

# Transformation and continuity of the Argentine welfare state -- evaluating social security reform in the 1990s

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## TRANSFORMATION AND CONTINUITY OF THE ARGENTINE WELFARE STATE: EVALUATING SOCIAL SECURITY REFORM IN THE 1990s

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Beginning after World War II, Argentina institutionalized a limited conservative corporatist welfare state where occupation-linked social insurance held a central position and social assistance had a residual character. This was called a limited conservative corporatist welfare state, because the huge population within the informal sector was excluded from the main system. A populist government supported by trade unions and the economic model of import-substituting industrialization were the background for the formation of this type of welfare state. During the 1990s, elements of a liberal regime were added to the Argentine welfare state under the reform carried out by the Menem Peronist government. However, social insurance reform and labor reform were not as drastic as the economic reform. They still retained a certain continuity from the traditional systems. The government intended to carry out more drastic social security and labor reform, but was unable to do so due to the legacy of corporatism of the Peronist government.

### INTRODUCTION

**T**HE Peronist government under Carlos Menem, established in 1989, promoted drastic market-oriented neoliberal economic policies, including the privatization of state-run corporations and trade liberalization. At the same time, the government undertook reforms in social policies such as the pension system, social health insurance, and the flexibilization of industrial relations, which, however, turned out to be not as drastically market-oriented as the economic reform. The purpose of this article is to review the characteristics of the Argentine welfare state that was restructured by the social security reform in the 1990s, implemented under the Menem government, and to examine what factors contributed to its transformation.

With regards to the character of the Argentine social security system, Grassi,

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Hintze, and Neufeld (1994, p. 15) emphasize such aspects as the interlocking of social rights<sup>1</sup> with formal occupation, and the residual character of social assistance. Many other researchers share Grassi, Hintze, and Neufeld's view concerning the character of Argentina's social security system until the 1980s. The first objective of this article is to examine the character of the Argentine social security system, which was thus formulated by the 1980s and has been transformed by the reform in the 1990s and thereafter.

The second objective of the article is to examine the factors that contributed to the formation and transformation of the social security system. Many preceding studies adopt a method of functionalism under which current social policies are determined by socioeconomic structures, as seen in the studies of Vilas (1997), who claims that in Latin America, social policy has been reformed in response to neoliberal economic policy. However, though this explanation may account for part of the general trend of social policy formation in Latin America, it can hardly elucidate the difference in social policies among countries that have adopted similar neoliberal economic policies. Esping-Andersen (1990), also criticizing the method of functionalism<sup>2</sup> as being incapable of fully explaining the formation of the present-day welfare state, stresses the importance of political factors with a central focus on class coalitions in the formation of welfare states. In Argentina, too, Minujin and Consentino (1993, p. 47) point to the strong influence of trade unions in the expansion of the social security system, and especially of social insurance. Lo Vuolo and Barbeito (1993) also argue that the Argentine welfare state, unlike those in Europe, developed in an environment where democratic elements were scarce, and characterizes the Menem government, which implemented social security reforms in the 1990s, as a delegative democracy. Meanwhile Panizza (2001, p. 179) stresses the importance of old political system which supported the Menem government and at the same time influenced the state reforms. In this article, by incorporating those arguments, we will use political factors as one of the pillars in explaining the background of the formation of the Argentine welfare state, while giving due attention to the strength of trade unions and the state of democracy in the 1990s.

However, the intense intervention by the state into the economic process in Argentina after World War II is such a well-known fact that it is difficult to exclude economic factors from those that contributed to the formation of the welfare state. Huber and Stephens (2001) have shown a certain conformity between the theory of

<sup>1</sup> According to widely used Marshall's (1964) definition of social rights, it refers to a wide range of citizens' rights from minimum security for life to various economic and social securities for standard life in the society (p. 72).

<sup>2</sup> Criticism of the method of functionalism described by Esping-Andersen is specific both to industrialism and Marxism. For example, it is argued that if the working class is subordinate to the system, as asserted by the Marxist theory of the welfare state, it is difficult to explain why as much as 40 per cent of the GNP is spent to legitimize the welfare state (Esping-Andersen 1990, p. 14).

production regimes and the welfare state. Therefore, we will begin with the methodology of Esping-Andersen and Huber, and incorporate the preceding studies by Argentine researchers that take into consideration the particularity of Argentina.

From this, we shall put forward and implement an examination of the political and economic paradigms that existed for each period and examine how the Argentine welfare state was formed and transformed and by what actions of political agents. To this end, the article is structured as follows: Section I describes the character of the Argentine social security system from World War II to the 1980s as well as the factors contributing to its formation; Section II then describes the characteristics of the social security reform in the 1990s; and Section III attempts to clarify what factors drove the reform of the social security system in the 1990s and why it has not been as strongly market-oriented as the economic reform. Incidentally, we will make an aggregate discussion of elements common throughout Latin America and those unique to Argentina. Therefore in the final section, we will discuss the welfare state model common to nearly all the Latin American countries and the paradigm of political economy that brought about the model as well as, among others, Argentina's characteristic social security policies and the distinct paradigm of political economy that contributed to its formation.

## I. FORMATION OF THE SOCIAL SECURITY SYSTEM IN ARGENTINA AFTER WORLD WAR II

### A. *Social Security System from World War II to the 1980s*

In Argentina, prior to the establishment of the Perón government (1946–55), six occupation-related pension accounts had been introduced. In 1944, when Juan Domingo Perón was Secretary of Labor and Social Security, a pension plan for commercial workers was introduced, and an industrial workers pension plan was established in 1946, after Perón came to power. In 1954, pension plans for agricultural workers as well for self-employed, managers, and professional workers were introduced. Thus virtually all working people were placed under the coverage of public pension plans during the Perón government. In 1956, at the time of the Aramburu military government, the coverage was further extended to homemaking service workers. As a result, all working people nominally came to be under the coverage of the pension system (see Appendix Table).

