GROWTH STRATEGY REQUIREMENTS AND INSTITUTIONAL BARRIERS IN THE RESTRUCTURING OF SOCIAL POLICY - THE CASE OF ARGENTINA

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GROWTH STRATEGY REQUIREMENTS AND INSTITUTIONAL BARRIERS IN THE RESTRUCTURING OF SOCIAL POLICY - THE CASE OF ARGENTINA

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It is common knowledge that in the 1990s many Latin American countries applied the "new orthodoxy's" reform paradigm centered in economic liberalization and privatization. This paradigm was associated with an ideological standard on how social policy should adjust to the new economic conditions. Whereas economic reform was fully implemented in most countries, albeit at different paces, the degree up to which state social intervention changed according to the new ideological model is controversial. The bulk of writings on the social policy of the 1990s in Latin America has concentrated in the analysis of the traits of the new ideological paradigm (e.g. Franco, 1996; Draibe, 1994; Vilas, 1997; Sheahan, 1998). Fewer have examined the role of institutions and vested interests in hindering social reform (e.g. Grindle, 1997).[29]

Focusing in the case of Argentina, in this paper we discuss the determinants of the adoption, formulation and implementation of the new social policy orientation. We argue, first, that the requirements of the economic model and the strategy chosen by governments to satisfy them are the main factors explaining the adoption of the social reform paradigm. Second, that reform progressed primarily in those social areas considered crucial for the economic strategy. Third, that even though reform was hindered by institutional factors and the balance of power relations, contradictions between the adopted ideological social policy model and the economic strategy requirements constituted an equally if not more relevant impediment. And, finally, that the resulting modality of social intervention preserved many features of the previous one and added others; it was a hybrid rather than an homogeneous new social policy pattern.

The paper is organized as follows. The analytical model is presented in the first section. Next we discuss the determinants of the adoption of the social reform model in Argentina: the requirements of the growth strategy and the ideological paradigm. Third, we describe the social outcome of the economic strategy, given its role in influencing social policy. Fourth, formulation and implementation of government projects are analyzed in the social areas of education, health and anti-poverty programs, social security and labor legislation.

Analytical Framework

This paper focuses in those state policies directed deliberately to modify prevailing regulations in social areas such as education, health care, social security, anti-poverty, and labor. These policies may be oriented to either strengthen or retrench social protection, and to redistribute income either downwards or upwards. The adoption of one or other orientation depends on the requirements of the growth strategy (CortÈs and Marshall, 1993a) and the ideological social policy model associated with the latter. However, policy formulation and the measures actually implemented in each area depend not only on the adopted orientation but also

[29] Retrenchment and resilience have also been analyzed in relation to the welfare state in advanced countries (see e.g. Pierson, 1994).

on the influence of diverse social factors, including prevailing social conditions. The growth strategy defines the range within which (formulated and implemented) social policies may vary; in consequence, the types of modalities compatible with the same social policy orientation are limited.[30] Certain social policy areas are visualized as central to the success of the economic strategy, for example, labor cost control is seen as more crucial for successful trade liberalization than the reform of public health care or education.[31] In these Acrucial@ social areas there is less room for "exogenous" institutional factors to shape policies.

Social policy reform is not a straightforward process. As it has recurrently been shown in the literature, multiple institutional obstacles and facilitators arise from traditional social and cultural values and norms concerning the role of public social services; organizational nature of the institutions involved; and beneficiaries, private providers and corporate and political organizations. Moreover, existing social conditions and their potential impact on social unrest influence both formulation and implementation of social policies, fostering or hindering social reform. For example, the increase of poverty may help introduce targeted programs but it may also obstruct the elimination of free services; similarly, the growth of unemployment may be used as a convincing argument in favor of labor flexibilization. But the above factors are not the only impediments/facilitators to social reform; collisions between the ideological social reform model and constraints imposed by the economic strategy may become potent barriers to transformation. As argued in this paper, in Argentina those contradictions were significant obstacles to reform in certain social areas. In this sense, the economic strategy played a double role *vis-B-vis* social policy: on the one hand it shaped the orientation of crucial instruments, and on the other it restricted reform in the rest.

