat are expressed not only in the traditional indicators of exclusion (those not entering, behind in, or dropping out of school, etc.) but also in a clear social stratification of educational alternatives and of their effectiveness. As in the majority of Latin American countries, educational level is one of the principal determinants of income differentials in the labor market.<sup>77</sup>

The quality of educational programs has been strongly questioned. While a systematic program of evaluation of school performance does not exist, some investigations are extremely critical.<sup>78</sup> Furthermore, in recent years the relationship between mean costs of the different levels of education have narrowed toward lower levels, reaching levels at odds with international experience and reflecting a lack of policy in the area.

The delinking of the different phases of the educational process is evident. The transition from one level to another is converted into a potential zone of conflict. This is evident in universities which have incorporated 'basic cycles' to prepare students for admission because, in addition to problems of quality, the secondary school system lacks a definition of its function and oscillates between preparation for university studies and yielding to pressure for immediate job training.

The organizational framework of the public university follows an obsolete logic. A large part of the problem is reflected in the role of the University of Buenos Aires, which has close to 40% of national university enrollment, while a clear policy about regional distribution of higher education is lacking.

In the first years after the return to democracy university enrollment expanded, reflecting the aspirations of youth, who saw their entrance restricted during the period of military rule, and also their difficulties in entering the labor market. At the same time, there is no coordination between the subsystem of national universities and that of technical higher

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<sup>76</sup> Tenti Fanfani (1989, 212–13).

<sup>77</sup> Lo Vuolo (1990, 62–63).

<sup>78</sup> Tenti Fanfani (1989, 214–15).



level education, private universities, and the rest of public and private nonuniversity entities (mainly devoted to training teachers).

There is a permanent jurisdictional dispute over the control of the educational system. While the transfer of establishments from national control to provincial or municipal jurisdictions was greater during the military regime, this was primarily a fiscal measure. Decentralization is a necessity in the educational agenda, but in the decisions that have been made neither a pedagogic nor an organizational logic is evident.

### 5.2.3 Health

The mutual aid societies<sup>79</sup> accounted for approximately 66% of the growth in public health spending between 1961 and 1988, especially after 1977 when they began to expand. The apparent coverage of the mutual aid societies hovered at around 70% of the population in the 1980s, but the effective coverage is certainly much lower because of multiple affiliation.<sup>80</sup> Furthermore, this coverage is segmented according to the socioeconomic condition of the population. For example, for 1987 it was estimated that 45% of children under age 14 living in families with incomes below the poverty line and 56% in structurally poor families did not have any coverage.<sup>81</sup>

While there have been improvements in indicators such as infant mortality, life expectancy, and levels of vaccination of the population, these remain far below those of developed countries and have not kept pace with those Latin American nations that have made the greatest progress in this area. Between 1960 and 1988 life expectancy in Argentina rose from 65 to 71 years. During the same period the index of infant mortality fell from 61.2 per thousand in 1970 to 25.8 per thousand in 1988, but with strong regional disparities: infant mortality figures in the provinces of Jujuy and Formosa, for example, double those of the Federal Capital.

This drop in the infant mortality index is mainly due to improved life expectancy for young children. It is more difficult to continue to reduce the mortality rate among newborns, which is closely associated with the mothers' state of health and the quality of care they

<sup>79</sup> From the 1960s onwards the state became increasingly involved in the regulation, financing, and management of the mutual aid societies, to the extent that it is appropriate to include the mutuals as part of public health spending. See footnote 52.

<sup>80</sup> Perez Irigoyen (1989, Table 3).

<sup>81</sup> UNICEF/INDEC (1990, 76–80). These categories are derived from two different methods of measuring poverty: The poverty line method is strictly income based and draws the line according to estimates of the minimum income required to purchase essential food and nonfood items. So-called structural poverty is usually defined in terms of unsatisfied basic needs (UBN), chiefly crowded and/or inadequately constructed houses and lack of access to potable water and/or sewage systems, to which may be added failure of children to attend school. Households with unsatisfied basic needs often have a high number of dependents in the family and a head of household with a low level of education.

receive during pregnancy and delivery. According to official estimates, 70% of infant deaths are the result of totally or partially avoidable causes.<sup>82</sup> Only slightly over 70% of children less than one year old receive a complete series of the standard immunizations, and some studies reveal less favorable immunization rates in the areas of greatest marginalization.<sup>83</sup>

It is difficult to accurately evaluate the performance of the health system given the absence of adequate indicators. Nevertheless, some elements suggest that, given the level of spending, the results of the system are unsatisfactory for reasons fundamentally tied to institutional deficiencies and the ways of providing services. One example is the inequitable distribution of spending within the system of mutual aid societies. The average income per beneficiary of the mutuals with greatest resources is more than six times greater than those of lower income. In addition, a perfect positive correlation exists between the income levels of the mutual aid societies and their spending for each of the categories registered in Table 14: assistance type medical spending, walk-in consultations, cost of patient per day, spending on medicines, and nonmedical spending.

**TABLE 14**

**Performance Indicators for Mutual Aid Societies**  
(by income level per titular beneficiary)  
1987 Index (Total average = 100)

	Low Income	Middle Income	High Income
Income/titular beneficiary	49.28	94.91	323.30
Total beneficiaries/titular	135.54	81.82	119.01
Medical and social assistance spending/beneficiary	36.84	131.75	178.40
Walk-in consultations/beneficiary	52.63	123.68	142.11
Patient cost per day	68.02	102.39	136.39
Spending on medicines/beneficiary	17.10	150.72	153.74
Nonmedical spending/beneficiary	40.50	78.22	451.61

Source: Own elaboration based on Perez Irigoyen (1989), Table 13

Although the income of the public health sector has fallen, the public sector still bears the major part of the burden of internment for chronic illnesses, maintains technical-

<sup>82</sup> MSyAS/UNDP (1985) and MSyAS (1988).

<sup>83</sup> A sample taken in the metropolitan region of Buenos Aires found that 36% of children from 0 to 3 years of age did not receive adequate vaccination and 17% did not have or exhibit certification (UNICEF/INDEC 1990, 158).

professional education, and trains the majority of public health workers. In addition, the public sector serves low-income people who are covered by the mutual aid societies but do not use them because they cannot afford to pay for medicines or the additional fees (i.e. physicians' charges above the authorized amounts): between 1984 and 1990 the number of patient-days covered in the public system grew 19.6% and the number of consultations increased by 23%. The institutional system is anarchic: some pay their mutual aid society but cannot use it; meanwhile budgetary limitations preclude minimum maintenance of overburdened public hospitals.