During the period of the Perón government, the coverage of the pension system expanded dramatically, but the occupation-related system remained unchanged and attempts to integrate the plans were unsuccessful (Isuani and San Martino 1993, p. 15). In addition, although the pension system expanded to cover all occupations, it was mostly civil servants and employees of private companies that actually received pensions, and there were major disparities with the other occupations (Feldman,

TABLE I  
COVERAGE OF THE PENSION SYSTEM

(1,000 persons)

	Male Population (Age 60–)	Female Population (Age 55–)	Total	Beneficiary	Coverage (%)
1950	613	882	1,495	188	12.59
1955	754	1,082	1,836	473	25.76
1960	912	1,324	2,236	749	33.51
1965	1,069	1,604	2,674	1,086	40.62
1970	1,224	1,899	3,123	1,390	44.52
1975	1,376	2,198	3,575	1,695	47.41
1980	1,521	2,518	4,039	2,342	58.00
1985	1,686	2,842	4,528	2,759	60.93
1990	1,858	3,119	4,977	3,031	60.90

Source: Isuani and San Martino (1993, p. 19).

Golbert, and Isuani 1986, p. 66). During this period, the pension financing system was moving from a capitalization system to a pay-as-you-go system (Feldman, Golbert, and Isuani 1986, p. 16). In 1967, under the Onganía military government, the pension systems were integrated into three major pension accounts: for national public servants, employee workers, and self-employed workers. The pension-eligibility age was raised, contributions and benefits were standardized, and trade unions were excluded from the management of the pension system (Table I).

Health insurance systems were also established one by one by occupational category under the Perón government. However, the coverage of health insurance did not reach to all occupational categories at that time. The development of health insurance took place in parallel with the development of the public hospital system providing medical services free of charge, in principle, to the entire population. The health insurance coverage expanded dramatically in 1970, when the Social Health Insurance Law was legislated by the Onganía military government. Under the law, all employees had to be enrolled in the health insurance system, and trade unions were admitted as health insurance administrators together with the government and state-run and mixed enterprises (*Anales* 1970, pp. 180–85). As a result, many health insurance were operated by trade unions.

In addition, the worker's accident compensation insurance was introduced by law for the first time in 1915, and in 1955 its coverage was extended to all employees by the Lonardi military government (*Enciclopedia juridical OMEGA* 1979, pp. 21, 30). The family allowance system in Argentina is operated as a form of social insurance. The system was first introduced for certain occupational categories in 1945, when Perón was Secretary of Labor and Social Security, and in 1957 at the time of the Aramburu military government, the participation of commercial and

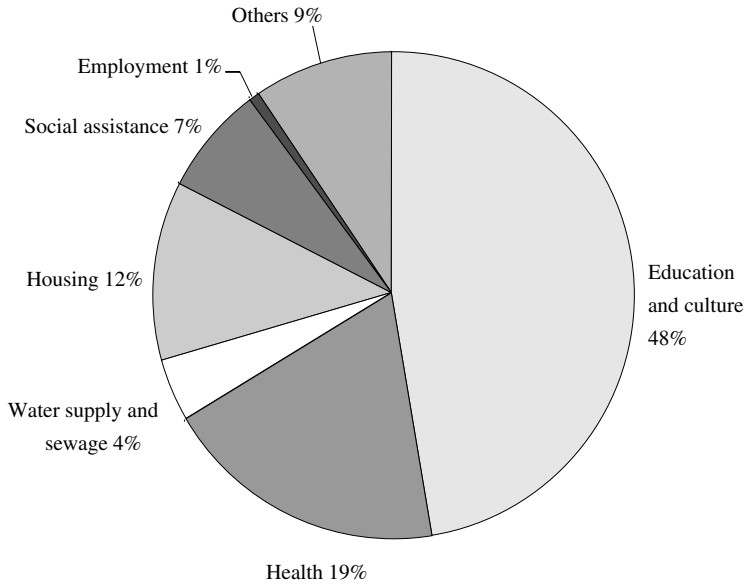
industrial workers became obligatory. Then, in 1968 under the Onganía military government, it was expanded to cover national and local civil servants (Sardegna 1989). The unemployment insurance system, though available in some exceptional cases, was not universally available until the enactment of the Employment Law in 1991.

As a matter of course, social insurance was for formal sector workers, and employees were particularly privileged. Self-employed workers were virtually blocked from all social insurance other than pension. The coverage of social insurance peaked in the 1980s at about 60 per cent (Isuani and San Martino 1993, p. 19), while health insurance coverage, since posting 67 per cent in 1971, has continued to decline to 44.8 per cent in 1996 (Grassi, Hintze, and Neufeld 1994, p. 135; ANSSAL 1997, pp. 103, 123). As described above, 30–40 per cent of the population is not covered by the social insurance system, though its share of public social expenditures is large. In 1980, public social expenditures accounted for 16.9 per cent of GDP, with 56.75 per cent and 43.25 per cent of this sum coming, respectively, from the social insurance sector and social sector sharing (de Flood 1999, p. 74), indicating the majority of the expenditures were for social insurance. In other words, the social insurance system developed after World War II came to form the core of the country's social security system, but was an occupation-related system targeting only the formal sector. There was a distinct stratification between the formal and informal sectors and even within the formal sector there was a stratification among occupations.