Determinants of Social Policy Reorientation

Argentina arrived to the 1990s with a universalistic public provision of education and health care, a work-related social security scheme, a protective system of labor regulation and collective negotiation dominated by industry-wide bargaining. The policy orientation in the provision of social services, social security and labor legislation had consolidated throughout the stages of import-substitution industrialization, and been compatible with the requirements of the economic growth model based on the domestic market (CortJs and Marshall, 1993a), but had increasingly been undermined. The long term fiscal deficit, aggravated by the external debt, affected the financing of social expenditure. By 1990, the public provision of social services had deteriorated markedly, social security was critically de-financed, and protective regulations were strongly opposed by employers. In this context, the paradigm associated with economic liberalization prospered within the government, and became an important determinant of social policy reorientation. It was argued that labor cost reductions were necessary to increase

[30] `Modality' refers to the particular combination of forms of conflict resolution, rules of access and entitlement, structure of financing of social services and social security, role assigned to private institutions, degree of participation of beneficiaries in management, the relationship between political and corporate organizations and the state, etc. (CortJs and Marshall, 1993b).

[31] Social policy areas, or instruments of state social intervention, refer to state regulatory mechanisms such as labor law, social security and social expenditure (for more details, see CortJs and Marshall, 1993a).

competitiveness, and that social spending had to gain in efficiency. In what follows, we discuss how growth strategy requirement and the prevailing social policy ideological paradigm moulded the new orientation of social policies.

Growth strategy requirements

After the hyperinflation of 1989 and the failure of several stabilization attempts, the economic program of 1991, closely following international guidelines, established free convertibility and a fixed exchange rate, and soon curbed inflation.[32] This program repositioned Argentina within the international order; its main measures included trade and financial liberalization, and privatization, and was to heavily rely on the continuous inflow of foreign capital. Central aims were the modernization of the inefficient domestic manufacturing sector, export-led growth, and increased competitiveness.

Two long term constraints on growth in Argentina - the fiscal and the external bottlenecks - continued, albeit under a new guise, to impose limitations on social expenditure. During the stage of import substitution deficit public spending had been financed via monetary emission, generating pervasive inflation, and the scarcity of foreign exchange for the required imported inputs for manufacturing recurrently blocked growth. After the opening of the economy the nature of these restrictions changed.

Free convertibility precluded monetary emission beyond the level permitted by foreign exchange reserves, imposing fiscal discipline, but the latter was threatened among others by an ever-increasing public external debt and insufficient revenues. Privatization did not suffice to rise government revenues, and income from taxes did not increase enough; the taxation reform[33] was limited because the government was contrary to an increase in progressive direct taxes that would alienate the support of powerful economic groups, and the control of the traditionally high level of tax evasion met with only partial success. In this context, expenditure restraint was the only mechanism to avoid deficit.

The opening up of the economy and the ensuing notorious expansion of competing manufacturing imports, together with the emphasis on manufacturing exports brought to the fore competitiveness as the key to growth, and low labor costs were perceived as the mechanism to attain it. The appreciation of the Argentine peso rose wages in dollar terms, affecting profits because it was no longer possible to shift wage increases to prices. This gave grounds to employer and official claims that the prevailing wage costs jeopardized growth. And even though in the following years unit labor costs decreased steeply[34] due to productivity increases, stagnating

[32] A one to one peso-dollar exchange rate was fixed by law, and was to be guaranteed by foreign reserves.

[33] Among others, tax reforms increased the weight of the value added tax in government revenues, from 38.8% in 1992 to 45.2% in 1996 (CEPAL, 1997).

[34] Between 1991 and 1997 unit labor costs in manufacturing decreased by 30% (MTSS, 1997)

money wages and payroll tax rebates,[35] still government officials and entrepreneurs pushed for further reductions.

The ideological social policy model

Multilateral financing institutions and the influential Washington Consensus argued that market-oriented reforms in Latin America required the radical transformation of social policy in the direction in which Chile had been a pioneer in the 1970s and 1980s. These views converged with the OECD critique of the welfare state and its system of labor protection. Both had a strong impact on Latin American governments' outlook on social policy. The World Bank, International Monetary Fund and International Development Bank accompanied their loans with programs that reoriented state social expenditure, and insisted in the reform of social security and labor law.

The social policy reform model that became dominant in Latin America in the 1990s included directives concerning the social services, labor legislation and social security. First, universal education and health care provision were criticized on the grounds that they were inefficient and, in the case of education, that its redistributional impact was biased towards middle rather than low income households; decentralization and targeting were proposed as the adequate tools to tackle these problems. Second, as labor protection was made responsible for weak labor market competition, high labor costs, unemployment and lack of external competitiveness, the ensuing recommendation was that labor policy should be geared to dismantle protection, limit trade union power, and decentralize collective bargaining. Third, the privatization of social security was proposed not only to face its critical financial situation but also to reinforce the domestic capital market.[36]

