

Evaluating Argentina's Welfare Policies and the Impact on the Economy

Chengxi Li^{1,a,*}

¹Beijing Huijia Private School, Beijing, 102299, China
a. 25lichengxi@huijia.edu.cn

*corresponding author

Abstract: Argentina's distinctive and abnormal economic phenomenon and its special welfare system are certainly valuable for investigation. The main purpose of this article is to evaluate the welfare system and policies implemented by Argentina government through the last century, and the influences onto the whole economy. The result shows that, despite the high financial resources being invested into the welfare system, the success of welfare policies only lasted for a few decades before the whole system encountered a decline in late 1970s and finally collapsed through the "lost decades" of Argentina. Also, as the result of welfare policies remaining inefficient, the large amount of money that used to maintain welfare system become the burden of Argentina economy, causing debt crisis. Considering the fact that the fundamental problem was the government deficit and debt level, to prevent such situation to happen again, several policies might be available and effective. These policies include cutting government spending or adopting privatization strategy, which would outsource the welfare section to private sector and reduce government burden.

Keywords: welfare, Peronism, government debt.

1. Introduction

Argentina is well-known for its distinctive economic system and tortuous evolution process of the economy. The country itself was flourishing in the early 20th century, but its economy declined after 1983 and finally collapsed after the 1980s. This kind of abnormal economic phenomenon certainly deserves investigation on it to figure out what causes it. Social welfare has always been an important question that has been argued by scholars, because it represents as social institutional arrangement that exists for the purpose of ensuring and improving the quality of life of citizens [1]. Currently, social welfare is divided into three types, residual welfare model, institutional redistributive model, and developmental welfare. Residual welfare is for people who are facing an emergency situation. Institutional redistributive welfare means the welfare that is provided to all citizens, and developmental welfare is for improving people's living standards [2]. Additionally, social welfare has always played an important role in Argentina's economic history. As a developed country, Argentina has a long history of implementing high social welfare policies, which can be traced back to the Peronism proposed in 1940. Also, due to a large amount of money needed to implement all those kinds of social welfare, Argentine government often burdened with a high level of debt. These debts finally affect the economic growth of Argentina by causing multiple debt crises. Thus, the social

welfare problem of Argentina is a very useful and important example to study the relationship between social welfare and economic growth.

Currently, several types of social welfare of Argentina get the attention of scholars. From the perspective of residual welfare, Argentina has established government-supported funds that aim to assist and support disadvantaged groups. In the institutional welfare aspect, Argentina also established complete assistance on healthcare, education, unemployment benefit and annuity system for elder people. Additionally, many types of developmental welfare were also created, such as housing assistance, and all these complete social welfare systems were formed during the period of 1943 to 1946. Moreover, this welfare system that seemed to be full and secure finally collapsed after decades of accumulating government deficits and debts. Furthermore, some scholars argue that these social welfare systems in Argentina did not achieve their original purpose of improving equality and eliminating poverty [3]. While the intention behind implementing social welfare policies was to provide support to vulnerable populations and reduce economic disparities, the outcomes have been subject to debate. Critics contend that despite the significant investments in social welfare, inequality and poverty persisted, or even worsened in some cases.

To fully access the social welfare of Argentina, this paper analyses the social welfare through three aspects, namely the evolution of Argentina's social welfare, the huge impact it caused on the Argentine economy, and whether the programs really achieved its purpose.

2. The Development of Argentina's Social Welfare

As mentioned, Argentina started to establish its complete social welfare system much earlier than other countries at the earlier age of 20th century. At this stage, the 1940s was certainly a meaningful decade not only because Peronism, that possessed influential position and extremely preferred welfare program, but also because many fundamental welfare policies were published during this period. To be more specific, such change began in 1943 when Peron was the minister of labor welfare department. He started a series of reforms that aiming at improving the welfare level of Argentina workers. For example, Peron government established courts for solving the dispute between labor and companies, introducing minimum wages to the society, and approval of the appearance of labor union. After Peron was elected as president in 1946, he launched a larger scale of government intervention toward the economy and social welfare. The medical care was first being developed, and the health department set several fundamental goals for it, including establishing a complete medical system around the country, allows every citizen to use medical resources freely. There were adopted policies that could eliminated the contagion throughout Argentina. Although this project finally collapsed in 1951 due to the lack of funds, it did offer some precious experience for the future healthcare system, which turns into health insurance controlled by multiple local labor unions. Also, for the purpose of solving the shortage problem in the housing market, a set of housing policies were carried out. Throughout the 1940s, Peron government was focused on the public housing program. The government first published a set of laws that emphasized protection of the renter's benefits. Authorities then released a plan for public housing, which the government would direct invest into housing construction. In another aspect, the government also set up a special department called Administración Nacional de Vivienda (ANV), for communicating with local firms and offer them technical assistance on any housing projects [3].

