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# Labour Market and Evolution of Income Distribution in Argentina

## I. Introduction

In any society, a certain degree of inequality may be related to a reward to effort, talent or innovation. It may also be connected with a development process in which, for some time, certain members of society are faced with better opportunities than others. However, deep inequalities may lead to unsatisfactory results in both economic and social aspects. In this way, income inequality is linked to inequality of access to essential services, such as health-care and education. This concept, in turn, tends to perpetuate inequalities in the distribution of income, thereby impairing social mobility and generating poverty traps. Vast inequalities may hamper political processes and democratic governance. Likewise, they may breed inefficient allocations of resources and exacerbate macroeconomic volatility (ILO, 2008).

This note describes the evolution of income distribution in Argentina, by analyzing the factors that have had a direct bearing thereon. Additionally, it presents a synthesis on some of the main challenges to be considered in designing policies and actions aimed at attaining a more equitable society.

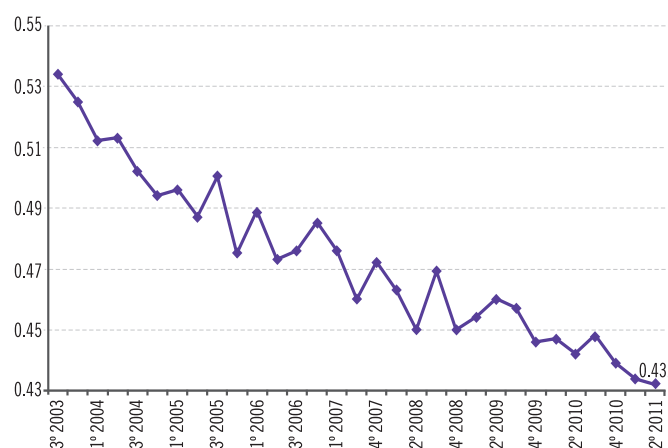
## II. Evolution of Income Distribution

In recent years, primary (or functional) distribution of income, which shows the way in which total income is distributed among productive factors (labour and capital), has evidenced a progressive increase of the salaried workers' share in final output. Compensations paid in exchange for salaried labour, which include salaried employees' compensations, increased their share in the added value by 9.3 p.p. between 2003 and 2008,<sup>1</sup> and reached a 43.6% over this past year. Such increase was recorded at the expense of a reduction of the so called "share of the gross operating surplus" (-6.3 p.p.), which includes the compensations to assets of companies, and the "gross mixed income", that is, the portion perceived by self-employed workers and employers, where no difference can be made between the remuneration for work and the pertinent compensation to the assets intervening in the productive process.

However, it should be pointed out that the share of salaried labour on value added has not reached its historical peaks, which date back to the 1970 decade (Ministry of Labour, Employment and Social Security –MTEySS, as per its Spanish acronym–, 2010). The improvement in the remuneration to the labour factor has been mainly related to both the growth of salaried employment and increases in salaries recorded within this group (MTEySS, 2010).

On the other hand, personal income distribution, which indicates the way in which total income is distributed among individuals (or households), shows a considerable reduction of inequality. Since the early 1990s and until 2002, the Gini ratio<sup>2</sup>, computed on the family income per capita, rose by almost 0.07 points (from 0.48 and 0.55). As from 2003, when the effects of the 2001-2002 crisis were starting to be overcome, the Gini ratio stopped its upward trend. Theretofore, and until the second quarter of 2011, it accumulated a 0.1-point drop, i.e., from 0.53 down to 0.43.

