

TRENDS ON INEQUALITY: ARGENTINA'S PRESENT SITUATION AND POLICIES FOR A BETTER FUTURE

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RESUMEN

Luego de la gran crisis económica, política y social sufrida por Argentina hacia finales de 2001, la recuperación económica iniciada un año más tarde dio origen a uno de los períodos de crecimiento económico más elevado de la historia del país. Habiéndose alcanzado un pico en el coeficiente de Gini de 0.483 en 2000, la desigualdad disminuyó a 0.420 en 2010. Sin embargo, en la Argentina de 2013 persisten graves problemas de inequidad, desde una perspectiva de igualdad de oportunidades. El presente trabajo da cuenta de las principales deficiencias de la situación económico-social vigente en el país y recomienda una serie de políticas públicas enfocadas en el proceso pre-distributivo, es decir, aquellas que garantizan el acceso universal a bienes públicos de calidad, tales como inversión en infraestructura regional, un sistema educativo de alta performance y un marco regulatorio especial para micro-emprendimientos.

PALABRAS CLAVE

Desigualdad; Pobreza; Distribución del ingreso; Informalidad; Economía dual; Políticas Públicas; Desarrollo Económico; Argentina

SUMMARY

After the greatest economic, political and social crisis suffered by Argentina in late 2001, the economic recovery initiated a year later gave birth to one of the highest economic growth periods in the country's history. Having reached a peak in the Gini coefficient of 0.483 in 2000, inequality decreased to 0.420 in 2010. However, in 2013 Argentina still presents serious inequality issues from a level-playing field perspective. This paper reviews the main shortcomings of the current social and economic situation of the country and recommends a series of public policies focused on the pre-distributive stage, i.e. those aimed at guaranteeing universal access to quality public goods, such as investment in regional infrastructure, a high-performing education system and a special regulatory framework for microenterprises.

KEY WORDS

Inequality; Poverty; Income distribution; Informality; Dual economy; Public Policies; Economic Development; Argentina

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1. INTRODUCTION

Even though there are different ways to measure inequality, it can be generally understood as the distance between low income and high income households. The most common measure of inequality is the Gini coefficient, which – especially in developing countries – is used in tandem with absolute poverty measures, such as national and global poverty lines, and broader social indicators, such as the Multidimensional Poverty Index (Samman 2013). Regardless of how it is measured, there is a general consensus on the negative effects of inequality. According to Moss et al. (2011), there are a number of studies that link inequality to reduced longevity, lower education levels and skills, and financial mismanagement and instability – besides potentially destabilising political effects.

As for the Argentinean situation, inequality reached an unprecedented peak of 0.483 in the Gini coefficient in 2000. After a steady annual economic growth above 8.5 per cent between 2003 and 2011, inequality decreased to 0.420 in 2010 (Bastagly et al. 2012 p. 26). However, it is still far higher than the levels achieved in previous decades. In this sense, there are four broad social and economic issues challenging Argentina's development: a higher level of poverty in childhood and in rural areas, a de facto regressive educational system, a basic infrastructure deficit and a widespread informal economy. This paper starts by reviewing these issues from an inequality perspective. Then, a specific set of policy recommendations is proposed to tackle the inherent inequality-generating economic structure. Finally, I conclude that, in order to achieve substantial reductions in inequality, Argentina should focus on pre-distribution policies along with furthering direct interventions to support the most socially vulnerable population.

2. INEQUALITY AND POVERTY IN ARGENTINA: CURRENT SITUATION

Regarding household income inequality, the lowest deciles of the distribution are experiencing two serious issues in terms of age and rural-urban differences. According to Gómez (2013), at the end of 2012, 4 out of 10 children and teenagers up to 17 years old were living in poverty, totalling 5 million persons; while there was an additional 1.3 million living in extreme poverty. These figures reveal that poverty affects the youngest population cohort more deeply than others, outweighing by more than 13 per cent the poverty index among all age groups, which is around 26 per cent – if measured with non-official inflation-adjusted consumer price index (ODSA 2013; Salvia et al. 2011, p. 17). Furthermore, the childhood poverty level is higher in the northern provinces of the country, reaching more than 47 per cent in Salta and 71 per cent in Chaco (Gómez 2013, p. 7). This is in line with the heterogeneous social development observed by Guardia & Tornarolli (2010), who demonstrate that the incidence of poverty is far more acute in rural areas than in large urban agglomerations, being Cuyo, the North-East and the North-West regions the most affected. Rural areas, therefore, are expected to have a 60 per cent lower household income per capita, higher levels of informality and lower productivity activities (*Id.*, p. 32).

In relation to the education system, although the 2006 law established that a minimum of 30 per cent of students should have access to double-day state schools – prioritising disadvantaged social sectors and geographical areas –, the last report from CEA (2013) states that in 2011 only 5.6 per cent of children attended full-day classes. What is more, in the Buenos Aires City the proportion rises to 44.7 per cent whereas in the Greater Buenos Aires it is around 2 per cent and, in Santa Cruz, a southern province, it is just 0.06 per cent. According to Turnón & González (2012), despite the number of inclusive educational strategies pursued by the government in office, 9 per cent of teenagers between 13 and 17 years did not attend secondary school in 2011, while the proportion rose to 20 per cent in households with unmet basic needs, receiving some kind of family payment. Further evidence of the fragmented educational system can be shown by the fact that only 50 per cent of students finish secondary school and a much lower share of 14 per cent graduates from university (García 2013).