When the time comes to the period of 1955 to 1983, Argentina got into long-term political chaos, that 12 governments were being formed during this period [4]. However, the social welfare policies remained stable growth throughout the chaotic political environment. Largely due to the huge benefits that Peronism policies brought to workers and people, any government had to improve social welfare to get votes from people. During the 1950s, workers' welfare improved through the promulgation of an amendment constitution, which included more types of labor in the social insurance project.

Additionally, in 1958, the social insurance system received more support from the government. The official pension substitute rate was being set at 82%. Labor unions in different industries were offered the right to negotiate specific pension treatment in the specific industry. The rapid expansion of the pension substitution rate and other retirement subsidies ended in the late 1960s, when the pension funds started to face loss, and the final substitution rate was set at 70% to 80% [3]. The national healthcare system also became developed and stable during this period. In 1970, under the negotiation between the military government and labor union, a new health insurance program was launched, which included all paid workers in it.

The decline of Argentina's social welfare took place in 1990s, when Argentina's government did realize the huge burden that the welfare system brought to the government budget. However due to the deep impact of Peronism, it was impossible for the government to directly cancel or reduce social welfare. Thus, Argentina government chose to privatize part of the pension and healthcare system. Although these policies did release some budget stress on the government, the immaturity of the welfare market and the inability to maintain the national welfare system caused the collapse of Argentina's social welfare in the late 1990s. After the debt crisis happened in 2001, Argentina got into a huge economic recession that lasted from 2001 to 2003. The whole country took several years to recover from the crisis. Thus, the development and sustainability of social welfare were ignored through the first decade of the 21st century. Until 2007, the new president Cristina started to focus on social welfare programs and the unemployed population [5]. Due to the complete collapse of Argentina's economy, unemployment had risen to an unprecedented high. As the number increases, unemployed people begin to form their own organizations called "Piqueteros" that replaced the status labor unions and started to negotiate with the government. Therefore, Argentina's government implemented a series of policies that nationalized pensions and other social insurance in 2008, which lowered the entrance barrier of pensions and favored the low-income and unemployed population.

3. Effectiveness of the Welfare Programs

In order to evaluate the welfare system of Argentina, it is important to assess the real effect that the welfare program brings to people. After looking through the whole process of the development of Argentina's social welfare, the effectiveness of this program could be analyzed. First, the welfare policies in the Peron government's period could be summarized as successful and beneficial to people. At the beginning of these welfare programs, Argentina still had a strong economy, stable taxation revenue, and a low debt level. These programs could be pursued with the full support from the Argentina government and society, which some of the programs did improve the well-being of people and contributed to the living condition of Argentina. However, because many policies adopted during Peron's government were too ambitious, that most of them turned to a complete failure when the economy faced downturns or fluctuations. Such as the health secure program proposed in 1947, the plan of the program was to establish a complete medical system, popularize medical insurance for every person in Argentina, and eliminate contagion. However, it was too ambitious a plan for Argentina at that time, and the program failed right after a small recession at 1951 as expected. Therefore, the whole welfare system from 1940 to 1955 can be concluded as successful in the big picture, but for some particular programs, these policies were too radical to implement.

Although the welfare system in the 1955 to 1983 was still expanding, more aspects of social welfare became mature and stable under this period. More fundamental problems that were hidden under the flourishing appearance of social welfare development were exposed, such as high budget burden for maintain the running of all kinds of welfare. The reduction of the pension substitution rate from 82% to almost 70% was a good example. Also, the rigidity of labor unions had become an issue. These institutions can only operate welfare programs under stable economic conditions. Once there happened a crisis, their welfare program would be unavailable for those who need assistance. In the

1970s, as Argentina was involved in international trade, many workers were facing the impact of foreign goods and became unemployed, but the welfare programs of labor unions or other institutions could not give them any help. Thus, the welfare system during this period was much worse than the Peron's age, but at least it was still developing.