GRAPH 1. EVOLUTION OF THE DISTRIBUTION OF FAMILY INCOME PER CAPITA  
GINI RATIO, 2003-2011

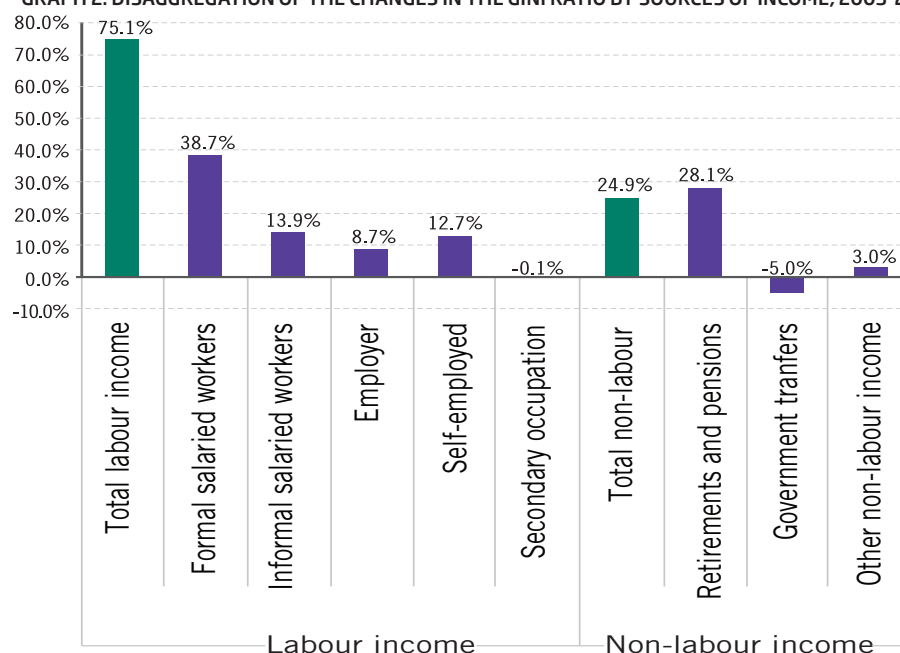


Source: Own calculation based on database of the Argentine Statistics Bureau (INDEC, as per its Spanish acronym).

1. Note that 2008 is the last year for which this information is available.

2. The Gini ratio is one of the most used composite indicators for statistical analysis of inequality. This indicator takes values from 0 to 1: the further away this value is from zero, the greater the inequality.

GRAPH 2. DISAGGREGATION OF THE CHANGES IN THE GINI RATIO BY SOURCES OF INCOME, 2003-2011.



Source: Own calculation based on ILO database (2012).

Distribution of household income per capita depends on the demographic structure and on the capacity of households to generate labour and non-labour income. Labour income is related to the “assets” of individuals (e.g., qualifications), returns on such assets (e.g., salaries), and intensity in the use of such assets (e.g., hours worked). In Argentina, this type of income accounts for 80.1% of the total income. On the other hand, non-labour income, which accounts for 19.9% of the total income, refers to the income arising from capital gains (related, for example, to productive and financial assets), and from transfers from the private sector and from the public sector. Among the latter, retirements and pensions account for 13.9% of the total income in Argentina (ILO, 2012).

Among the factors that explain the dynamics of income distribution since 2003, may be highlighted: i) expanded formal employment, reduced unemployment, and increased salaries within a context of economic growth; ii) strengthened labour institutions (collective bargaining and minimum wages); and iii) increased coverage of social protection schemes (Cruces and Gasparini, 2008; MTEySS, 2010).

During 2003, when the economy was starting to recover from the 2001-2002 crisis, the Program for Unemployed Household Heads (PjyJHD, as per its Spanish acronym) had a significant levelling impact. Later, when the economy entered a sustained growth path, the reduction of inequality in income distribution is mainly due to the developments which took place in the labour market. Specifically, the lower concentration of the income

derived from formal salaried employment, which is closely related to the labour policies on minimum wages and collective bargaining,<sup>3</sup> accounts for a 38.7% of the 0.1-point drop of the Gini ratio during 2003 and 2011.<sup>4</sup> On the other hand, a higher social security coverage and a lower concentration of income stemming from this source account for a 28.1% of the reduction of the Gini ratio.