As for social assistance, a universal system prevailed throughout the development process, with the social sector being financed basically by fiscal expenditures and with the entire population as a target. A breakdown of the social sector in 1980 shows that education and culture combined accounted for 48 per cent, almost half of the expenditures. The largest expenditure in the social sector other than education is medical care (health), which accounts for 19 per cent (Figure 1). The central part of this system is the public hospital system that in principle provides the entire population with treatment free of charge. When Carrillo (1974, pp. 362–63) was serving as Minister of Health during the Perón government, the number of public hospitals was dramatically expanded, from 50 state hospitals with 15,000 beds in 1946 to 125 hospitals and 25,000 beds in 1951. As mentioned above, during the Perón government, medical policy was developed through the parallel building of the occupation-related health insurance and the universal public hospital system. Consequently, however, the medical system in Argentina gradually became stratified, so that employees in the formal sector used health insurance, while the people in the informal sector used public hospitals and the middle to upper class used private medical service and insurance.

Other public social assistance policies were traditionally driven by charity organizations, but the public system expanded beginning with the establishment of the

Fig. 1. Public Social Expenditure in the Social Sector in 1980



Source: de Flood (1999, p. 74).

Eva Perón Foundation that took on a public nature, with the foundation having a large impact on the character of the subsequent social assistance policies. The foundation established in 1948, and was led by Eva Perón. It was financed from public fund and donations from trade unions and others. The foundation provided low-income populations with monetary as well as in-kind assistance (clothes and food). The foundation also enlarged its operation into areas such as nursing homes, non-contribution pension benefits to those over age sixty with no assets and no pension plans, facilities for children, housing construction for low-income populations, hospitals, and shelters for female workers with economic and social problems (Ferioli 1990). Though the social assistance activities of the foundation were significant in the sense that social assistance is operated by the public sector, they entailed the following problems. Firstly, the activities of the foundation were not institutionalized compared with the social insurance sector and characteristically lacked planning. This became a prototype for subsequent social assistance policies, which tended to have a residual and fragmented character compared with social insurance. This is also reflected on social assistance expenditures: in 1980, while social insurance expenditures made up 9.13 per cent of GDP, expenditures for the items comparable to social assistance were only 0.52 per cent of GDP (de Flood 1999, pp. 74–76).

Secondly, it could be pointed out that a patron-client relationship was established between Eva Perón and the beneficiaries of social assistance. For instance,

the procedure of applying for non-contribution pension involved either directly asking Eva or writing a letter to the foundation or to the official residence of the president, which inherently implies a risk of arbitrary administration (Ferioli 1990, p. 36; Usami 2001a, p. 25). Here again we see a prototype of clientelism in social assistance policy, which is still observed today.

Rather than public social assistance of a residual nature, it was family and women that shouldered the care for the elderly, infants, and children. The rate of female labor participation in 1947, during the period of import-substituting industrialization, was 23.4 per cent, and even in 1980 it was still only 26.9 per cent (Torrado 1992, p. 92), indicating the existence of a gender division of labor, with men as breadwinners and women taking charge of domestic duties including care, continued in a clear-cut form. The wealthy, on the other hand, partially procured care from the market by hiring domestic service employees. As described above, social assistance until the 1980s was residual, while retaining the character of clientelism and familism.<sup>3</sup>

#### B. *Political Economy Paradigm for the Formation of the Social Security System*

Examining the contributing factors to the social security system until the 1980s, the following economic factors are identified: The Argentine economic development model after World War II can be described as one of import-substituting industrialization, which was placed as the foundation for the economic development of the country. With a view to driving forward import-substituting industrialization, the state aggressively intervened into the economy and promoted the industrialization of relevant sectors. The policy of import-substituting industrialization, though varying to some extent in its response to foreign capital and in the degree of trade liberalization, was maintained for a prolonged period until the 1980s throughout the period of the Perón government and the other civilian and military regimes, with the exception of the military government between 1976 and 1983.

The promotion of import-substituting industrialization was closely linked to the following political factor: One of the reasons for the Perón government's promotion of import-substituting industrialization was to prevent the radicalization of the labor movement by securing full employment. For example, in 1944, Perón wrote in one of his books, "if the economic order introduced by the state develops production, distribution and circulation, and is directed to the maintenance of social order and the prosperity of each social group, only then shall social problems be appropriately solved" (Rousselot 1997, p. 22). Meanwhile, one of the important motivations behind many of the policies taken by the Perón government toward workers

<sup>3</sup> The Eva Perón Foundation was dissolved by the military following the coup d'état in 1955 and most of its activities were transferred to the current Ministry of Health and the Ministry of Social Development.



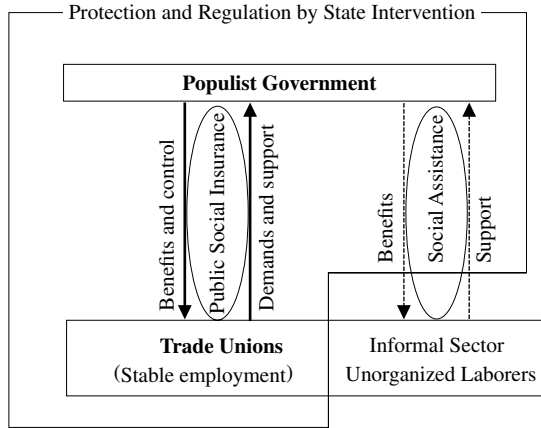
was the deterrence of the radicalization of the labor movement (Usami 2001a, pp. 11–13). In other words, the Perón government tried to conciliate the labor force by promoting import-substituting industrialization and through social security policies for workers.