In Argentina three decisive elements - the recommendations of international institutions enhanced by loan conditionality, the pressure of powerful economic groups, and the domestic ideological "climate" - explain government's option, since 1991, for the new social policy directives as the only viable means to adjust to the allegedly *sine qua non* requirements of the new economic strategy. Conditionality was imposed by lending institutions, particularly the IMF, at a time when the economy became extremely dependent on foreign loans and capital inflows, and therefore highly susceptible to international prescriptions. Besides, international recommendations were akin to employer demands, and certain notions, such as `state subsidiarity', were not alien to ideas traditionally subscribed by the influential Catholic church, labor organizations and conspicuous employer associations; in fact, the notion of state subsidiarity had earlier often guided state social policies, particularly during military regimes.[37] Further, the "ideological climate" was favorable, as ample sectors of the population blamed state ownership, trade union

[35] Several measures that reduced substantially employer contributions to social security were taken in this period, including generalized rebates to contributions to the retirement scheme and others, linked to flexible employment contracts, mentioned below.

[36] For more details, see Mesa-Lago (1996).

[37] See Marshall (1988). An incipient version of state subsidiarity had developed during the 1966-72 military government, and achieved a more explicit formulation under the military between 1976-1983.

leaders and the inefficiency of public sector workers for the general deterioration and inadequate performance of public services and for petty corruption. After hyperinflation the new paradigm very rapidly disseminated in government institutions and penetrated public opinion, that expected privatization to not only improve public utilities but also free state resources for social expenditure.

Social Conditions

Social policy change was influenced by the social outcome of liberalization, in particular unprecedented unemployment and increasing poverty rates, problems that could not be faced with the existing available means. In the 1980s "structural adjustment" policies, designed to deal with the consequences of the external debt crisis, had resulted in economic stagnation and deteriorating living conditions. By the end of the 1980s, the government, pressured by domestic and international corporative interests (employer organizations and trade unions, and international creditors), was unable to manage macroeconomic variables, and by 1989 there was a drastic jump in poverty and inequality induced by hyperinflation (table 1). The economic reforms of 1991 and subsequent stabilization and recovery produced a short-lived improvement in social conditions (table 1). Fast economic growth (table 2) continued until the 1995 recession, but employment increased only until 1993. Plant closings, productivity growth, concentration and privatization reduced labor demand; this was aggravated by the 1995 crisis. From 1993, unemployment rose rapidly to two digit figures, as a result of the falling employment rate and increasing female labor force participation.[38] High unemployment, together with the changes in labor regulations (analyzed below) had a negative impact on wage levels and poverty, exacerbating income inequality (table 1). Worsening living standards called for new forms of state intervention to alleviate poverty and prevent discontent and the loss of political support.

The New Social Strategy

In this section we discuss the process of social policy reconversion from formulation to implementation through the analysis of five social policy areas: education, health care, anti-poverty, social security (retirement and *obras sociales*), and labor regulation. In each social area the formulation of government projects, the barriers the latter encountered that blocked some projects and led to amend others, and the policy that was finally implemented are examined.

Education

From the 1980s the World Bank has stressed the poor performance and low productivity of the educational system, as well as the insufficient coverage of low income students. According to the World Bank financed study of 1988 (PRONATASS, nd), public education was biased against the poorest households and implicitly subsidized the wealthiest, failing to sustain the universalistic provision of educational services. World Bank recommendations included further decentralization,[39] targeting, increasing mandatory years of schooling, curricula reforms, changes

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[38] Data on women labor force participation from INDEC, Household Survey.

[39] Decentralization from national to provincial jurisdiction had started in 1978 with primary education, and by 1994 was completed at the secondary level. World Bank's Asecond generation@ reforms envisaged decentralization

in labor relations within the sector, retraining, and some transformations in higher education (Banco Mundial, 1997).

These notions oriented the restructuring of educational policy and were expressed in the decentralization of secondary schooling starting in 1992, and in the Federal Educational Law (1993) that regulated on the gradual global transformation of the educational system. Among other issues the law extended the years of schooling, introduced changes in the curricula and schemes for teacher's training, and allowed foreign funded compensatory policies. The initial official project had not guaranteed the allocation of the necessary resources for the provision of universal free education. Political opposition was able to make some modifications in Parliament, and the legislation passed assigned specific public funds.[40] The Federal Educational Pact of 1994, an agreement between nation and provinces, made commitments regarding infrastructure, training, coverage and efficiency, stipulating a 20% annual increase in the educational budget. Nonetheless, the reform law of higher education (1995) among other issues admitted student fees to increase university funding, a mechanism that supposedly would moderate the pro middle class bias of university education. In addition, several compensatory programs were geared to augment teacher=s productivity, viewed as an increase in the student/teacher ratio, by expanding poor students= coverage. Among these was the *Plan Social Educativo* targeted to improve school infrastructure and the quality of education in poor areas.

