ILO NOTES

International Labour Organization

FACING THE CRISIS IN EUROPE: REFLECTIONS ON THE CASE OF ARGENTINA

I. CRISIS IN EUROPE AND ITS EFFECTS ON ARGENTINA

As a consequence of the crisis affecting the Eurozone and poor economic performance of the main developed economies, economic activity at the global level as well as in Latin America and the Caribbean slowed in 2012. Although conditions are expected to improve for 2013, these forecasts have been systematically revised down in recent months. In the case of Argentina, the pace of growth –which recovered in 2010 and in 2011 reached the level recorded prior to the 2009 international financial crisis– slumped abruptly from 8.9% in 2011 to almost 2% in 2012[1] (see table 1).

In the particular case of Argentina, this slowdown responds to several internal as well as external factors. Among the first is the drought that affected the agricultural sector and the impact of certain measures aimed at maintaining the current account surplus of the balance of payments (such as restrictions on exports) on economic activity in certain sectors. Among the external factors are a decrease in growth rates in developed countries –as a result of the worsening crisis in the Eurozone– as well as in Brazil, a main trading partner.

TABLE 1: Latin America and Argentina: 2012-2013 GDP trends and forecasts (annual GDP percentage variations)

Institutions	2009	2010	2011	2012	2013
Latin America and the Caribbean[a]	**-1.6**	**6.2**	**4.5**		
- International Monetary Fund (IMF)				3.7[a] 3.4[b]. 3.2[c]	4.1[a] 3.9[c]
- Economic Commission for Latin America and the Caribbean (ECLAC)				3.7[d] 2.8[e]	4.1[e]
Argentina	**0.9**	**9.2**	**8.9**		
- International Monetary Fund (IMF)				4.2[a] a 2.6[c]	4.0[a] 3.1[c]
- Economic Commission for Latin America and the Caribbean (ECLAC)				3.5[d] a 2.0[e]	3.5[e]

Source: ECLAC and IMF

a) IMF (2012) *World Economic Outlook: Growth Resuming, Dangers Remain. World Economic and Financial Surveys* (Washington D.C., IMF)

b) IMF (2012) *World Economic Outlook Update* (Washington D.C., IMF)

c) IMF (2012) *Regional Economic Outlook Update* (Washington D.C., IMF), Autumn

d) ECLAC (2012) *Informe macroeconómico de América Latina y el Caribe* (Santiago, ECLAC)

e) ECLAC (2012) *Estudio económico de América Latina y el Caribe. Las políticas ante las adversidades de la economía internacional* (Santiago, ECLAC), October

1 Cristina Fernandez, President of the Republic of Argentina, announced on 28 January 2013 that GDP growth in 2012 had been 1.8%

The growth outlook for 2013 is more favourable although rates around 9% are not expected to be repeated (see table 1). Policies to enhance domestic consumption, greater economic dynamism in Brazil, and better performance in the agricultural sector are all expected to have a positive impact on activity levels. In turn, these last two factors, combined with a foreseen decrease in 2013 external debt payments, could alleviate external restrictions, making it possible to ease restrictions on imports –favouring investment– and giving policymakers more scope to formulate monetary and exchange policies.

As to the labour market, a decrease in formal private sector employment growth is expected in 2012, as the growth rate dropped from 4.8% in 2011 to almost 2% in the first semester of 2012. However, no relevant impact is registered on employment and unemployment rates, which shows the strong socio-labour situation in Argentina in the face of a contracting global context.[2] These good employment results have allowed sustaining family incomes and maintaining previously recorded consumer dynamism.[3]

II. DIFFERENCES AND SIMILARITIES BETWEEN THE CURRENT SITUATION AND 2008

When comparing Argentina's situation in relation to the global recessive contexts of 2009 and 2012, both differences and similarities are observed in the sphere of labour institutions, social protection and the macroeconomic context.