The promotion of import-substituting industrialization and the enlargement of the state brought about an expansion of stable employment. As a result, workers were organized and trade unions expanded. The number of union members increased from 500,000 in 1945 to 3 million in 1951 (Santos Martínez 1988, p. 315). It is true that the trade unions that grew during this process became a major base of support for the Perón government, and that Perón himself envisioned a state corporatism that would control those trade unions from above. Unlike in Mexico, where peasants' associations are as significant as those of workers, state corporatism under the Perón government was characterized by having the relationship with trade unions at its center, as the military and churches had gradually estranged themselves from the government. However, this does not mean that trade unions were completely controlled from above, and it cannot be denied that unions maintained a certain autonomy. For instance, in 1954, the unions of metal industry, contrary to the decision of the government and the General Confederation of Workers not to increase wages, conducted sporadic strikes demanding a wage hike (Luna 1992, p. 804). There were also occasions when union executives were forced to resign or the government and the management were compelled to compromise due to demands from the ranks and files of the unions (Gaggero 1997, p. 174; Auyero 1997, pp. 208–9). The development of social insurance during the Perón government was presumably thus realized as a benefit provided by the state with the intention to control trade unions from above, and as a concession to trade unions, which maintained a certain autonomy (see Figure 2).

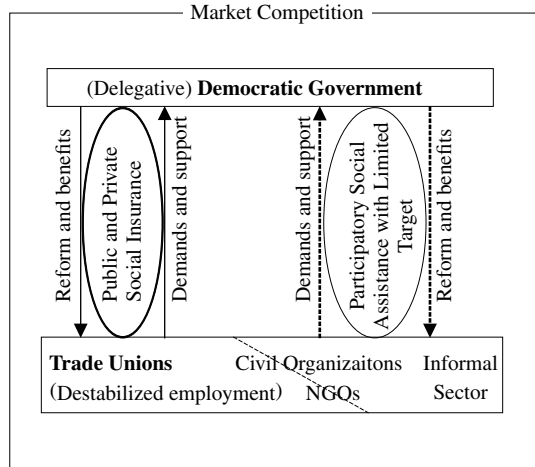
After the fall of the Perón government, therefore, workers in the formal sector continued to be given dual protection, with their wage and employment guaranteed by import-substituting industrialization and by the enlarged state, and also with the protection given by social insurance that had developed. Meanwhile, people in the informal sector, who had been left out of the benefits of import-substituting industrialization, engaged in unstable and low-wage employment. They were not covered by any social insurance linked with stable employment, and only received the above-mentioned social assistance of residual character. During the Perón government, however, as a result of the active propaganda that Eva was on the side of the poor and that policies for the poor were being actively implemented by her, many of the informal sector population were incorporated into the support base of the Peronist Party. However, in comparison with the relationship between organized trade unions and the government, where the demand and support relationship is organizational and explicit, that between the benefits given to the unorganized informal sector population and their voting for the government as a trade-off was

Fig. 2. Transformation of the Welfare State in Argentina

A. Limited conservative and corporatist welfare state during the period of import-substituting industrialization



B. Market-oriented conservative and corporatist welfare state after the 1990s



Source: By the author.

Notes: 1. Lines indicate relationship between agents. Line thickness indicates relational strength.

- 2. ——— Organizational relation.
- Nonorganizational relation.
- Agents.
- Social security system.
- ( ) Respective characteristics.

nothing more than an “estimation” (Auyero 1997, p. 179).<sup>4</sup> Hence, support from the low-income population for the Peronist Party as a trade-off for social assistance is ambiguous, and the relationship must be studied more cautiously, as Auyero stated in his study (Auyero 2000, p. 217).

Secondly, as mentioned in Section I.A, it should be noted that even during the military government period, the social insurance system expanded to a non-negligible level. The military, from before World War II, had been interested in industrialization from the viewpoint of national security. Except for the military regime from 1976 to 1983, which promoted neoliberal policies, the military governments promoted import-substituting industrialization and the military itself directly and indirectly managed a group of large-scale heavy and chemical industries under the General Direction of Munitions Industry. There are two main views as to why the social insurance system developed during a period of military governments. The first emphasizes the role of technocrats under the autonomous military governments. Malloy (1979, p. 144), using an example from Brazil, writes that “the orientation and goals of the military regime converged with those of the social insurance technocrats to create an alliance willing and able to impose a systematic reform of social insurance system.” The move in 1967 of the Onganía military regime to remove trade unions from the management of pension system when it integrated the pension systems, which until then had been segmentalized by occupational category, can be seen as an example of this.

The second is to view it as a concession to the powerful labor unions. In May 1969, in Cordoba, Argentina’s second largest city, large-scale anti-military protest activities were launched by trade unions and students. The military regime suppressed the anti-military-regime movement using armed force, but this led to a weakening of its prestige and to a surge in anti-military regime mobilization (Brennan 1996). In the following year, 1970, the Onganía military regime enacted the Social Medical Insurance Law, making it compulsory for every employee worker to participate in health insurance, and even gave trade unions permission to manage health insurance. This can be regarded as a conciliatory measure by the military regime to appease the strong and autonomous power of unions.

## II. SOCIAL SECURITY REFORM IN THE 1990s

### A. *Social Insurance Reform in the 1990s*

The Carlos Menem Peronist government, established in 1989, undertook a full-fledged, market-oriented, and neoliberal economic reform, but also carried out reforms in the area of social security and labor.

<sup>4</sup> Auyero stated this comment based on his survey during the 1990s. Although his suggestion seems to be adequate for the period of the Perón government.