The educational reform project had been ambitious, but its implementation met severe impediments, among which the most crucial were the central government's reluctance to provide the necessary funds for the transformation and inadequate institutional design. The aims of the Federal Educational Law and the improvement of services could not be attained without additional funding; for example, the extension of years of schooling and curricula reforms required the expansion of building and administrative capacities, and the rise of the existing low teachers= salaries to ensure their cooperation. The services were now in hands of the provincial administrations that, with limited revenues, had to face increasing expenditure due to the decentralization of secondary schooling since 1992.[41] The struggle over national tax revenues was exacerbated by the new items of expenditure. The *Ley de Coparticipaci \n Federal* had established already in 1988 the distribution of tax revenues between national and provincial governments; later measures culminating with the *Pacto Fiscal* of 1992 cut down the percentage assigned to the provinces (Morduchowicz, 1995).[42] Furthermore, the 20% annual increase envisaged in the Federal Pact was reduced since the 1995 crisis (Morduchowicz, 1995). And even after the recognition by the Ministry of Education that teachers' long standing claim for wage rises deserved a response, wage increases were constantly postponed, and by 1998 had not yet been granted.

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up to the municipal level (Banco Mundial, 1997).

[40] On these and other aspects concerning the debate around the *Ley Federal de Educaci \n,* see Paviglianiti (1993).

[41] Fiscal restrictions in the provinces are discussed in Presman and Lucioni (1997).

[42] See Morduchowicz (1995) on the chronic financial difficulties faced by the educational sector.

As funding to back reform was limited, the implementation of part of these proposals necessarily required some recomposition of educational expenditure in favor of targeted programs and away from universalistic provision. But expenditure in general education could not be curtailed given the growing demand for educational services at all levels and the opposition of the general public. The prospective further deterioration of public basic and university education threatened the middle classes with the loss of a traditional channel for upward social mobility. The teacher unions' repeated claims for wage rises, and their denunciation of the neglect of public education exacerbated the confrontational climate. The objections of a few local governments[43] summed obstacles to the application of the new policies, and an additional factor against the reorientation of expenditure was the success of private, mostly confessional, schools in maintaining state subsidies. In consequence, in spite of the policy emphasis on targeting, compensatory targeted educational programs was under 1.5% of total public expenditure in this area (1996).[44] Besides, notwithstanding the stress on the negative distributional bias of university education, during 1991-96 the structure of total public spending in education favored the higher level (mainly due to the creation of new universities) to the detriment of the primary and secondary levels (the share of higher education rose from 15% in 1991 to 21% in 1996; MEyOSP, unpublished). These developments look paradoxical, but in fact university financing seems to have been another arena for political negotiation.

Health care[45]

Even though the de-financing of universalistic public provision of health care was chronic, policy initiatives in this area were meager, consisting mainly in administrative measures and a major targeted nutritional scheme initiated in 1991, directed to poor women and infants. Before economic reform, decentralization of health care had already been well advanced - 80% of public hospitals had been transferred to provincial governments. This process was furthered after 1991, and in several hospitals peripheral and medical services were privatized through subcontracting. The most salient measure undertaken at the national level was an Executive's decree of 1993, endorsed by the provinces, aiming at transforming public hospitals into independent self managed economic units; it allowed them to charge fees to those who could pay, being covered by either private insurance or the *obras sociales*; free medical help was to be reserved for the unprotected poor who, nonetheless, occasionally had to pay fees to hospital cooperatives (Capitanich et al., 1997).

But the new scheme of hospital fees was seldom applied (Miguez, 1997), and inadequate

[43] For instance, the Municipality of Buenos Aires decided to postpone the implementation of the curricula reform.

[44] Own estimates on the basis of data from MEyOSP (unpublished). According to UNESCO (nd), foreign funded targeted programs (IDB and World Bank loans for improvement of elementary education and decentralization of secondary education, respectively) would amount to 2% of annual public expenditure in education in 1995-1999.