In terms of similarities, it is first of all important to highlight the strengthening of a range of labour institutions –such as a regular review of the minimum wage, collective bargaining, labour inspection, and labour market policies– as well as the extension of social protection after the crisis that affected the country in 2001. In this sense, when facing the recessive contexts of 2009 and 2012, the country could rely on strengthened social dialogue mechanisms which protected employment and avoided a fall in real wages,[4] as well as ample social protection coverage, especially in relation to old-age benefits and for families with children.[5]

Likewise, an ample spectrum of labour market policies was consolidated during the 2000's, which also helped protect employment and favour rapid recovery. Some of these measures display a significant countercyclical behaviour, such as the REPRO programme and the reduction of employers' contributions, while others seek to improve more structural aspects of the employment situation in the country, such as training programmes and the youth employment and training programme.

At the other hand, the main differences between the situation in 2012-2013 as compared to the period 2008-2009 are related to the macroeconomic context. The margins for policy making are currently slightly more restricted than during the major international crisis of 2008; however, there is room for countercyclical action. Prior to the 2008 crisis, Argentina was able to sustain twin surpluses, both on the fiscal and the current account, for several years, which provided greater scope for countercyclical policy.[6]

In relation to fiscal policy, in both recessive contexts actions were carried out, albeit with different dimensions, to stimulate employment and the level of activity through public works.[7] In both cases, the backing provided by the guarantee fund for the sustainability of the pension system (*Fondo de Garantía de Sustentabilidad del Sistema Previsional*) turned out to be relevant. Fiscal space is today more limited, with financial deficits recorded in recent years, but with less social debt in terms of social protection coverage and wage recovery.

In addition, the margins for exchange and monetary policies are also different. During the previous crisis, the currency was depreciated to maintain a competitive exchange rate and maintain the level of reserves accumulated in previous years in spite of intense capital outflows. This capital outflow continued in 2010 and 2011 and, added to a dwindling current account surplus, slowed the accumulation of reserves. This led to the government's decision to increase restrictions on importing goods, and curtail the purchase of foreign currency.

Inflation recorded in 2012 was higher than in 2009, and there are expectations that it will remain high during 2013. Hence, contrary to what was observed in the previous crisis, the rise in real wages is likely to be less, and therefore the labour market will have less potential to expand domestic demand through consumption.

As to the impacts, there are similarities both in terms of the impact on the level of activity as well as on employment. In relation to the first, both in 2009 and in 2012, the GDP components that fell were exports and investments, and the sectors most affected were agriculture, industry, and construction. As to the labour market, in both contexts the impact was limited. However, in the second semester of 2012 – contrary to what happened in 2009– wage employment did not fall. After the 2009 crisis, however, employment-output elasticity (figure 1) declined. In addition, public employment has shown countercyclical behaviour both during 2008-2009 as well as in 2012, compensating for decreased job-creation in the private sector.

III. POSSIBLE AREAS OF INTERVENTION

The atmosphere of uncertainty created by the European crisis leads to the need to review the state of labour institutions and available labour market policy instruments in the country, assessing the outlook for timely response in case of a worsening economic situation. As shown during the major crisis in 2008, most of these instruments are not for automatic implementation

2 MTEySS (2013) ***La situación laboral argentina 2012. Expectativas para 2013*** (Buenos Aires, Ministry of Labour, Employment, and Social Security)

3 BCRA (2012) ***Informe macroeconómico y de política monetaria*** (Buenos Aires, Central Bank of the Republic of Argentina