In terms of basic infrastructure, even when public investment in water pipeline systems and basic sanitation has risen 400 times in 7 years, there was still a deficit of 13.2 per cent of

potable water service network, 34 per cent in sewer systems and 28.5 per cent in mains gas connections in 2011 (Jaramillo 2012). But the situation was even worse in the Greater Buenos Aires, with 25 per cent and 50 per cent of deficit in the first two services respectively, while in the Greater Tucuman the deficit in the latter climbed up to 47 per cent (*Id.*, p. 24). As for inland freights transport and public transit, instead, the lack of investment in road infrastructure and railway maintenance has been substantial (Guadagni 2013). This, in turn, has increased logistic costs as well as deteriorated public transport conditions, all of which have affected lower income households more significantly.

The pervasiveness of informal economic activity can be understood as a symptom of the previous stylised facts combined with the lack of appropriate labour regulation policies. On the one hand, as Salvia et al. (2005) claim, only a segment of youth workforce is able to reap the benefits from state-funded higher education and find a quality job, the poor and less skilled being the most affected. The lack of effective policies to attack this social issue has led to a situation where only a third of young people are employed (IDESA 2013a) and to the rise of the 'neets' – a 15- to 24-year-old group among the young who are not in education, employment or training – from 8 to 10 per cent between 2003 and 2012 (Pallares 2013). On the other hand, the microenterprise sector, generally engaged in low-productivity activities, is overwhelmed by labour regulations which do not distinguish them from traditional capitalist firms. As a consequence of that, the former cannot afford current legal minimum wages nor social contributions which account for 43 per cent of total labour costs (IDESA 2013b). This results in the exclusion of the most disadvantaged workers from the social security system (Colina et al. 2011).

All the above, combined with growing two-digit inflation rates (MercoPress 2010) and misallocation of public spending, such as indiscriminate and regressive energy subsidies (Guadagni 2013a; Morea 2013), acts as a barrier to equality of opportunity (Roemer 1998; Chang 2010; Serio 2011).

3. HOW TO TACKLE INEQUALITY IN ARGENTINA

Argentina should start by reducing extreme poverty, which hits children hardest, while sustaining relatively high economic growth rates. The fiscal cost of reducing extreme income poverty is low, especially in Argentina (Cruces & Gasparini 2013, p. 78). This could be achieved by improving the design and management of the Universal Child Allowance (IDESA 2011; 2013c), including an increase in the amount of cash transfers to high-school students. At the same time, in order to minimise the potential increase in fertility rates (Gasparini & Cruces 2010), and to encourage families to find an employment in the formal sector (Garganta & Gasparini 2012), a decreasing transfer scale according to the number of children could be established.

In order to achieve a substantial reduction in inequality, however, Argentina has also to improve pre-distribution policies (Hacker 2013). In this sense, the public education system plays a vital role from a level-playing-field perspective. Argentina should emulate Brazil's policies and foster an educational law reform in order to implement school evaluation programmes to identify performance and quality gaps, reorient public budgets for their improvement and keep public schools accountability in check (Guadagni 2012). Similar reforms should be pursued in public universities through a gradual introduction of entrance examinations like the existing system in Brazil, Chile and Cuba (Guadagni 2013b), as well as making them accountable for their budget and the quality of their academic staff, as in Ecuador (Martins 2013a, pp. 8-9). Another fundamental pre-distribution policy should be geared towards improving regional infrastructure. Rural poverty could be mitigated by increasing investment in basic infrastructure such as water supply, sanitation and better roads in the most disadvantaged zones. This, along with other specific regional development policies, should help to boost the linkages between urban and rural development by reducing transaction costs and increasing employment opportunities for the poor, and thus, improve social integration (Guardia & Tornarolli 2010, p. 32).

Regarding labour market inequality, there are two policy reforms that should be addressed at the earliest. Firstly, a specific labour regulation for microenterprises should be designed to reduce the financial burden and registration procedures for business start-ups and micro-firms. This, complemented with economic incentives such as low-interest-rate credit lines, information services and training programmes (Ishengoma & Kappel 2006; Martins 2013b), should increase employment formalisation and, hence, integrate less-skilled workers into the social security system. Secondly, in order to narrow the gap in the access to quality jobs for the young, active growth strategies should be fostered through private sector development (OECD 2006, p. 20-22) and labour-intensive FDI-attraction policies. Additional labour reforms should also be considered in order to encourage first job opportunities for the so-called 'neets', for example, by granting tax deductions to firms who employ young unskilled workers (Salvia & Tuñón 2005, p 22).

4. CONCLUSION

Even though there has recently been a slight reduction in inequality in Argentina – as in the rest of Latin America (CEDLAS 2013) – due to high rates of economic growth achieved in the 2000s, a serious lack of equality of opportunities persists. While it is unlikely that Argentina will regain the low levels of inequality that it once had (Gasparini & Cruces 2008), still a number of pre-distribution policy reforms ought to be implemented to reduce existing imbalances, along with the improvement of existing conditional cash transfers mechanisms. Reforming the educational system, easing labour regulations for microenterprises, improving basic infrastructure and fostering pro-poor economic growth should go at the top of the list.

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