During the international financial crisis, the Gini ratio rose slightly (3%). In this crisis context, income resulting from self-employment and income transfers by the Government (excluding retirements and pensions) were the factors which contributed to temper this increase (Trujillo and Villafañe, 2011). In this case, the effect of self-employment could be due to the fact that it often acts as a “shelter employment” in crisis contexts.

Once the crisis had been overcome, inequality in income distribution dropped once again, and even the Gini ratio fell below pre-crisis levels.

The improvement experienced after the world crisis was greatly associated to the public policies, such as the Universal Allowance per Child (AUH, as per its Spanish acronym),<sup>5</sup> and by the behaviour of households income from retirements and pensions (Agis et al., 2010; Bertranou, 2010; Trujillo and Villafañe, 2011).<sup>6</sup>

Finally, it should be mentioned that the improved income distribution, together with the increased real household income, has contributed to reduce poverty, which moved from levels over

3. The MTEySS (2008) presented empirical evidence of the effect of collective bargaining in reducing wage dispersion. It shows that wage dispersion among collectively bargained workers decreases significantly for workers at small firms, unskilled workers, and workers with low levels of education. In these cases, it is argued that, quite possibly, the role played by minimum wage serving as a wage floor has a greater effect than collective bargaining.

4. This effect concentrated mainly in the 2004-2008 period (Trujillo and Villafañe, 2011).

5. The disaggregation in graph 2, Government transfers (in respect of social assistance, unemployment allowances, and study grants) present a negative contribution to the evolution of the Gini ratio. This is attributable to the fact that, even if this component increases its progressiveness, the weight of this source on total income decreases between 2003 and 2011. In 2003, the PjyJHD effect is captured at its peak coverage, while in 2011, there are some difficulties to identify beneficiaries of AUH in the source of information (ILO, 2012).

6. All the actions of the Government have a distributive impact, but this br has only considered those actions related to employment policies and, within the social protection area, those destined to ensure income security. However, it must be borne in mind that the public expenditure in education (public institutions) and in health-care

## Decent Work as consistent policies program for improving income distribution

Surveys carried out by the ILO have shown that, in order to ensure that the benefits of economic growth are distributed in a socially sustainable manner, and considering, at the same time, a series of factors that foster economic dynamism (such as reward to effort, skills, and innovation), it is necessary to have a consistent set of institutions and policies: robust tripartite institutions, well-designed labour regulations and social protection schemes, respect for workers' rights, and actions ensuring employment opportunities (ILO, 2008). In this sense, the Decent Work Agenda has become a relevant strategy for reducing inequalities and fostering employment. The priority of decent work in Argentina was evidenced in 2003, when the decent work objective was incorporated in the Millennium Development Goals, and on occasion of the enactment of the Labour Regulation Law (Law No. 25,877/2004), which promoted the inclusion of the decent work concept in the public policies of all three government levels. Particularly, the concern for improving income distribution has been considered in the Decent Work Programme in Argentina (ILO, 2009a). The ILO has cooperated with its constituents in strengthening their capacities for coordinating and implementing policies oriented to improving income distribution. In 2008, the ILO Office in Argentina supported the execution of a survey entitled "Reflections and Proposals to Improve Income Distribution in Argentina", which analyzed the coordination of policies aimed at improving income distribution, assessed the impact of the Argentine tax system on distribution and reform proposals, and assessed monetary transfer schemes oriented towards reducing poverty and inequality. Some of the policies analyzed in this initiative were later put into practice and had favourable distributive results.

50%, in 2002, down to an 8.3% in the first half of 2011. This behaviour would contrast with the data surveyed in the period prior to the 2002 crisis, when the deterioration in the income distribution negatively impacted on poverty.<sup>7</sup> In the same line, considering that the growth-poverty elasticity<sup>8</sup> increases as income distribution improves, a decrease in inequality would make it possible for increases in the average income of the population to bring about an even greater reduction of poverty.