[45] In this section we refer to public provision of health care, while the corporate health system, *obras sociales*, is analyzed in the section on social security.

management was a persistent obstacle to reorganization. The long term decay of public health provision was not reversed, salaries of professional and technical staff maintained their low levels, and the scarcity of medicines and other medical supplies in public hospitals persisted. Faced with lack of resources some hospitals would have been shut down were it not for staff's resistance. Besides, growing unemployment and the ensuing loss of corporate health care coverage augmented the demand for free services, that could not be ignored. But the demand for health services is highly segmented; the public sector is almost exclusively used by the lowest income groups,[46] and partly for this reason the neglect of universalistic health care did not become a major issue in public opinion, contrary to what had happened in the case of education. The decline in the sector is evident, and the GDP share of and per capita public expenditure in health (exclusive of social security) continued at low levels. In spite of intense domestic criticism and World Bank recommendations against the "inefficient" public health system, it seems to have survived with only minor changes. As with education, the bulk of expenditure continues to be assigned to universal provision, now partially means-tested. Targeted programs, some of which internationally financed, in 1996 represented 2.5% of total public expenditure in health care.[47]

Anti-poverty

Just before the May 1995 presidential elections and at the outset of the economic crisis, the government, keen to show that targeted programs to alleviate poverty would be given priority, upgraded the *Secretaría de Desarrollo Social* and announced the "*Plan Social*", that in fact combined new items with others already existing in the budget. Since then, some other national programs were devised specifically addressed to poverty, in part internationally financed.[48] The scope of anti-poverty programs was narrow, as the emphasis was placed in identifying "deserving" beneficiaries among "vulnerable" groups within the elderly, children and the handicapped. Actually, GDP share of expenditure in welfare, including anti-poverty measures, was lower than in the 1980s and did not increase after the 1995 crisis (table 2).

To combat unemployment and respond to mounting discontent, between 1993 and 1997 the Labor Ministry produced a fair amount of employment and training programs, some of them financed out of external funding. These included temporary employment creation schemes as well as others to subsidize employment in the private sector, most of small coverage.[49] Nonetheless, after the crisis of 1995 was acknowledged, the GDP share of expenditure in employment programs remained at the 1994 level (MEyOSP, unpublished). By mid 1997, one major initiative, temporary job creation projects in community infrastructure for low-income unemployed, concentrated the bulk of funding for employment creation. Put together, direct job creation and

[46] In Buenos Aires, for instance, in 1992 less than 8% of the highest quintile were users of public health services (Flood et al., 1994).

[47] Own estimates on the basis of MEyOSP (unpublished). National targeted programs include mother-infant health care and some preventive programs.

[48] See Secretaría de Desarrollo Social (1996). A number of provincial programs were also implemented.

[49] Full details on these programs are in Marshall (1997).

subsidized employment in the private sector provided jobs to just some 7% of the urban unemployed in 1997,[50] and the GDP share of the national targeted employment and training schemes did not exceed 0.1% in 1996.[51]

As periodically shown by public opinion polls, growing unemployment became a major concern, starting to undermine support to the administration=s economic policies. This fostered the highly publicized announcements of a succession of small-scale, short-lived and continuously redesigned social programs, mostly before elections. In fact, publicity was not matched by the amount of resources allocated to these schemes. Some programs were discontinued without visible reasons, and were replaced by others, that differed slightly. Even those closely monitored by the World Bank had a meager impact, as they were addressed to confined target groups.

Retirement scheme

Since 1991, and inspired in the Chilean social security model, proposals to privatize the existing state managed retirement pension scheme (based on employer and worker contributions) started to circulate. These finally materialized in the Executive=s project submitted to Congress in 1992, that envisaged, among other issues, a mixed scheme; the state would provide a basic universal benefit, and this would be complemented by a private system of compulsory individual capitalization accounts.[52]

The existing state retirement scheme had suffered persistent financial crises - it had even been declared in "state of emergency" during the 1980s, and this encouraged a favorable attitude to reform among the public. Nonetheless, the Executive's project met with strong opposition from Parliamentary members of trade union origin within the governing *Justicialista* party, and from other parties. Opponents argued that the existing system was redistributive and that privatization would put an end to that function, and that it would also increase operating costs favoring pension fund shareholders to the detriment of beneficiaries. The mobilization of organized retired workers, whose active weekly protest at the Congress doorstep gained some approval in public opinion and the media, strengthened the objectors' bargaining position; after lengthy and difficult negotiation both within and outside Parliament the project was modified.[53] Once again, following the traditional negotiating pattern characteristic of *Justicialista* administrations (CortJs and Marshall, 1993a), trade union leaders were granted economic benefits, in this occasion their incorporation to the new business of private retirement with their own pension fund, in exchange for their vote in Parliament in favor of the reform.

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[50] According to data in MTSS (1998).

[51] In table 2 labor expenditure includes items other than targeted programs.

[52] The official project introduced important modification in other areas; an account of the proposals and the changes finally approved is presented in Isuani and San Martino (1995).