Meanwhile, the highest income groups can make use of separate private health care organizations without having to contribute to the maintenance of the rest of the system. This produces social and institutional fragmentation while the quality of services becomes ever more disparate. Attempts to more rationally unify health resources in Argentina, for example, the original 1985 SNS project,<sup>84</sup> have faced political obstacles that were impossible to overcome.

To the organizational problems and unequal distribution of resources among different institutions must be added the lack of policies to develop human resources in the health care field. The narrow biological bias that underlies all aspects of health care in Argentina, including professional training, is a major impediment in the struggle against malnutrition, mental illness, alcoholism, and drug addiction.

#### **5.2.4 Family Allowances**

The Family Allowances Program, PAF, which covers only the formally employed, has suffered a decline in recent years. The commonly held view is that the program's funds are in surplus; in reality the surplus is simply the result of the deterioration of the allowances' real value. In 1988 the real value of the average family allowance was 20% of its 1970 value. Nonetheless, PAF has constantly been used to subsidize other social programs not included in its original purpose, for example, unemployment insurance.

Although PAF is supposedly a policy of income maintenance, benefits are distributed irrespective of personal income: uniform sums are paid according to the number of family dependents, independently of family income. Historically, the most needy families among the formally employed have depended heavily on family allowances; however, PAF's future is uncertain.

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<sup>84</sup> See page 11.

### 5.2.5 Sanitation

The number of persons not covered by the public sanitation system in Argentina has been increasing. In the last 30 years, coverage has remained at close to 60% for potable water and 30% for sewage systems, equivalent in 1988 to 17.4 and 9.4 million people, respectively.

While coverage is almost complete in the Federal Capital, more than 50% of the population in Misiones, Chaco, Formosa, and the province of Buenos Aires are not served by the potable water or sewage systems. In the metropolitan region of Buenos Aires, it is estimated that between 4 and 6.5 million people must daily procure individual or communitarian solutions to their sewage disposal problems. The consequent use of manual water pumps or inadequately covered wells increases the population's exposure to water-borne diseases which account for a large proportion of infant mortality in Argentina. The combination of human waste and disease-causing bacteria with the seepage of untreated industrial waste has greatly increased the contamination of underground water tables.<sup>85</sup>

Given the close relationship among quality of housing, access to sanitation services, and structural poverty, it is not surprising that the majority of households not connected to the sanitation system are poor. The lack of basic local infrastructure is at the center of the problem of structural poverty. Infrastructure projects require a high level of investment, however, and it seems that the money has seldom been assigned to the places where it is most needed.

### 5.2.6 Social Policy and Poor Sectors

Availability and quality of housing is a principal criterion for defining structural poverty. As with the majority of social problems, clear regional differences exist in this area: almost 50% of the housing deficit registered in the 1980 Census can be found in the pampa region (27%) and Greater Buenos Aires (22.7%), followed by the northeast region with 21.25% and the northwest with 17.3%.

Nevertheless, housing policy has never been tied to poverty issues. The assignment of loans by FONAVI, the criteria for the selection of beneficiaries, and decisions about the type and cost of construction have not taken poverty into account. For its part, the BHN always directed its operations to complement the resources of middle-income sectors. Currently, for all practical purposes Argentina has no housing policy.

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<sup>85</sup> Some 65% of sewage is discharged into bodies of water without previous treatment, 26% with primary treatment, and only 8% with secondary treatment. In addition, industrial waste in Argentina is under very limited control (Brunstein 1988).



One of the principal signs of economic decline in groups falling lower on the social scale is deterioration in the quality of housing, whether because people can no longer afford to keep their houses in a decent state of repair or because they are forced to move into cheaper and basically inadequate accommodation. The drop in disposable income and its greater concentration in recent years has had repercussions in the increase in the number of persons no longer able to afford the type of house in which they had been living. As an example, in the metropolitan area of Buenos Aires, the population below the poverty line went from 2.6% of the total number of families in 1974 to 22.7% in 1987: if we add the households with unsatisfied basic needs (UBN), the poverty figure rises to 38% of total households.<sup>86</sup>

The programs directed at the poor are a small proportion of social spending. Even among the poor, access to the system of social policy is differentiated according to their type of labor relations: the poor in the formal urban labor market have benefited, particularly from basic education and public health services, more than the informal and rural sectors.

In Argentina the image of a labor market functioning at close to full employment gave welfare policies a marginal, sporadic, clientelistic, and paternalistic character. Even when the intention was to target the poorest groups, policies came up against institutional and administrative obstacles. For example, in the social security system the benefit for advanced age is supposed to cover those who do not qualify for ordinary contractual retirement, but the level of benefit is very low; moreover, it is precisely the poor who have lower life expectancy.

The same may be said of the educational and hospital systems. While their universal provisions give them a progressive appearance, in fact these systems discriminate against schools and hospitals for the poor. This draws attention to the need to evaluate not only the destination of spending but also the quality of services provided.

The conflict between technical and political rationales, inherent in the whole social policy system, is most evident in welfare policies which have the least structure and continuity. With the tension between the administrative planning framework and the implementation of the programs, it is difficult to evaluate in what measure these policies achieve their objectives. It is even more complicated to assess the efficient use of resources, particularly when these programs appear and disappear with the rhythm of volatile political changes in Argentina.

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<sup>86</sup> UNICEF/INDEC (1990).

## **6. Restrictions and Conditioning Factors in the Functioning of the Social Policy System**

As we have demonstrated, The Argentine system is a hybrid of the social insurance and social protection models. Although the social insurance model predominates, it coexists with a vague notion of unlimited public protection. The general notion is that the state should guarantee all individual benefits, however fragmented and differentiated they may be.

Three factors determine the operation of this institutional hybrid: 1) the fiscal situation; 2) the labor market; and 3) the political and ideological context that defines the institutional framework. We have dealt with the first when discussing the financing and allocation of social spending. We will now turn to the other two.

### **6.1 The Adjustment of the Argentine Labor Market**

The labor market is the basic starting point for understanding the dynamics of the system of social policy. The dynamic of the Argentine labor market during the maturation period of the system of social policy is a subject of controversy. Some believe that Argentina's situation did not differ much from the typical Latin American pattern—that is, a structural surplus in supply of labor in the primary sector and a relative scarcity in the secondary sector because of inadequate absorption of migrants from the former.