*Pension system.* To begin with, we will look into the reform of the pension system, which accounts for a large portion of expenditures. Following the economic crisis in the 1980s, the traditional pay-as-you-go pension system was suffering from worsening deficits in accounting, leading to frequent delays or shortages of the benefit payments; the shortage of contributions was compensated for by government expenditures. There were criticisms that the pay-as-you-go system had become unable to cope with the aging population, thus leading to expanding deficits and encouraging early retirement, because of its generous benefit level and the fact that the contribution-benefit relationship was ambiguous, which led to a higher rate of evasion of contributions. These criticisms were in line with the World Bank's recommendation concerning pension reform (World Bank 1994).

The pension reform bill, which gave rise to vigorous debates within and outside the Congress, was enacted in September 1993, though with major amendments to the original government proposal that workers aged forty-five or lower participate in the private capitalization pension system to receive supplementary pensions (Isuani and San Martino 1993, pp. 85–93). Essentially, it consisted of a public basic pension under a pay-as-you-go system available to the entire population, coupled with either a supplementary pension from the pay-as-you-go system or the private capitalization system, and each individual was given the right to choose between these two. As for financing, the beneficiary and the employer contributed 11 per cent and 16 per cent of the wage, respectively and self-employed people contributed 27 per cent of profit. In 1999 there were 10.16 million participants in the pension system, of which 22.3 per cent were using the supplementary pension under the pay-as-you-go system, while a majority of 77.7 per cent had chosen the private capitalization pension for their supplementary pension. Yet, compared with the pension reform in Chile, where there had been a nearly complete shift to a private capitalization system, and in Mexico, where private-sector employees had almost totally shifted to the private capitalization system, the reform in Argentina resulted in an eclectic system consisting of a basic pension under the pay-as-you-go system, common to all participants, and a supplementary pension, chosen from either a public pay-as-you-go system or a private capitalization system.

However, from 1999, as a countermeasure to the recession, the employers' contribution was cut from 11 per cent to 5 per cent of the wage, and the weight of the state's contribution to the public pension system including government debt for the transition cost from the pay-as-you-go system to the private capitalization system<sup>5</sup>

<sup>5</sup> In shifting from the public pension under a pay-as-you-go system to a private capitalization system, the contributions of active workers and employers are accumulated by a private capitalization method and therefore the benefits paid under the plan had to be funded by the government. This is called the government debt of the transition cost from the pay-as-you-go system to the private capitalization system.

increased from 39.1 per cent in 1994 to 69.9 per cent in 2000.<sup>6</sup> Furthermore, due to the deteriorating economic conditions, only 46.8 per cent of the participants were actually paying the premium in 2000.<sup>7</sup> The premium contribution rate is estimated to be higher among employed workers, and lower among the self-employed, resulting in the higher pension coverage of employees in the formal sector. In 1996, the average pension benefit for employee workers per month was 463.38 pesos (1 peso = U.S.\$1), whereas that for self-employed was 200.59 pesos, indicating a more than twofold difference between employees and self-employed workers.<sup>8</sup>

*Health insurance.* Health insurance reform was also vigorously debated under the Menem government. Criticisms were raised against the existing system, arguing that the market mechanism does not function under the occupation-linked system, which is inefficient and lacks incentives for service improvements (Panadeiro 1991, pp. 45–53). Active debates were launched within and outside the Congress concerning health insurance reform, with a focus on an optional system of health insurance, involving insurance operating trade unions. Finally, in January 1997, a free optional system was implemented on condition that private health insurance would not be included as an option in the system. Here again, in comparison with Chile, where the choice of private health insurance is open (Barrientos 2000, pp. 94–100), the health insurance reform under the Menem government was not thoroughgoing, as exemplified by the fact that private health insurance was excluded from the available options and that trade unions were granted the right to operate health insurance.

Under the free optional system, members as families are allowed to change their health insurance once a year, and health insurance must provide an obligatory medical program to new members. By May 1998, 8 per cent of insured families had changed their health insurance. In December 2000, the alliance government of De la Rúa, by presidential decree, implemented a reform to include private health insurance as an option.<sup>9</sup> Trade unions, including the General Confederation of Workers, fiercely resisted and launched a general strike (*La Nación*, January 9, 2001).

The problem facing health insurance, as with the pension system, is the declining rate of participation accompanying the destabilization of employment. Health insurance coverage, based on the Social Medical Insurance Law, increased to 67.0 per cent in 1971 and plunged to 44.8 per cent in 1996 (Grassi, Hintze, and Neufeld 1994, p. 135; ANSSAL 1997, pp. 103, 123). However, if the figure is adjusted to include those covered by other social insurance by provinces, cities, the military,

<sup>6</sup> According to the documents of the Ministry of Treasury, 2000.

<sup>7</sup> According to the documents of the Secretary of Social Security, 2001.

<sup>8</sup> According to the documents of the Secretary of Social Security, 2001.

<sup>9</sup> In reality, private insurance companies have little enthusiasm for entering the system; only 10 per cent of insurers have shown an interest in the entry (*La Nación*, January 3, 2001).

etc., the figure of social health insurance coverage seems to be more than 10 percentage points higher.

*Family allowance system.* In 1992, the family allowance system operated by social insurance was merged with the pension system. As a result, allowances for spouses and for large families were abrogated and qualifications for child allowance were tightened (Golbert 2000, pp. 88–89). This was partly a reform directed toward stimulating women's participation in the labor market, but it was also a response to the requirement for bringing social insurance financing to a sound footing. In 1995, workers' accident compensation insurance was reformed, and today it is effectively run by private insurers.