[53] Isuani and San Martino (1995). In 1992 more than one million firms had been collected by organized retired workers, political parties and the dissident worker confederation to call for popular consultation in relation to the reform of the retirement system; these were forwarded to the Parliamentary commission in March 1993, while 30 thousand persons were marching against the official project outside Congress.

The law finally approved in 1994 introduced crucial reforms although departing from the original project; most importantly, it established a dual scheme, comprising private capitalization accounts and a state component, and workers were allowed to opt for either alternative. However, the option was restricted, as the choice for the private subsector was once and for all, while those who opted for the public sector were allowed to change their decision later.

Two factors help explain official acceptance of modifications to the original privatization project: government's need to enact at least some reform to maintain credibility, and increased fiscal revenues due to economic expansion (Gerchunoff and Torre, 1996). The state subsystem was doomed to disappear in the long term due to financial failure, as it was to loose the contributions from new entrants to the labor force, for whom the private subsystem was more convenient. But with worsening fiscal accounts in the short term, in 1998 the Executive once again envisaged total privatization of the retirement scheme to face the ever increasing deficit of the state subsystem.

The obras sociales

Work-related health care is organized around each economic activity in *obras sociales*, financed out of compulsory employer and worker contributions, and managed by trade unions. This institutional scheme became since its very beginning a crucial source of economic power for the trade-union leadership, that contributed to build its political leverage.

During the 1990s the government, converging with employers and the World Bank, recurrently attempted to erode trade union's monopoly in the management of workers' health care by allowing the operation of private firms and free choice between the *obras sociales* and private health care.[54] These reforms would divert mandatory contributions away from the *obras* and towards private firms. This collided with the interests of the trade-union leadership, who actively resisted the loss of control. In fact, as discussed below, to obtain trade union quiescence to other reforms, mainly those dealing with labor legal protection and collective bargaining, the Executive repeatedly threatened with full deregulation, but after each negotiation with trade union leaders it withdrew the projects, one after the other.[55]

In any case, some advances in the direction of deregulation were gradually made with the decree that, introducing competition among *obras sociales*, permitted now workers to opt for one that did not belong to the economic activity of employment.[56] And, even if legislative deregulation had not been completed, in practice the decree was to make partially possible government's aim of enlarging the share of the private sector in workers' health care since, profiting from legislative

[54] The deregulation project was linked to a World Bank financed program for the structural transformation of the *obras sociales*, that was meant to solve their chronic deficit.

[55] Etchemendy and Palermo (1998) describe negotiations concerning deregulation, government attempts to reduce employer contributions to the *obras sociales*, and the financing of their deficit.

[56] Until this decree affiliation to the *obra* belonging to the economic activity of employment was mandatory.

voids, certain trade unions accorded with business the transfer of contributions to private insurance companies.

Labor legislation

Based on the belief that the existing labor regulations undermined discipline at the workplace and empowered trade unions excessively, and that their associated costs hampered competitiveness, labor policy initiatives, strongly pushed for by employer organizations, sought payroll tax reductions, the flexibilization of contracts and dismissals, and the decentralization and reform of collective bargaining. Employer associations demanded drastic changes in individual and collective labor laws, such as substantial rebates to lay-off and work-injury compensation and limitations on collective agreements. Whereas the declared official intention was to follow this path, in fact the authorities responded to these claims only gradually to avoid confrontation with trade unions, who objected to labor reforms, and whose support continued to be politically useful. Even if the majority and most influential of the labor leaders were politically aligned with the government, they nevertheless joined dissident trade unions in their opposition to labor reform, and consequently the administration was driven to negotiate with its political allies.[57] The Executive=s staple in this negotiation was the deregulation of the *obras*, which if effected, as we have seen, would curtail unions= economic power. Replicating the negotiation pattern described above, the government was able to enact labor law reforms, albeit in stages, in exchange for leaving partially intact trade union control of the *obras sociales*. The labor reforms demanded by employer organizations could have been sanctioned unilaterally, as done in other areas, but forthcoming elections more than once dissuaded the administration from adopting this procedure.

Starting in 1991, a succession of laws and decrees created diverse temporary contractual modalities, certain of which without severance pay and payroll taxes; established a mandatory work-injury insurance policy and limited work-injury compensation benefits, reforms that boosted the insurance business and led to considerably lower investment in work-injury prevention; fostered the decentralization of collective bargaining; and flexibilized labor standards for small enterprises. At the time of its sanction, the 1991 Employment Law had been visualized by its critics as a harsh flexibilization instrument, although in fact the law imposed certain restrictions on the use of the temporary contracts it introduced. For this reason the latter were not very attractive to employers, who demanded more flexibility. This request was to be answered only later, with the reform of 1995 that increased and deepened flexible contracts, and which was followed by a substantial increase in the use of temporary contracts, whose share of the employed labor force in the formal sector almost tripled between 1995 and 1997.[58] Each new measure furthered previous reforms, as illustrated by the introduction in 1995 of new temporary contractual modalities, more flexible than those created by the 1991 law, and by the intensification of decentralized bargaining between 1991 and 1995.[59]

[57] On the divisions within trade unions, see Murillo (1997).