Others maintain, on the contrary, that the principal characteristic of the Argentine labor market was the scarcity of unskilled jobs and the relative abundance of skilled ones. This characteristic together with low unemployment and underemployment rates, in particular the small number of unemployed heads of households, would lead one to suppose that the low growth rate of the EAP and the early institution and extension of public education were the main explanatory factors.

This controversy is not a mere academic debate but impacts upon how the Argentine labor market should be adjusted to the dynamic of the economic cycle. The question cannot be resolved by simply considering the traditional economic indicators of unemployment and participation in and intensity of use of the labor force; it also involves complex phenomena often hidden within the employed labor force. For example, if there is a surplus of skilled labor, professionals and skilled workers may gravitate towards the informal sector in sufficient numbers to cause a deep division within it between themselves and marginal groups of inexperienced workers, elderly workers without coverage or with low levels of retirement benefits, and working household members other than heads of households.

What is clear is that traditional hypotheses resting on a tendency toward full employment and a high level of salaried employment in Argentina can no longer be sustained. The economic crisis of the 1980s fell upon a labor market that was already showing distortions, which had remained hidden only because the standard measurements of the labor market were not designed to capture them. Thus, the crisis of the 1980s brought to the surface the disfunctionalities that existed between the dynamic of the Argentine labor market and the organizational principles upon which the majority of social policies were founded.

### 6.1.1 Demographic Trends and the Economically Active Population

The 1991 population census registered a population growth rate of 1.47% for the previous decade, less than the averages of preceding decades (Table 15). Although this growth rate may be considered low, it does not relieve the pressure of the excess labor supply, given the poor performance of the economy during the 1980s.

TABLE 15

Population Growth by Age Group, 1950–1990 (rate of cumulative annual growth in %)					
GROUP	1950–60	1960–70	1970–75	1975–80	1980–90 <sup>b</sup>
Total	1.86	1.52	1.69	1.62	1.47
Elderly <sup>a</sup>	4.49	3.77	3.31	2.77	—
Middle-aged men (25–64)	1.68	1.14	1.38	1.36	—
Middle-aged women (25–59)	2.14	1.36	1.46	1.43	—
Youth (15–24)	0.69	2.03	1.70	0.55	—
Minors (up to age 14)	1.94	1.04	1.57	2.20	—

<sup>a</sup> Women 60 and older and men 65 and older, based on respective retirement ages

<sup>b</sup> No breakdown by age group yet available for 1980–1990

Source: Own elaboration based on INDEC/CELADE (1982), INDEC (1986), and provisional data from 1991 census

Growth has not been homogeneous across the various demographic groups. Between 1950 and 1980 the group composed of women over 60 and men over 65 grew at more than twice the rate of other age groups, increasing the elderly group's participation in the total population from 5.5% to more than 10%. This group's rate of growth shows a decreasing tendency but continues to be relatively greater than that of other population groups. Minors under age 15 are the second fastest growing group (1.69% average annual

increase), although this growth has been more erratic. Taken together, in 1980 the proportion of the population that is economically dependent amounted to 46.5% of the total.

In addition to the structure of the population according to age and demographic dynamics, the profile of the EAP in Argentina is explained by: 1) the sectoral structure of employment; 2) educational levels; 3) the level and distribution of income; and 4) phenomena tied to distortions between supply and demand of labor, particularly the duration of unemployment and underemployment.

Between 1960 and 1990 the urban EAP grew at an average cumulative annual rate of 1.45%, lower than the 2.2% registered by the urban population as a whole. The age groups that constitute the EAP registered varying degrees of deceleration in their growth during the decade of the 1970s. Middle-aged women constitute the only group that grew at a higher than average rate, confirming the tendency to incorporate women into the workforce, although at a much lower rate than in the developed nations. The rural EAP shows negative variations during almost the entire period and for all the relevant age groups (Table 16).

TABLE 16

**Growth of Economically Active Population**  
(rate of cumulative annual growth in %)

	1960-65	1965-70	1970-75	1975-80	1980-85	1985-90
<b>TOTAL</b>	3.27	1.30	1.00	0.68	1.39	1.50
Elderly <sup>a</sup>	0.77	1.85	-0.67	-1.67	1.48	1.81
Middle-aged men (25-64)	2.49	1.00	1.03	1.00	1.29	1.15
Middle-aged women (25-59)	4.18	3.85	2.79	2.60	2.30	2.12
Youth (15-24)	3.28	1.42	0.28	-0.98	0.88	1.78
Minors (to age 14)	24.07	-7.12	-1.88	-2.03	1.32	1.78
<b>URBAN</b>	2.95	2.95	1.52	1.17	1.82	1.77
Elderly <sup>a</sup>	2.01	2.02	-0.06	-1.30	2.25	2.32
Middle-aged men (25-64)	2.45	2.44	1.36	1.34	1.71	1.40
Middle-aged women (25-59)	4.44	4.43	2.73	2.61	2.57	2.29
Youth (15-24)	2.97	2.96	1.29	-0.03	1.36	2.08
Minors (to age 14)	9.63	6.70	-0.08	-0.35	1.94	2.21
<b>RURAL</b>	4.19	-4.01	-1.18	-1.71	-1.03	-0.20
Elderly <sup>a</sup>	-1.69	1.48	-2.13	-2.63	-0.74	0.13
Middle-aged men (25-64)	2.60	-3.74	-0.31	-0.49	-0.81	-0.26
Middle-aged women (25-59)	2.19	-2.15	3.41	2.54	-1.23	-0.56
Youth (15-24)	4.02	-2.54	-3.05	-4.92	-1.59	-0.02
Minors (to age 14)	36.50	-18.44	-5.56	-6.67	-0.89	0.05

<sup>a</sup> Women 60 and older and men 65 and older, based on respective retirement ages

Source: Own elaboration based on INDEC/CELADE (1982) and INDEC (1986)



Available estimates for the past decade suggest a recuperation in the growth rate of the EAP, which represented about 38% of the total population in 1990. Two contradictory economic factors play a role here. On one hand, the strong drop in the 1970s may be attributed to workers discouraged by income levels in the labor market, principally among the secondary labor force (the elderly, women, and youths). On the other hand, the persistence and deepening of the drop in income and social security benefits played an opposite role in the 1980s: the rate of economic participation of youths, the elderly, and minors increased while that of middle-aged women and men dropped.

This presents a disturbing picture. The supply of secondary labor grew faster than that of adult male workers, generating serious distortions and pressures in the labor market. Some of the visible symptoms are the increase in heads of households among the unemployed, the growth in the number of persons of advanced age who continue to work or reenter the labor market, and the difficulties youths have finding jobs at the same time that it has become onerous for them to remain in the educational system.