*Unemployment insurance system.* The unemployment insurance system was introduced in 1991 through the enactment of the Employment Law, which was designed to promote the increased flexibility of industrial relations. Prior to this, unemployment insurance only existed in special cases. With the revision of the Law of Labor Contract in 1991 and 1995, limited-term labor contracts, extensions of the period of experiment, and part-time labor contracts were admitted under the labor-management agreement. However, during the period of the Menem government, decentralization of labor-management negotiation was not achieved, that the delegation of authority was not moved from central negotiations to negotiations by plant or company, due to the opposition of trade unions (Font 1997; Madrid and Caubet 1996). The introduction of unemployment insurance, along with the flexibilization of industrial relations, signifies a destabilization in employment as viewed from workers. This indicates that a major legislative transformation of industrial relations took place in the country.

As we have seen, in the 1990s initiatives were taken to introduce the market mechanism into the social insurance system, in accordance with the recommendations of international financial institutions. Rather than shifting completely to the market-oriented format, however, Argentina has moved in the direction of retaining traditional forms for both the pension and health insurance, and then applying a market-oriented system to the traditional forms. Although social insurance remains the core of the social security system in Argentina, there has been an increase in the rate of the people who are beyond the reach of social insurance coverage due to increased unemployment and unstable employment.

#### B. *The Social Assistance System in the 1990s: Civil Society, Familism, and Clientelism*

The following three characteristics can be used to describe social assistance policies in the 1990s and subsequent years.

First of all, taking the example of the Food Assistance Program, which is at the core of the social assistance program, there is still criticism concerning political

clientelism. In 1990, a system of coupons (solidarity certificates) was introduced for exchange with food, and there were high expectations for more effective management of the program, but it is now viewed as a failure due to corruption and political abuse of the system (Nogueira 1995, p. 49).

A food assistance program has also been implemented at the provincial level, which includes a life plan (*plan vida*), commonly called “Manzanera,” that is still (as of 2003) being implemented by the province of Buenos Aires. The program began in the latter half of the 1990s, under the supervision of the Provincial Council for Family and Human Development, with Chiche Hilda Duhalde, the wife of the then governor, as the honorary director general of the program. In carrying out its operations, the provincial government first has a city designate its poorest district. Then, middle organizations such as women’s centers, churches, or association of pensioners, appoint one female supervisor (Manzanera) and her deputy for each four blocks (Manzana). As many as 17,000 women are appointed, and given charge of organizing their districts, through which milk and cereal are distributed to pregnant women and children aged five and younger. The program had as many as 600,000 beneficiaries, and the budget for the program in 1996 was 385,000 pesos (1 peso = U.S.\$1) (*Clarín*, January 27, 1997).

This Manzanera program, though organized from above, is the biggest of the programs run with the participation of residents’ organizations in distressed districts. When the program functions effectively, the expectation is that the social assistance is provided appropriately in response to the real needs of the community. Yet, criticisms have been raised toward the Manzanera program concerning, for example, its murky money flow, the existence of political clientelism, and its familism-influenced nature, which imposes child rearing upon women only (*Clarín*, January 27, 1997; *La Nación*, August 30, 1997; Auyero 1997, 2000; Cravino et al. 2002). In other programs, as well, some federal legislators have been accused by the media of having acted as go-betweens for social assistance and the administration (*La Nación*, May 27, 2002). As we have seen above, the term “political clientelism” has to be treated cautiously, but these criticisms confirm the existence of some kind of political clientelism associated with social assistance even at the level of federal legislators.

Secondly, while political clientelism remains in the food assistance program, a new trend can be observed toward transparency and efficiency in social assistance and the utilization of NGOs and other citizens’ organizations. While the Ministry of Social Development (the former Secretary of Social Development) is in charge of social assistance at the federal government level, a System of Information, Monitor and Evaluation of the Programs concerning Social Development (SIEMPRO) has been put in place with the support of the World Bank to evaluate disclosure and, in part, effectiveness concerning various programs undertaken by the ministry. It has been pointed out that in its background lies the fact that these social assistance

execution organizations have come to be decentralized into municipal or provincial departments in charge of social affairs, and that many community organizations are taking part in their implementation (Secretary of Social Development 1998, p. 3). In other words, as social assistance enforcement organizations are decentralized from the federal government to regional and civil organizations, it has become ever more necessary to have information concerning the above and to evaluate the social assistance programs they execute.

Meanwhile, there have been proposals to enhance targeting in order to clarify who should be the targets of social assistance. The United Nations Economic Commission for Latin America and the Caribbean (CEPAL 1995, pp. 27–34) recommends that targeting be strengthened so that resources can be provided quickly and without fail to the target population. This, however, is supposed to be implemented through non-bureaucratic organizations, i.e., civil organizations, which, the commission believes, can enhance the legitimacy of the state with regard to the poorest population. Criticism has been raised against such recommendations for enhanced targeting, claiming that they would only encourage social discrimination and would not solve poverty itself (Salama and Valier 1996, pp. 152–57).

Thirdly, we can cite the existence of familism, in that women still play a large role in the care sector. In the 1990s, female participation in the labor market increased sharply. However, the traditional familist character of social assistance, though weakened somewhat, basically remained unchanged during this period. The only change was that women were now required to perform both family care and work, as flexible work emerged. Furthermore, middle- and upper-class women who ventured into the labor market became more dependent on the market, as they hire domestic service employees to partly take care of domestic work and family care on their behalf.