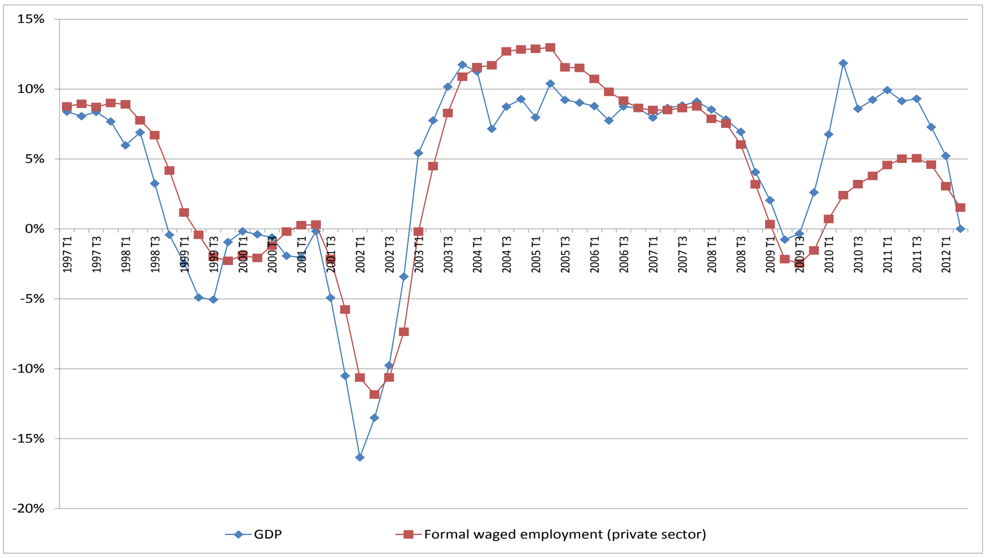
4 ILO (2012)) "La revitalización de la negociación colectiva en Argentina", ***Serie OIT Notas – Trabajo Decente en Argentina*** (Buenos Aires, International Labour Office)

5 ILO (2012) "Avances en la consolidación de la protección social en Argentina", ***Serie OIT Notas – Trabajo Decente en Argentina*** (Buenos Aires, International Labour Office)

6 MTEySS and ILO (2012) M*acroeconomía, empleo e ingresos: Debates y políticas en Argentina frente a la crisis internacional 2008-2009* (Buenos Aires, International Labour Office)

7 For further details see ILO (2011) *Pacto Mundial para el Empleo. Estudio Nacional. Argentina* (International Labour Office)

FIGURE 1. 1Q 1997 – 2Q 2012 GDP and waged employment growth in the private sector (annual growth rates)



but, on the contrary, require relatively long implementation and consolidation times. Reviewing available policies and designing specific amendments to make them more effective is especially important in a context of relative fiscal tightening.

The following is a description of the different areas for intervention as well as the measures already being implemented in Argentina.

a) Strengthening employment with greater investment in public works

As mentioned earlier, investment –as a component of GDP– and the construction sector were especially affected in 2012. Construction recorded a 3.2% drop in its activity level in 2012, and formal wage employment fell 3.7% in the second quarter 2012.

To reverse this situation, by mid 2012 the Government created the Argentine credit programme (Pro.Cre.Ar - *Programa de Crédito Argentino*), which turned out to have a major impact on employment as it focuses on housing projects. The programme is financed by public institutions, including the National Social Security Administration (ANSeS). In addition, programmes have been announced to extend public investment to improve physical infrastructure, especially railway transport.

The time required to implement large scale public works policies means their impact is not fully observed in the short term. Nevertheless, it is expected that the dynamics created by the programme will reverse the decline in the construction sector in 2013.

b) Credit for small business and social economy

In order to invigorate local industry and collaborate in sustaining the investment rate, the BCRA created a credit line for productive investment to finance the purchase of capital assets or the construction of facilities. Of these resources, 50% is assigned to micro and small enterprises. It should be pointed out that, during the second semester of 2012, half of the anticipated amounts were disbursed, representing 70% of all long-term loans awarded to legal entities. Likewise, the BCRA continued to tender funds within the framework of the Bicentenary Credit Programme (*Programa de Financiamiento Productivo del Bicentenario*), which aims to increase loans to the private sector. In addition, during 2012, funding to the private sector maintained its countercyclical behaviour, as a result of a greater volume of time deposits in local currency (explained by a more limited accumulation of foreign assets by the private sector).[8]

Support for the social economy is mainly channelled through the *Argentina Trabaja* plan, which includes micro-credit, training, and income security for workers through the Social Income with Work component. This last component was created mid-2008 in order to improve the social inclusion of vulnerable workers and to overcome the impact of the international financial crisis.

c) Protecting employment through social dialogue

The major crisis in 2008 tested Argentina's ability to deepen institutional mechanisms for social dialogue on labour issues. Collective bargaining exercises revealed the possibilities of protecting jobs and incomes through mechanisms such as rescheduling annual leave, suspensions, reducing overtime, and other compensation measures. Some of these agreements were derived from the Crisis Prevention Procedures (PPC – *Procedimientos Preventivos de Crisis*).[9] Likewise, in 2009, through collective bargaining and the Minimum Wage Council, wage increases above inflation were agreed, which meant real wages increased, enabling an expansion of the domestic market. At present all of these institutional mechanisms are in full operation.