### 6.1.2 Trends in Employment

The main characteristic of the postwar Argentine labor market is the sustained advance of nonprimary employment (predominantly urban) over primary employment (predominantly rural agricultural). While salaried employment shows a certain stability, two phenomena are notable: 1) the persistent presence of a significant amount of domestic service employment which, while it is registered as salaried, does not in fact display the characteristics usually attributed to formal labor; and 2), the marked increase in the proportion of workers who are self-employed (Table 17).

Agricultural employment has fallen even in regions with the greatest productive expansion, as such the pampas, while at the same time the division has widened between highly skilled and trained workers and unskilled hands who totally lack social protection.<sup>87</sup>

Estimates and projections regarding employment levels in the Argentine economy are based almost exclusively on the urban labor market.<sup>88</sup> The indicators that deserve

<sup>87</sup> These observations about rural employment are based on Ekboir, Fiorentino, and Lunardelli de Fiorentino (1988).

<sup>88</sup> Statistical information is obtained from periodic surveys. The principal one is the *Permanent Survey of Households* (*Encuesta Permanente de Hogares*), conducted twice per year in 27 cities by the National Institute of Statistics and Census (Instituto Nacional de Estadísticas y Censos or INDEC). In addition, the National Directorate of Human Resources and Employment of the Labor Ministry (Dirección Nacional de Recursos Humanos y Empleo del Ministerio de Trabajo de la Nación) carries out two surveys: 1) The *Survey of Employment and Salaries* (*Encuesta sobre Empleo y Salarios*), which since 1978 has been carried out in the industry and commerce sectors; and 2) the *Survey of Changes in the*

greatest consideration are open unemployment (OU) and visible underemployment (VU). According to the *Survey of Employment and Unemployment*, at the beginning of the 1970s the OU rate oscillated around 5%. After that, as confirmed by the registers of the *Permanent Survey of Households*, it began to fall, reaching values close to 2% at the end of that decade. The VU rate followed a similar behavior. According to these data and those on the EAP, the phenomenon of hidden unemployment (HU) grew during the second half of the 1970s. The HU indicator captures economically inactive people of working age who withdrew from the labor market, discouraged by incentives they consider insufficient.

TABLE 17

**Structure of Employment by Occupational Category, 1947–1980  
(percent)**

Occupational Category	1947	1960	1970	1980
National total	100.00	100.00	100.00	100.00
Nonprimary employment	72.91	79.30	83.35	86.23
Owner or partner	11.88	11.48	5.47	5.51
Self-employed	8.37	11.41	15.69	18.70
Salaried (excluding domestic service)	69.85	69.91	70.01	67.55
Domestic service	8.72	6.56	7.46	7.17
Families without earnings	1.18	0.65	1.36	1.77
Primary employment	27.09	20.70	16.65	13.77
Owner or partner	27.73	18.86	8.92	7.72
Self-employed	3.93	18.13	24.03	26.06
Salaried	60.82	50.99	54.98	53.33
Families without earnings	7.52	12.03	12.08	12.89

Source: Own elaboration based on census data

In the 1980s, however, these trends were reversed. The growth rate of the EAP increased, and the indicators of OU and VU together reached between 16% and 17%. The economic recession, the lack of absorption of employment, and the incorporation into the labor supply of secondary workers in search of complementary incomes appear to have reversed the prior discouragement: the drop in earnings and the lack of employment now are translated into the search for income, whatever its level.

While the total employed in the Argentine economy grew at an average annual rate of 1.4% between 1947 and 1980, the self-employed workers' total grew at 4.5%. The

*Industrial Work Force (Encuesta de Movimiento de Mano de Obra en la Industria)*, initiated in August 1982.

phenomenon of the independent worker, as a mechanism of adjustment of the Argentine labor market, cannot be attributed to the economic adjustment of the 1980s but rather to a cumulative process. Independent workers are a heterogeneous group: some are beneficiaries of economic restructuring (professionals and skilled workers in modern services), while others seek refuge in independent work because of their expulsion from or lack of access to the formal labor market.<sup>89</sup>

Domestic service, almost nonexistent in highly developed countries, holds a stable place in the Argentine workforce. This occupation is exclusively female, with a high proportion of poor workers and low levels of compliance with labor laws and the system of social security. This group accounts for almost 25% of the female EAP.<sup>90</sup>

Another of the characteristics of the urban Argentine labor market is the early and non-modernized development of the tertiary sector. Between 1946 and 1980 the tertiary sector advanced from 43.7% to 54.2% in its participation in total employment, thus contributing 70% of the growth of employment in that period. Most of this advance occurred in the 1960s.

The other sector that stands out for its absorption of employment is construction: in 1946 it represented 4.8% of total employment, elevating its participation to almost 11% in 1980. Nevertheless, the profound recession of the 1980s reversed this expansion and the construction sector again became one of the principal sources of unemployment and job insecurity.<sup>91</sup>

The drop in employment and the transformations experienced in recent years in the Argentine labor market are closely related to changes in the productive structure. The leading sectors and firms in the industrial restructuring increased their productivity and reduced their demand for labor. When increased production requires additional labor, large establishments tend to meet this demand by increasing the number of hours worked, not by hiring additional personnel.

The problems of the Argentine labor market cannot be simply reduced to decreasing rates of labor utilization; they also present structural distortions that are not reflected in traditionally used indicators. The following coexist within the Argentine labor market: increased informal self-employment, low rates of salaried employment, a significant and stable amount of domestic service employment, early growth of the tertiary sector, low

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<sup>89</sup> The information on the structure and behavior of self-employed workers is based on MTSS/UNDP/ILO (June 1981 and 1989).

<sup>90</sup> For a characterization of domestic employment in Argentina, see MTSS/UNDP/ILO (1985b).

<sup>91</sup> The role of the tertiary sector in the adjustment of the Argentine labor market can be found in MTSS/UNDP/ILO (1986). For the construction sector, see MTSS/UNDP/ILO (1987).

elasticity of employment in the industrial sector, higher employment per productive unit in the smaller firms and increased intensity of work for personnel employed in the larger ones.