[58] Data in MTSS (several issues).

[59] In 1996 two decrees were intended to give the final blow to industry-wide bargaining, but dissident trade unions and part of the political opposition stopped them in Court.

Growing unemployment, particularly after the 1995 crisis, facilitated the reform process for two reasons. On the one hand, it weakened trade unions, whose bargaining power had already been curtailed by decentralized negotiation. On the other, it provided government and employers with an additional "moral" justification, as allegedly reform would not only enhance competitiveness, but also create employment, an argument that contributed to moderate trade union opposition. Nonetheless, by 1998 the flexibilization issue had not yet been settled, and new Executive's proposals were under study. Matters pertaining to the character of collective negotiation and the very role of labor organizations still remained a crucial source of conflict. Moreover, the continuity of short-term contracts was challenged by trade unions, who foresaw increasing loss of membership and financial resources, and were also concerned with the aggravation of precarious working conditions. Employers and the IMF, in turn, continued to insist on more radical flexibilization.

In brief, labor reform clearly intensified labor discipline, and contributed to lower labor costs and to weaken the role of unions in collective negotiation, but less forcefully than employers and the government initially intended, and international financial institutions had recommended, as the administration was driven to grant some concessions to the unions to retain their political backing.

Conclusions: The "New" Social Policy Hybrid

Accompanying economic reform, projects were devised for all social policy areas although much less distinctly in the public health care system. The actual transformation of social policy was deeper in those areas that were seen as indispensable for the success of the economic strategy (labor costs reductions) and that were potentially profitable for private business (retirement scheme privatization), even though it was precisely in those areas where the bargaining strength of opponents to reform was greater. The reform of *obras sociales* was not completed, in spite of being also a potential arena for lucrative business, because it remained a useful tool in hands of the government for negotiating trade union's consent to other projects. The retirement scheme and labor law were reformed in the direction of international guidelines and domestic pressures, although employers and lending institutions still consider them insufficient. Even though the reform process faced some delays and even drawbacks originated in the dynamics of political maneuvering, significant changes were introduced: the privatization - albeit partial - of the retirement scheme,[60] the curtailing of labor protection and the weakening of trade union's role in wage determination.

In contrast, official endorsement of the international reform model and recognition of the chronic financial scarcity in education and health did not suffice to commit government to transformation. Reform in these sectors never became a priority in terms of resource allocation because compliance with the requirements (*ceteris paribus*) of a balanced budget was privileged. This lack of commitment is apparent if we contrast the level of expenditure during expansions in the 1990s with that of the Abest@ years of the 1980s (1986-87), when social expenditure had

[31] [60] See Mesa-Lago (1994) for a comparison between the successful reform of the retirement scheme in Argentina as compared to Uruguay=s.

increased over and above GDP. On the other hand, there were major institutional reforms in education and new modalities of social programs in other areas were designed, but in fact the structure of public social expenditure in the 1990s resembled that of the 1980s, and the recomposition of expenditure towards targeted programs was minimal (table 2).

The main thrust of health care reform responded to the concern with solvency; the few initiatives in this area were oriented to transform hospitals into efficiently managed units, emulating private firms. However, the growing weight of the poorest strata in health care demand jeopardized the possibility of obtaining funding from sources other than the state. Besides, privatization of services was not always able to cut costs as expected, often due to the lack of managerial capacity. More clearly so in education than in health a number of initiatives were taken to improve efficiency. However, as these proposals were not backed by the necessary funding and organizational changes, they were doomed to face severe obstacles in their implementation. In our view it was the lack of commitment in terms of funding, rather than the resistance of "entrenched interests", the main impediment to reform in the educational sector. It is controversial whether teachers "boycotted" the reforms, and if they did, whether this delayed their implementation, but in any case teachers were not able to attain wage increases, their main claim. On the other hand, political negotiations helped maintain and even augment public funding to universities, while confessional schools successfully lobbied to retain their share in public educational spending.