When the time came to the 1980s to 2000s, Argentina's welfare program collapsed as its economy got into continuous crises and recessions [6]. Inflation, high debt level, and low taxation revenue made the government unable to maintain social welfare anymore. Although from 1983 to 1990, the proportion of government spending on social welfare increased from 41.4% to 58.6%. The real expenditure on welfare remained a constant reduction. This finally caused the collapse of the pension and healthcare system. When funds invested in healthcare sector was even not enough for paying salaries of doctors, the quality of medical services dropped to a terrible level [7]. Additionally, an experiment conducted in 2009 found that the education level in 1990 to the 2000s had a very low quality. When 15-year-old Argentina students took an international test called Program for International Students Assessment (PISA), the score of Argentina students was 100 points lower than the students in Poland [8]. These evidences indicate that the total welfare level during the "lost decade" of Argentina was very low, and it can be concluded that the welfare policy during this period and in several years after it was a failure.

4. Economic Impact

Argentina's welfare system has always played an important role in its economy. When the system was first established in Peron's period, social welfare was definitely a force that propelled the development of the economy. Due to the policies that focused on improving the salary and retirement benefit of workers, the total income of Argentina people would get lifted and lead to an increase in consumption. However, as mentioned, maintaining such a social welfare system required a huge amount of money that need to be invested into the system, and the taxation revenue of the government was largely dependent on the income of people, so adopting such a welfare system was certainly risky [9].

These risks were finally released when Argentina encountered economic fluctuation in the 1980s. The sudden occurrence of recession made Argentina people's income drop significantly, leading to a fall in taxation and making the government unable to maintain welfare. However, as mentioned above, the deep influence of Peronism also made the government unable to get rid of the welfare system. Such a situation left the government with no choice but to start accumulating debt and launching large-scale privatization in order to sustain the welfare level [10]. These methods, however, could not solve the problem permanently. After Argentina countered another financial fluctuation in 1995, the debt level quickly loss control and finally incurred the outbreak of 2001 debt crisis [11]. Therefore, even though the welfare system did have some positive impact on Argentina's economy, the gigantic money it required finally become the most important factor that caused the collapse of the economy.

Despite the significant consequence brought by the unbalanced welfare system, there are some methods and policies that government could use to prevent similar problem from happen again. When considering all the economic crisis that a distort welfare system could have caused, a critical factor that directly led to these crises is the debt problem. As it being mentioned, in order to maintain an intricate and high-level welfare system, it is necessary to invest an enormous amount of money into it, resulting in increasing government deficit and debt level. Therefore, the first method to solve such problem could be directly shutting down some welfare programs that has already become the burden of government. By adopting such policy, the government spending would decrease so that the government no longer need to borrowing money to maintain the investment of welfare system. However, when taking the influence of Peronism into consideration, implementing policy that reduce social welfare might be politically unpopular. Therefore, some alternative policy would be more

successful under such condition. For example, getting the support and assistance from World Bank or International Monetary Fund (IMF) can replenish the gap between taxation and welfare investment, and then alleviate the high fiscal burden. Also, by adopting privatization policies, which transmit part of welfare programs to private sector from public sector, the government would be able to reduce the its spending without facing any protest from public. By both actively replenish the taxation gap and reduce government spending, the debt level would soon return to regular level, and thus prevent a crisis to happen.

5. Conclusion

The distinctive and unconventional economic phenomena observed in Argentina, coupled with its distinctive social security framework, undoubtedly merit thorough investigation. The core objective of this article is to assess the social security systems and policies enacted by the Argentine government over the past century and to analyze their impact on the overall economy. To achieve this, three primary aspects are examined, namely the historical evolution of the social security system, the efficacy of the implemented social policies and the economic consequences resulting from their enactment. The findings indicate that despite the substantial financial resources allocated to the development of the welfare system, the effectiveness of these policies proved transient, exhibiting a decline in the late 1970s and ultimately leading to its collapse during the so-called “lost decades” of Argentina. Furthermore, as an unintended consequence of the prolonged inefficiency of the welfare state, the significant financial resources allocated to maintaining the system ultimately became a burden on the Argentinian economy and ultimately led to a debt crisis. It is important to recognize that the fundamental problem is the level of government deficits and debt. To avoid a repetition of these circumstances, a number of potential courses of action may be considered. One potential solution is to reduce government spending or to adopt a privatization strategy, which would include policies on reducing the burden on the government and collecting funds to repay debts.

However, this article still has several drawbacks. The article is based on theoretical explanations and lacks data analysis, which might make the final result or the policies suggested not accurate enough. Also as mentioned, Argentina has a very special political and economic environment around the world, which makes the experience of Argentina’s economy distinctive. For example, the existence of Peronism makes Argentina totally unable to deal with government spending. Thus, since the policy suggestion is based on the situation of Argentina, these suggestions might not be useful in other countries. In the future, the quality of the article can be improved by introducing more welfare status in different countries and using data or quantitative methods to analyze the problem deeply.

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