These distortions negatively affect the performance of social policy and refute the hypothesis that the disarticulation between the Argentine welfare state and the labor market can be resolved through a recovery of economic growth. Even the most optimistic projections, assuming high growth rates, do not predict a sustained improvement in job creation. The necessary productive investments are highly unlikely in the present macroeconomic context, and there are additional problems of properly allocating investment, along with an increasingly unqualified labor force and the lack of labor absorption by the more dynamic sectors of the economy.<sup>92</sup>

The assumption of full formal salaried employment, which underlies the design of the Argentine social policy system, is no longer sustainable. Furthermore, the previous comments suggest two fundamental deficiencies in the system: the lack of effective unemployment insurance and active employment policies. Strong pressures for flexibility in labor markets further aggravate the precarious nature of labor relations. Unfortunately, the debate over labor market flexibility has been confined almost exclusively to the relaxation of contractual obligations regarding benefits and rights to severance pay; questions concerning job descriptions and earnings have been almost entirely neglected.

Thus, no alternative comes to light that could offer a new rationality to the perverse relationship between the labor market and social policy. Rather than attempting to solve this problem, current discussions seem to want to institutionalize it.

## **6.2 Party Politics and the Ideological Context of Social Policy**

### **6.2.1 The Political Arena and the Contradiction between Universalism and Particularism**

Since there was no electoral competition during the greater part of the period when social policy was developing in Argentina, we cannot explain its political evolution as a game of cohabitation between competitive political parties and Keynesian economic policy in the style of the European welfare states with social democratic roots.<sup>93</sup> The hypothesis of a system formed on the basis of direct pressures of social forces organized around class demands or through negotiations in institutional settings for global social concentration also appears unsustainable.

<sup>92</sup> An examination of the workforce and projections of its probable evolution can be found in MTSS/UNDP/ILO (1985a).

<sup>93</sup> The convergence of Keynesian politics and competitive political parties as an explanation of the particular interrelationships within the European welfare state is proposed by Offe (1984, especially in Chapter 8). Lo Vuolo (1991a) discusses Keynesianism in relation to the economic policies of postwar Latin America.



The institutions of the Argentine welfare state were constructed as a network of bilateral negotiations between political power and different corporative groups, with representatives of the latter repeatedly occupying government positions. The lack of democratic practices in assigning key positions, as much in the state as in the leadership of corporative organizations, resulted in a political game in which the legitimacy of both was constructed on the basis of the exchange of privileges in public policy, on one hand, and the reassertion of social control, on the other.

Corporative groups are not limited to the traditional union and business associations but cover a complex network of interests in each area of state activity, such as contractors, providers, subsidized institutions, technical consultants, etc. In the case of social policy, various groups of professionals and technical personnel (labor and social security lawyers, doctors, teachers, and social workers) also play a major role in establishing a network of customs and usages that often changes the original intentions of the legal rules.

The ideological consensus constructed during the 1940s and 1950s, when Peronism hegemonically exercised political power, prevailed during the maturation period of the social policy system so that for a long period its foundational principles were never called into question. The dynamic of the system is explained in great measure by its very inertia—it expanded due to the pressures of groups attempting to achieve the same benefits as those already favored.

Formal universal coverage was achieved in the majority of social programs. However, differential benefits were obtained by certain beneficiary groups with greater power in society. This political dynamic, in the context of the several authoritarian regimes Argentina has suffered and of a fragmented economic structure, favored the stratification and inequities that characterize the system today.

In health care, for example, while the subsystem of mutual aid societies (whose administration is linked to union leadership) accounts for the largest share of the sector's spending, the subsystem under public administration receives fewer resources but is burdened with the responsibility of serving the chronically ill and the most vulnerable groups. This results in a lack of effective control by political leaders, consolidating a model of health care services in which biologism, individualism, and greed predominate. The doctor is at the center of this model, interacting with laboratories and equipment providers, which encourages a strong tendency toward specialization and an emphasis on curative behavior, high medication rates, and wasteful incorporation of technology.<sup>94</sup> The anarchic expansion of human resources leads to an inadequate relationship in the functional and geographic

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94 Perez Irigoyen (1989, 197).

distribution of the different components of the system and favors strong disparities in the distribution of income among professionals.<sup>95</sup>

Attempts during the UCR government to coordinate the educational policies of different jurisdictions through the Federal Council of Education (Consejo Federal de Educación) were frustrated. The assemblies convoked for this purpose took on a character in which partisan differentiation predominated over the problems in the area. Despite its greater ideological coherence and regularity in its convocations, the National Interuniversity Council (Consejo Interuniversitario Nacional), an organization of the rectors of national universities, was never able to convert itself into an effective promoter of a coordinated university policy. The Argentine Catholic Church continues to play a key role in the education field. Despite the fact that the UCR government reinforced state support of private education, the Church, at the head of the institutions of private education, mobilized its resources from all imaginable areas against the traditional secular and statist policies of Radicalism.<sup>96</sup> With the rise of Peronism to power in 1989, key positions of the ministry in education were directly occupied by representatives of private education. The continuing problem of the decline in value of teachers' salaries is a further divisive factor among education professionals.<sup>97</sup>

The more than three million beneficiaries of the social security system give a particular political tone to the conflicting interests involved, while generational tensions arise between retirees and the economically active age group. The wide range of privileged situations that coexist within the system and the strong pressure to transform at least part of it to a system of individual capitalization place social security at the center of proposals to reform the state. Private retirement options proliferate as various economic groups compete to capture the resources of a system that may eventually consist entirely of privately owned funds.

### 6.2.2 Social Policy, Party Politics, and Fiscal Activity

Some authors argue that since the restoration of democracy the most politically volatile sectors are precisely those that owe their social integration to institutions of the welfare state. The vacillating support of a great part of the electorate for majoritarian political parties is based, in part, on their demands to maintain the positions that differentiate them

<sup>95</sup> "Recent studies...demonstrate that while the highest decile of health professionals bills social security for services figures that surpass—at 1985 prices—10,000 australs monthly, the four lowest deciles of the income distribution only bill 100 australs per month. The four intermediate deciles show an average billing on the order of 700 australs per month" (Katz and Muñoz 1988, 20–21).

<sup>96</sup> These questions are dealt with in Tenti Fanfani (1988).

<sup>97</sup> See pages 16–17, 53, and Table 10.

from the marginal sectors of society. This would help to explain the UCR victory in the 1983 elections in which the UCR received a large share of the vote of the more structured labor sectors which, until then, had supported the Peronists; the latter retained the vote of unskilled workers.<sup>98</sup> The same argument would explain why the Peronists won those sectors back again in the mid-term election for governor in September 1986 and in the May 1989 presidential elections. These swings can be interpreted as a show of dissatisfaction with politicians' seeming inability to restore the basic functions of the welfare state in Argentina.