8 BCRA (2012) op. cit, pages 8 and 10
9 PPC's are collective bargaining instances that can be implemented before the communication of massive lay-offs or suspensions due to *force majeur*

d) Preventing lay-offs, promoting employment, and protecting against unemployment

Aside from the agreements reached through social dialogue, new policies were implemented in 2009 and the scale of other existing policies was expanded to prevent lay-offs and promote the creation of jobs. The instruments used for these purposes were the industry recovery programme (*REPRO – Programa de Recuperación Productiva)* and a temporary deduction of employer contributions to social security for new jobs.

The results of both policies were positive in moderating the effects of the 2009 crisis. Lay-offs were prevented through the REPRO programme –especially at enterprises with low staff turnover and more stable labour trajectories– and the employer contribution reduction policy served to create jobs, especially at enterprises with high-turnover.[10]

With regard to unemployment protection policies, coverage by the unemployment insurance scheme is limited and benefits have lagged behind wages. Hence, the countercyclical impact is very restricted. Nevertheless, the Ministry of Labour, Employment and Social Security implements other measures to favour employment and employability of unemployed workers, such as the Training and Employment Insurance, and the More and Better Jobs for Youth programme, that play a relevant role supplementing unemployment insurance.[11]

e) Minimum wage policy

The National Council for Employment, Productivity and Minimum, Vital and Mobile Wage was another of the institutions reactivated in recent years. Since this institution was relaunched in 2004, the minimum wage amount was updated. A stepped 25% increase was agreed in 2012. Dialogue on a new minimum wage review in 2013 is estimated to start by the middle of the year.

f) Public employment services, training, and labour intermediation policies

The coordination of employment services was consolidated in recent years through the Network of Employment Services (*Red de Servicios de Empleo)* and the Life-long Training Network (*Red de Formación Continua*). The first network connects active labour market policies with job opportunities, providing information, guidance, and referrals for training and employment both to the unemployed as well as to individuals seeking to improve their employment situation.

Through the network for life-long training –which to a great extent relies on social dialogue mechanisms–, professional training courses, skills certification, and certification of formal studies are provided. The fiscal credit mechanism for enterprises to invest in human resource development, has also been growing over time.[12]

g) Final remark: focusing action on decent work

During the 2000-2009 decade of growth, the objective of decent work was placed at the centre of public policy, as a connecting link between economic and social spheres.[13]

In the case of Argentina, during the major crisis of 2009, decent work was one of the most relevant strategic focus areas in public policy, in line with the Global Jobs Pact. In the new 2013 scenario, there are opportunities to strengthen and implement public policies to address outstanding socio-labour issues,[14] within the framework of social dialogue. Examples of issues de be addresssed are the informal economy, as well as new challenges that may arise with a worsening of the Eurozone crisis.[15]

10 MTEySS and ILO (2012), op. cit, pages 217-256

11 For further details see ILO (2012) "Las políticas de mercado de trabajo en Argentina: Diseño, cobertura y desafíos", *Serie OIT Notas – Trabajo Decente en Argentina* (Buenos Aires, International Labour Office)

12 For further details see ILO (2012) "La formación para el trabajo en Argentina", *Serie OIT Notas – Trabajo Decente en Argentina* (Buenos Aires, International Labour Office).

13 MTEySS (2010) *Trabajo y empleo en el bicentenario. Cambio en la dinámica de empleo y protección social para la inclusión* (Buenos Aires, Ministry of Labour, Employment, and Social Security)

14 For the various areas of action mentioned there are certain challenges that go beyond a particular situation and are linked to the consolidation of socio-labour institutions. For further details see *Serie Notas OIT – Trabajo Decente en Argentina*

15 ILO (2013) Tercer *Programa de Trabajo Decente por País para Argentina. Periodo 2012-2015* (Buenos Aires, International Labour Office)