Recession aggravated unemployment and poverty, triggering demands that required quick responses. But it was also during the downward phase that the fiscal constraint tightened, calling for extra saving efforts and, to maintain credibility, increased signals to employers on the determination to control expenditure. To meet these competing demands, during downturns there were notoriously more announcements concerning both anti- poverty and employment programs and budget cuts. The latter were not always fully met: in 1995 the drop in social expenditure was lower than in GDP (table 2). Anti-poverty policies played a central rhetorical role in critical social or natural emergencies, but in fact they received little funding. Resource allocation to "just-in-time" anti-poverty programs was guided by the fear of social conflict and loss of votes, and limited by pressures to cut expenditure.

In our interpretation, the stronger impediments to social reform in the education, health and anti-poverty areas originated in constraints imposed by the economic strategy; it was the clash between fiscal restraint and the need to increase expenditure to sustain the reform in the direction of the ideological paradigm. This became particularly clear since 1996, when the intensification of external economic vulnerability, insufficient tax revenues and IMF surveillance over fiscal accounts led for the first time to cut social spending at a time of economic expansion. In the case of labor and social security reforms, it was the collision between the ideological reform objectives and the government's political interests in maintaining trade union support that slowed down some of the projected changes. Workers in the social sectors, social service users and public opinion in general at different times were also able to influence social policy reform but only at the margin.

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Table 1. Argentina: Social conditions, 1986-1997.

	urban employment rate[1]	urban unemployment rate	real wages manufacturing 1983=100	income share of highest 10%[2]	income share of lowest 30%[2]	poverty rate[3]
1986	36.5	5.6	116.2	34.6	9.6	11.4
1987	36.9	5.9	104.8	36.0	9.1	15.0
1988	36.6	6.3	101.4	35.9	9.3	24.1
1989	36.7	7.6	82.0	41.6	7.9	38.3
1990	36.1	7.5	85.8	35.2	9.7	25.3
1991	37.0	6.5	87.0	36.3	9.5	16.3
1992	37.3	7.0	88.1	34.4	9.0	13.7
1993	37.3	9.6	86.6	34.6	8.9	13.1
1994	36.3	11.5	87.6	34.8	8.9	14.2
1995	34.7	17.5	86.6	37.3	8.3	18.2
1996	34.3	17.2	86.2	36.3	8.2	20.1
1997	**35.9**	14.9	86.0[4]	37.1[5]	8.2[6]	19.0

[1] Estimated in relation to total urban population
[2] Individual income distribution, Buenos Aires, October
[3] Proportion of households below poverty line (headcount ratio), Buenos Aires, October
[4] First semester
[5] May

Sources: INDEC, Household Survey; Ministerio de Economía y Obras y Servicios Pdblicos (MEyOSP); CEPAL.

Table 2. State social expenditure[1] in relation to GDP

(percentages)

	GDP annual % change[2]	total education[3]	basic education[4]	higher education	health care	welfare	labor	total[1]
1981-1990	-1.0	3.4	2.2	0.5	1.3	0.7	0.0	5.4
1991-1996	5.9	3.6	2.4	0.7	1.6	0.6	0.2[5]	6.0
1981-82	-4.3	3.0(-)	1.8(-)	0.5(-)	1.2(-)	0.5(-)	0.0	4.7(-)
1983-84	2.0	3.1(+)	2.1(+)	0.5(+)	1.2(+)	0.5(+)	0.0	4.8(+)
1985	-7.0	3.5(-)	2.3(-)	0.5(+)	1.4(-)	0.8(+)	0.0	5.7(-)
1986-87	4.8	4.0(+)	2.7(+)	0.6(+)	1.5(+)	0.9(+)	0.0	6.4(+)
1988-90	-3.4	3.5(-)	2.3(-)	0.5(-)	1.4(-)	0.7(-)	0.0	5.6(-)
1991-1994	8.9	3.5(+)	2.3(+)	0.6(+)	1.5(+)	0.6(+)	0.1[6](+)	5.7(+)
1995	-4.6	3.9(+)	2.5(-)	0.8(+)	1.7(-)	0.7(-)	0.2(-)	6.5(-)
1996	4.3	3.7(=)	2.4(=)	0.8(+)	1.6(-)	0.6(-)	0.2(+)	6.1(-)

(-), (+) and (=) trends of expenditure in constant prices during the period (declined, increased, and remained constant, respectively)

[1] Consolidated public sector, exclusive of social security and housing
[2] For periods exceeding one year, averages of yearly percentage changes
[3] Total spending in education includes other items not shown in this table
[4] Spending in basic education includes primary and secondary levels
[5] 1993-1996
[6] Employment programs started in 1993. Average spending in 1993-1994 was 0.2% of GDP

Source: Own estimates on the basis of MEyOSP (unpublished).