Fourthly, in the health sector, as described in the preceding section, stratification became increasingly apparent, as high-income earners began to use private medical organizations and insurance, a majority of employees used social health insurance, while the low-income population relied upon free public hospitals.

### III. TRANSFORMATION OF THE POLITICAL ECONOMY PARADIGM: THE FACTORS OF THE SOCIAL SECURITY REFORM IN THE 1990s

#### A. *Transformation of the Economic Paradigm: Conversion to a Market-Oriented Model*

The transformation of the economic development model can be cited as the largest factor behind the transformation of the social security regime. The economic crisis of the 1980s, triggered by the problem of the huge external debt and fiscal deficit, became so serious that 5,000 per cent per annum hyperinflation was posted



in 1989. Under such circumstances, and following the de-facto collapse of the Alfonsín Radical government, the Menem Peronist government came to power in July 1989, earlier than the scheduled inauguration. The biggest political challenge imposed upon the government was to put an end to the inflation and stabilize the economy. The ruling Peronist Party, with the support of General Confederation of Workers, the only national labor center in the country, was regarded as a historically representative populist party of Latin America.

Immediately after its inauguration, the Menem government introduced a social pact between the government, labor, and capital, and implemented the compulsory conversion of fixed deposits to government bonds to offset the fiscal deficit in an attempt to stabilize the economy. Yet, the year 1990 saw 1,344 per cent per annum inflation. The “heterodox method” failed to achieve economic stabilization. Therefore, starting in 1990, economic policy was drastically transformed toward the adoption of market-oriented neoliberal economic policies. Trade was liberalized, the average tariff was lowered from 39 per cent in 1988 to 10 per cent in November 1992, and quantitative trade restriction were in practice lifted, with a major exception being made for cars (Usami 1993, p. 6). In addition, most state-run corporations were privatized and the share of public sector diminished in the economy as well as a source of employment. Through this liberalization policy, the economic development model was transformed from one based on import-substituting industrialization to a market-oriented model operated in line with the market mechanism. With regard to the currency system, the Convertibility Law was introduced in 1991, introducing a fixed exchange rate system of one U.S. dollar to the peso and appropriating foreign currency reserves for new currency issue.

The introduction of a market-oriented model and the flexibilization of industrial relations mentioned in the preceding section signified the loss of the guarantee of employment and wages that had been enjoyed by the formal sector workers under the import-substituting industrialization. The “dual guarantee” refers to the guarantee of employment and wages under the protectionist policy of import-substituting industrialization and by the state that grew along with the former policy, as well as the legal framework of labor and social security-related laws that protected workers with regular employment contracts. Consequently, in the labor market in the 1990s, the distinction between formal sector and informal sector was becoming vague in terms of employment stability and social security. The employment situation was also deteriorating. Even in the 1980s, when economic crisis was rampant, unemployment had hovered around 5 per cent. In the 1990s, by contrast, the rate remained at a high level of 15 per cent, indicating permanent heavy unemployment (INDEC 2002).

The social security and labor reforms of the 1990s appear to have taken place in line with the conversion of the economic development model to a market-oriented one. The partial introduction of the private capitalization system into the pension

system invigorated the capital market, and was in conformity with flexible industrial relations. The optional system for health insurance was also based on the market mechanism, and was intended to introduce competition among insurance corporations and medical service providers to achieve higher efficiency and improved services. The introduction of unemployment insurance was essential, since industrial relations were becoming flexible and the risk of unemployment had increased. Social assistance was also needed to ensure that the market mechanism would not be hampered by social unrest caused by a rising unemployment rate. The enhanced targeting of social assistance and expanded participation of the civil sector were coherent with the objective of realizing efficient social assistance and a small government.

However, as we saw in Section II, social security and labor reforms were not as far-reaching as the economic reform, since they only involved the partial introduction of the market mechanism and competitive principles into traditional systems. Here, a question remains: Why were many of the old systems kept intact? And another question emerges: Why was the government, which was backed by trade unions, able to implement labor and social security reforms that trade unions opposed? To answer these questions, we need to analyze some political factors.

#### *B. Transformation of the Political Paradigm: Delegative Democracy and the Legacy of Corporatism*

The planners of the neoliberal reforms within the Menem government in the 1990s included Domingo Cavallo, Minister of the Economy, Carlo Figueroa, Minister of Labor and Social Security, and Carola Pessino, Advisor to the Minister of Labor and Social Security, all of whom were researchers influenced by neoclassical economics, and with no connection to the Peronist Party. These neoliberal technocrats came to demonstrate their own true abilities after the failure of the policies initiated by Minister of the Economy Erman Gonzáles, a traditional Peronist Party member, and after seeing signs of a rekindling of hyperinflation in 1990 (Palermo and Novaro 1996, p. 294).

Similarities can be pointed out between the character of the Menem government, which made use of neoliberal technocrats to push the economic and social security reforms in the 1990s, and the idea of delegative democracy as proposed by O'Donnell (1999). He defines delegative democracy as a form of democracy that consists of "constituting, through clean elections, a majority that empowers one to become, for a given number of years, the embodiment and interpreter of the high interests of the nation" and to be given an authority independent of other organizations (p. 164). He argues that such a strong president can protect technocrats against various forms of opposition from the society. In the case of Argentina, the Peronist Menem won an overwhelming victory in the presidential election in 1989 over Anleloz, the candidate of the Radical Party. In the first half of the 1990s, the ruling Peronist Party

held an absolute majority both in the upper and lower houses of the Congress. With the backing of the strong support of the people and by an absolute majority in the Congress, immediately after the inauguration, the Congress approved State Reform Law (*Ley de Reforma del Estado*) and Economic Emergency Law (*Ley de Emergencia Económica*), giving the president powerful authority concerning economic and social security reforms (Blutman 1998, pp. 25-31). Furthermore, a constitutional revision in 1994 enabled the president to issue presidential decrees if urgently needed and to promote various reforms without deliberations in the Congress. This, in turn, put pressure upon the Congress to approve the reform bills.