The volatility of the electorate, the ill-defined party ideologies, often superseded by strongly personalist leadership, and pervasive clientelism make it very difficult to specify the link between programmatic proposals regarding social policies and the results of electoral competition. Nowadays the fiscal crisis and launching of market-oriented economic reform do not even allow clear identification of electoral periods as peaks in the granting of spoils to certain groups.

The most notable expression of this confusing panorama is the change in the role of the social security system. The diffuse nature of its obligations traditionally placed it as the axis of a policy that rewarded political loyalty with privileged benefits for certain groups, including functionaries of military dictatorships. The same was true in some cases of moratoria necessitated by failure to comply with contributions to the retirement funds. Today, given the chronic imbalance in the social security accounts, which limits the room for this kind of political maneuvering, there is strong pressure to deactivate the state-centered system and to replace it with privately administered funds.

The present crisis of the system of social policies in Argentina is linked not only with the crisis of the model of economic accumulation but also with that of a certain style of conducting politics. The continuation of the practice of making authoritarian, centralized decisions that lack transparency in their fiscal instrumentation explains many of the difficulties of the incipient democratic system at the moment of defining new paths for public policies. This is complicated even more if one takes into account that a period of profound economic transformation is underway, including a high concentration of wealth and income.

The Argentine welfare state has reversed the direction of its dynamic. If before it experienced a controlled expansion through corporatist and clientelistic practices, today the alternative appears to be exclusion, politically controlled or not. The result is an anarchic retreat of the state from the areas that were traditionally incumbent to it, which promotes the search for individual solutions and the struggle by each sector to appropriate parts of shrinking public funds.

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<sup>98</sup> Jorrat (1986) attempts to analyze the December 1983 vote by occupational category but does not reach any solid conclusions.



There is no sign of new social movements forming to occupy the political space abandoned by the state in the area of social policies.<sup>99</sup> With the exception of some attempts by social security beneficiaries, certainly not massively supported,<sup>100</sup> movements are not structured around issues such as health, education, or welfare itself. Isolated expressions have included looting of food shops during periods of hyperinflation and attempts by teachers to gain support for their demands from parents and students, but there are no strong organizations to channel these demands.

The predominant political discourse was substantially modified during the 1980s. The restoration of democracy arrived on the back of demands for respect for essential human rights which had been violated to unimaginable degrees under the last military dictatorship. Questions concerning citizens' freedom were joined with demands for better access to public social services and for equity in the distribution of income. Nevertheless, the economic crisis and the imperatives of price stabilization, economic inefficiencies, and the problems of corruption in public administration marginalized these demands.

The most telling expression of this change is the abandonment of welfare programs, against the recommendations of those who promote 'targeting' as the key to policy in this area. Everything appears to be subordinated to the logic of fiscal adjustment and to the recomposition of the disciplinary power of the market. A space is still lacking for analyzing and debating the rationality of the new directions undertaken for social welfare and integration.

## **7. Conclusions: Present Conflicts and Future Scenarios**

It has become commonplace to point to the 1980s as the 'lost decade' for Latin America. Nevertheless, for Argentina the 1970s better qualify for this appellation. In those years the path of the model of social integration was lost, violence and violations of democratic values reached a zenith, and disequilibria deepened further in an economy trapped between the exhaustion of the existing model of capital accumulation and the new trends of the international economy.

During the 1970s, instead of a rational and gradual reconversion of the productive economy and public policies, an attempt to jump forward ended in a setback in the public accounts and an unprecedented inflationary process. Then a stabilization shock and

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<sup>99</sup> The biggest novelty appears to be the widening of the spectrum of religious movements, encouraged by the Catholic Church's abandonment of the most unprotected members of society.

<sup>100</sup> Although the Partido Blanco (White Party), which claims to represent retired persons, has won elective office in some areas.



economic opening were attempted, which resulted in an impressive external debt of a speculative nature, the cooptation of a large part of the public budget by obligations of doubtful productivity and social equity, the deterioration of the national currency, the development of parallel financial markets, the concentration of capital in large economic groups, and the destruction or dislocation from the market of an important sector of the productive economy, which consequently disengaged a great part of the supply of labor from the formal productive system.

The distortions emerging from this process reached a crisis at the beginning of the 1980s with a growing sense of confusion, frustration, and social impotence. In the aftermath of a bloody military dictatorship, the country struggled with an economy trapped by the weight of the external debt, the control of key prices by economic groups, the imposition of stern conditions by external creditors and international lending agencies, and the deterioration of the sources of public finance. At the same time previously repressed social demands came flooding back and various sectors pressed for an immediate return to previous distributive patterns, thus creating a climate that was hardly propitious for structural adjustment or the reordering of the mechanisms of economic and social regulation.

The changing atmosphere of the democratic transition also affected social policy. The UCR's initial intention of consolidating a model of universal access to benefits differentiated for distinct groups was replaced by the modest hope of at least conserving some of the rights acquired and the search for partial solutions. The realization that the state could no longer sustain the demands of all arose in a political climate in which the defense of corporative rights was mixed with labor strife in the bureaucracy, the inertia of the existing system, and the accommodation of certain social actors to the new directions marked out by the existing political and economic powers.

In this scenario, it is difficult to foresee how the decision-making processes for social intervention will be reoriented, which areas will be covered, or what resources will be available. While there is a tendency towards privatizing services and modifying the relationship between the national state and the provinces and the municipalities, there is no integrated program but, rather, various isolated decisions.

In the intellectual field, rather than a serious debate over the roots of the crisis of Argentina's welfare state, discussion carries on in terms of tendencies and suppositions typical of experiences in developed nations. The national version of neoliberalism continues on the basis of methodologies and technical reports that reiterate the vision of international organizations and the position of corporative groups with specific economic interests involved

in the question.<sup>101</sup> The opposition to these actors is confused between what remains of the populist heritage of the system and an inadequate appreciation of its present limits.

Furthermore, greater flexibility in the organization of factors of production, the reduction of protectionist barriers, and the weakening of the national state as an economic agent have undermined the base upon which the welfare state was constructed. The problems of the past with respect to the perverse linkage between social policy and the economy appear to be aggravated in this new scenario.

The construction of democracy in a society with a strong authoritarian tradition has resulted in a climate of growing skepticism towards political institutions, which are accused of being more concerned with their own functioning than with representing social interests, while desires for self-realization and self-government become synonymous with the privatization of what is public.