## III. Final Reflections and Challenges to Improve Income Distribution

The employment growth observed over the past years, recorded within a context of (relative) increase in the demand for unskilled and semi-skilled employment together with a set of policies aimed at strengthening labour institutions and at enlarging the social protection system, gave as a result a reduction of inequality in income distribution in Argentina. However, this inequality in income distribution is still higher than that recorded in the 1970s.<sup>9</sup>

The decreasing evolution of the inequality indicators observed in Argentina over the past decade is similar to the one observed in other countries in the region, such as Brazil, Chile, and Mexico. In all these experiences, transfers for social protection and labour income have contributed substantially in such improvement; however, it is important to highlight that the Argentine labour market has reached the major leading role when it comes to explaining the changes in the improved income distribution (Bertranou and Maurizio, 2011).

The challenges involved in continuing the course of the recent years regarding distribution include the achievement of an improved consistency and coordination among policies. The integration of the macroeconomic policy with labour and social policies during the 2003-2006 recovery and expansion phase proved to be a good example of consistency of policies oriented towards generating decent work and improving equity (ILO, 2008). The acceleration of inflation, which has been observed since 2007, regardless of its causes, constitutes a cause for concern due to its social consequences.

Control of inflation requires major efforts regarding coordination and social dialogue, since, in order to minimize its potential negative effects on employment, it is necessary to integrate macroeconomic policies and income policies (ILO, 2009b).

In addition, it is also necessary to strengthen labour institutions and social dialogue. Labour policy is now faced with the challenge of improving relative productivity of unskilled workers, so that they can benefit from economic growth and labour informality can be reduced.

In turn, training policies must go hand in hand with policies that aim at building a productive structure with more weight on intensive activities focused on use of knowledge, where small and medium-sized companies can have more possibilities of developing and generating higher-quality employment with higher compensations. It is also important to note that, in designing productive development policies, the regional dimension should be present (Kulfas, 2011).

7. Empirical evidence shows that the poverty reduction that was recorded during the 2001-2002 crisis-recovery stage was attributable to a considerable income redistribution effect, as opposed to the previous decade, when the increased inequality negatively impacted on poverty rates (Gasparini *et al.*, 2005).

8. This indicator measures the number of percentage points by which poverty decreases when the GDP grows by 1%. For recent years, in line with the improved distribution of income, different indicators show a pro-poor bias in growth (that is, income of the poorer strata has grown more than that of the rest of the population).

9. In 1974, the Gini ratio of the family income per capita was 0.345 for the Great Buenos Aires urban agglomeration, while during the second quarter of 2011, it was 0.428. The available information does not allow computation of the Gini ratio for the total of the urban agglomerations in 1974, since this survey did not have a national reach.

In addition, not only do productive development actions have an impact on income distribution, but it also can moderate the in-work poverty phenomenon. It should be highlighted that, in Argentina, as well as in other countries in Latin America, poverty has not been exclusively related to being employed or unemployed; rather, it has had to do with quality of employment (Carpio et al., 1999; Kulfas, 2011).

As it has already been mentioned, social policies through income transfers have allowed reduction of inequality in income distribution. Therefore, this policy should continue to be consolidated in the future, by reducing some coverage gaps that still exist in family allowances (both contributory and non-contributory) and in the retirement and pension system, for the purpose of ensuring future maintenance of the high levels of social security coverage, brought about by the increase in formal employment, the pension fund moratorium policy, and the expansion of family allowances. Furthermore, it would be advisable, in order to increase the distributive impact of fiscal policy, to improve progressivity of the tax system, particularly by increasing direct taxes with respect to total tax collection (ILO, 2009). Also, although it has been evidenced that public expenditure in education and health-care (public education and public health-care institutions) in Argentina has a progressive nature, in order to favour a long-term redistribution of opportunities (favouring strengthening of human capital in all groups, levelling income-generating capacities, and increasing social mobility), an increase in the resources in these areas should be accompanied by an improvement in the quality and effectiveness of services.

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