The paradigm for social policies proposed by groups with good access to power circles and to the means of communication is structured around two basic ideas: 'targeting' and 'vulnerable' or 'high risk' groups (usually identified with the notion of 'extreme poverty'). Supported by a vast amount of material produced by international organizations, these notions suggest a residual vision of social policy: it should intervene in areas that the market does not reach (when, for example, a market is lacking). Identifying the most vulnerable groups and targeting social spending exclusively on these can be seen as a means to: 1) help resolve the fiscal crisis which has been attributed in part to disproportionate spending on social policy; 2) segment the market between what are considered 'public goods' (supposedly basic, directed to the poor who lack the capacity for demand) and 'private goods' (supposedly more sophisticated, demanded by more affluent groups), with privatization suggested for the profitable second segment; and 3) thus supposedly obtain more equitable spending, liberating tax policy from redistributive goals. In a complementary way, equity is defined by the possibility that each may obtain in the private sector what he/she contributes.<sup>102</sup>

The issue of the flexibility of the system of social policy is another nucleus around which privatization proposals are made, with the argument that privatization allows for a more personal and differentiated approach to meeting demands. The idea is that through the identification of different areas that correspond to different abilities to pay, the highest

<sup>101</sup> The financial deterioration of the universities has made autonomous investigation very difficult, above all in the social sciences. As a response, private centers (including universities) proliferate, dependent on the financial support of international organizations and economic groups and in many cases reproducing the recommendations and interests of their backers.

<sup>102</sup> An analysis and critique of the literature based on this paradigm can be found in Sojo (1990).

income groups will pay for services tied to their demand profile instead of receiving free and more homogeneous services under equal conditions with the rest of society.

At the center of this discussion is the traditional dispute between universal and selective access to social policy benefits. The general resurgence of neoliberal thought favors the advocates of selective access (targeting). Opponents criticize the selective access approach on the grounds that: 1) it reduces the goal of social policy to the redistributive impact of spending and to attention to the poorest sectors; 2) it is concerned with the effects and not the causes of poverty; 3) it ignores the positive social externalities produced by policies of universal coverage; 4) it does not tackle the inefficiencies and high cost of private services; and 5) its evaluations are based on static criteria and do not take into consideration the dynamics of the distribution of wealth, of income, and of the conditions of poverty itself. The lack of analysis of the structure of social power and the inadequate treatment of the distribution of income and wealth in the selective access framework raise serious doubts about its long-term viability.

Meanwhile, the new approaches based on this residual notion of social policy are modifying the nature of conflicts. Previously groups pressured for expanded services; today they struggle over which direction selectivity will take, which groups will lose benefits and who will support the burden of the groups that remain in the public system. What is missing in the new approaches, as data on income distribution indicate, are the structural causes of the growing spiral of marginality and social inequity.

What will be the new constellation of interests if these new tendencies in the area of social policy prevail? It will surely be more business-oriented, in other words, linked to the view that equates the public good with the sum of individual interests. What will happen to people who cannot solve their problems through the market? The prevalent answer is: the state will take care of them, having unloaded itself of the burden of the rest of the population. It is unclear, however, to what extent those who do not depend on the services of the state will be disposed to pay taxes to cover those who remain dependent and what level of basic services they will be prepared to maintain. The classic problem of 'beneficence,' which resulted in inferior schools and hospitals for the poor, raises its head again.

Another concern is the extent to which those better positioned will agree to stop demanding public assistance, whether as a subsidy or as other hidden forms of fiscal transfers. The argument follows from the neoliberal paradigm: if payment of taxes is stimulated by the promise of proportionate benefits, why would tax payers renounce these benefits even if a privately administered alternative is available? In addition to the difficulties of dynamically identifying the beneficiaries of targeted social programs, other perplexing



issues also arise: What place will 'basic' social policies have in the dispute over public funds, given that they do not interest the politically powerful sectors? How will the middle-income sectors react if they are neither included in the best of the new private arrangements nor qualify as poor?

The collision between existing social policies and various segments of a selective privatized model are evident here. For example, the proposals for privatization of social security concur about the need to transfer a large percentage of payroll taxes to the system, even if it means dismantling other policies such as housing or family allowances. Will dismantling be the fate of all policies that cannot be structured on the basis of benefits individually tied to contributions?

We have argued that the distributive failures of the previous system of social policies were largely due to the fact that redistributing income and overcoming poverty was not included as priority objective among the system's founding principles. While this is a reasonable objective, it can not be the sole objective of social policies—nor should it be the exclusive responsibility of the social policy system. Public policy can only achieve redistribution through a wide variety of interventions: ownership of productive property, taxes on wealth and income, public provision of goods and services, and the allocation of advances in productivity.

Thus, the direction that the conversion of the pattern of financing public activities has taken is cause for concern. The tendency is towards cutting direct taxes, including the payroll tax, in favor of indirect ones, using the argument of their greater simplicity and regularity. The main idea appears to be that the tax system should focus only on collection, whatever the source, while the question of equity is exclusively a problem of allocating expenditures.

Here there appears to be a contradiction. On one hand, there is a move to simplify the normative provisions of social policy; on the other, they are burdened with additional responsibilities which should properly belong to other public policies. If the problem of providing efficient service is combined with the task of analyzing the income capacity of the beneficiaries, surely this will multiply the difficulties in operating effectively.

Meanwhile, the sole task of tax policy is to collect the maximum amount possible, including from those who, because of their low income, supposedly qualify for fiscal transfers from residual social policies. It is as if the rule of universalism, the paradigm to which all the ills of social policy are attributed, has been transferred to tax policy. It is likely that this reversal of emphasis in the distribution of burdens, in addition to continuing the lack of coordination among social policies, will end up reproducing with another face the same problems that affected the old system.



In this process one fact appears irrefutable: from now on, conflicts will be processed on the basis of a new fiscal framework, both in terms of spending and of income. Until this situation changes, the fiscal picture will force a strict control of public funds. This means that the state will attempt to get rid of inherited obligations, including those assumed by the social security system.

Furthermore, it is not as if decentralization were being proposed in a context of more balanced regional development, much less in terms of sharing increases in productivity—redistributing from the sectors that seem to be best positioned in the new model of accumulation to the less fortunate areas. Rather, the decentralization debate, including privatization, is part of the attempt to dispose of budgetary commitments. There seems to be a clearer perception of the deficiencies of the public sector than of the realistic potential of the private one. In the past the lack of transparency and the inefficiency of the public sector were ignored in the name of a state-intensive paradigm; today there is a tendency to commit the same error in regard to the private sector which, to make matters worse, has a long tradition of operating with state subsidies.

How will social policies be incorporated and maintained within these tendencies? Some elements previously discussed may help illuminate this question. The future evolution of the labor market is crucial. Only part of the population is engaged in producing the country's scant wealth, and the concentration of income is increasing. Self-employed workers present one of the most worrisome situations. In the case of the most precariously employed, the instability of their employment and income, their difficulties of organization, and their tendency to operate within the informal sector of the economy mean that, while they are unlikely to improve their situations individually, neither do they qualify as a homogeneous group for residual targeted policies. On the other hand, independent workers with higher incomes—including professionals and owners and partners in firms—are among those most favored by the present lack of transparency of the system. In general they are the principal tax evaders, and they have the capacity to appropriate a large part of the benefits of public spending. They would probably resist modifications to a system that currently benefits them, especially if the plan is for them to contribute to the financial maintenance of the system.

Another worrisome group is that of public employees, who are being fired or discharged in the process of state reform. It is not apparent in what productive sectors nor under what conditions they will be relocated. Precariously employed rural workers and unskilled female workers are two more groups whose unfortunate situations are still ignored by existing proposals.

Argentina's present system of social policy does not include any measures to alleviate or overcome the consequences of economic restructuring. The adjustment process is generating more and more pockets of precarious employment and encourages unregistered employment as a habitual mechanism for tax evasion. Meanwhile, unemployment insurance is almost nonexistent; retraining and relocation programs likewise. The education system fails to reach the most marginal sectors, and the nation's programs for research and technological development have completely fallen apart.

The current transformation of the labor market raises yet more doubts about a social policy that only concerns itself with the terminal stage in the process of impoverishment and ignores the structural causes of poverty, which have to do with the location of citizens in the processes of production and distribution of wealth: with so much emphasis on identifying the target population according to the dividing line of unsatisfied basic needs, it is often forgotten that the great challenge is to relocate the poor as productive economic agents. This cannot be achieved with welfare programs alone.

The labor legislation under debate today does not appear to offer any solutions to this problem. The legislation revolves around the idea that reducing tax obligations to the social policy system will bring down labor costs, supposedly providing an incentive to create employment. In this so-called labor market flexibility, the only thing that appears to be flexible is labor costs. As the productive system adapts to the requirements of an open economy, the plan is to transform labor costs, which until now have been quasi-fixed, into variable costs, creating the phenomenon of the temporary worker who enters and leaves the productive system according to swings in demand. In addition to once more ignoring the dynamic of the problem in question, there is no legislative debate about relocating and retraining the labor force, workers' participation in the profits of the firm, or the formation of sectoral agreements to facilitate mobility of the workforce.

The political context that propelled the development of a hybrid system that sought universalist procedures through a collection of autonomous institutions once again functions through an exclusivist exchange of privileges and social control, in the sense of dismantling the universal component of the system. For example, as this decade began, negotiation was underway over the proposal that the state absorb the debts of the mutual aid societies controlled by union bureaucracies in exchange for the promise that the unions will facilitate approval of the aforementioned labor legislation through their representatives in Congress. The public health system, meanwhile, finds itself submerged in crisis and will indirectly suffer the consequences of the fiscal absorption of the debt of the mutual aid societies.

The social policy agenda for the 1990s is still being created. While the tendencies appear to be set, the inertia of the inherited system should not be underestimated. The central question is: What will remain of the state after fiscal exigencies and emotionally charged ideology have dismantled social policy? Is there any room for compromise between residual and universal policies? Will there be any opening for politically viable alternatives between nostalgia for the paternalist state—with its universalist pretensions—on one side, and enthusiasm for the paradigm of residual social policy—targeting—on the other?

The great absence appears to be an alternative proposal, defining elements for a 'selective universalism' or a 'positive selectiveness.' Selectiveness refers to the identification of groups based upon different characteristics and not just on the limitation of social spending to some groups. Universality is necessary to generate the conviction that all citizens participate in the provision of decent public services.

Given the complexity of social problems in Argentina, it is difficult to predict the successful redistribution of wealth and social equity from social policies that do not combine universalism and selectivity. The universal component lies in the institutionalization of a more equitable and sustainable distributive pattern over time. This is a key element of social cohesion in societies that aim to progress towards a more pluralist and democratic dynamic. The monitoring of selective social policies depends on this universalistic component, since only on this basis can the necessary investments in physical and human capital be made.

The problems of effectively targeting poor groups, particularly in a society in transition and with serious deficiencies of information, lead us to two issues that have been absent from the agenda in Argentina: 1) the criteria for selecting groups with common needs; and 2) the implementation of global and stable policies that would offer poor groups the possibility of improving their situation. Productive—not residual—employment, in line with the country's technological advances, is crucial here: otherwise some groups will be left out in the cold, dependent on welfare forever.

Setting a poverty line is a problematic process in itself. Poverty as an analytical category is difficult to monitor over time. Moreover, as the diffuse category of 'recent poor' suggests, the border between the poor and the adjacent sectors is very fluid and vulnerable to economic cycles. In a model that would adequately combine universalism and selectivity, the access of some middle sectors to some public policies, for which they could eventually pay out of their own income, would operate as a preventive policy with a cost that is better distributed over time and probably lower than curative crisis responses.

Social mobility is an important objective of social policy, and we must be careful in declaring as private certain higher scale goods within a given program. These goods,

independently of who provides them, have a higher cost than basic goods. Excluding them from the category of public goods would establish an access barrier that would irrationally increase the social cost imposed by differentiation among social groups.<sup>103</sup>

Lack of income stability is another factor that contributes to the impossibility of targeting the appropriate groups without a basic universalistic policy. The oscillating economic cycles of underdeveloped countries tend to prevent people from achieving a stable life-time income stream in which they can distribute risks. The reality is that in underdeveloped countries income is very volatile, so that variations in availability of essential consumer goods are likewise much more volatile than in developed countries. In this context, a deterioration in living standards because of a temporary loss of access to the health or educational systems may be an irreparable disaster in the normal process of an individual's development.

Social problems in Argentina change their form of expression but seem to increase in complexity. The economic, social, and political transition in which the country is immersed continues to produce more questions than answers.

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<sup>103</sup> Argentina's educational and health systems are not the only examples of this problem. The deficiencies of the US health system in comparison with models of other developed countries is an oft-cited example.



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