The neoliberal economic reforms implemented by the Menem government were unpopular not only among the organized workers in the formal sector but also among low-income populations due to its idea of fair pricing, which meant an increase in public utility rates. However, as pointed out by many researchers, the economic turmoil in the 1980s and the rekindled inflation in the early days of the Menem government brought about a situation where the government forced its support base to accept harsh policies (Battistini 1999, p. 274; Alonso 2000, p. 199). In addition, given employment insecurity deriving from economic liberalization, the privatization of public corporations, flexibilization of industrial relations, and the permanence of massive unemployment, the political power of trade unions seems to have declined. According to ILO statistics (1997, pp. 237-40), Argentine trade union density plunged by 42.6 per cent from 1985 to 1995, and the influence of trade unions was apparently weakened by the split in 1989 of the pro-Peronist CGT (General Confederation of Workers).

Why, then, were trade unions able to win larger concessions in the labor and social security reforms than in the economic reform headed by trade liberalization? Within the pension system, the pay-as-you-go system that trade unions supported remained for the basic pension, with an optional public supplementary pension system. In the case of health insurance reform, trade unions continued to be allowed to operate health insurance, and private health insurance was excluded from the available options in the system, as was demanded by trade unions. With regard to the labor reform, as well, the delegation of authority for negotiations at the regional or company levels did not materialize during the Menem government.

Let us examine the background to the reforms, using the example of the health insurance reform. Health insurance was directly linked with the interests of trade unions, as many health insurance corporations were directly managed by trade unions. The medical reform bill was first submitted to the Congress in 1992, but failed to be enacted due to the opposition of trade unions and pro-union legislators in the ruling Peronist Party (Belmartino 1995, p. 21). Subsequently, the Menem government, in an attempt to bring about the reform by decree, proclaimed Presidential Decree No.9 and No.576 in 1993, but neither was executed because of opposition from trade unions (Usami 2001b, pp. 287-90). The World Bank, which

supported health insurance reform, expressed concerns over the delay in Argentina (*Clarín*, December 3, 1996). During this period, negotiations between the government and CGT were being held continuously outside the Congress. In the final phase of the negotiations, toward the end of 1996, trade unions demanded that the optional system of health insurance be postponed by one year and that private health insurance be excluded from it (*Clarín*, December 14, 1996).

On January 1, 1997, however, the government forced through the health insurance reform, and the CGT resisted by bringing suit against the government (*Clarín*, January 3, 1997). Here again, there was a sharp confrontation between the president, who wanted to promote radical reform, and the fiercely opposing trade unions. In the end, a compromise agreement was reached, partially integrating views of the government and CGT. The optional system of health insurance was executed, but private health insurance was left out from the available options (*La Nación*, January 25, 1997). With regard to pension and labor reforms, trade unions won certain concessions through negotiations with the government, or by exerting pressure through strikes.

Thus, trade unions were able to win greater concessions in the social insurance and labor reforms than in the economic reforms, which were drastic, because the CGT remained the biggest support organization of the Peronist Party and despite its weakened political influence, it was almost impossible to carry out policies in complete disregard of its demands. The Menem government's social insurance and labor reforms were backed by the powerful presidential authority of delegative democracy as presented by O'Donnell (1997). However, they were far from what the government originally hoped for, and were also affected by restrictions originating in the legacy of corporatism, where the government sat at the negotiating table with trade unions, while unions put pressure on the government by strikes and other measures. As a result, reform could not move forward unless the original plan of the government was revised by the government-labor agreement. In other words, the social insurance and labor reforms of the Menem government moved forward under the influence of regulations coming from two directions, one by the powerful executive branch of the government trying to promote market-oriented reforms and the other by the legacy of corporatism of negotiating with trade unions, who were weakened but still retained a certain political influence.

## FINAL REMARKS

Returning finally to the argument of Esping-Andersen regarding clusters of regimes in the welfare state,<sup>10</sup> as mentioned in Introduction, the Argentine welfare state

<sup>10</sup> Esping-Andersen's theory of the welfare state regime makes no distinction between the discussion of clusters of regimes of the social security system and of the welfare state including the political factors contributing to its formation. Therefore, here, the cluster of regimes in social security is

regime since World War II has been similar to conservative and corporatist welfare regimes, in that occupation-linked social insurance is at the core, social insurance benefits are stratified by occupations, and social assistance is residual, with a familistic characteristic where care is a burden for women. However, in the sense that the target of social insurance benefits is limited to the formal sector and that the broad informal sector is effectively excluded from the social insurance system, it may well be described as a limited conservative and corporatist welfare regime. With the reform in the 1990s, elements of a liberal welfare regime were added to the limited conservative corporatist welfare regime. It may also be described as a market-oriented conservative corporatist welfare regime. However, the transformation of the Argentine welfare state regime has been driven, by factors different from those in the Western political world, in that the welfare regime was determined, by the formation of a specific class-political coalition based around the labor movement as asserted by Esping-Andersen. In the background of the transformation of the welfare state regime, we can point to a shift of the political and economic paradigm from one of import-substituting industrialization and corporatism, which was formed under the Peron government, to one of market and “delegative democracy.”<sup>11</sup> However, those major trends and factors are not unique to Argentina, but are common to almost all Latin American countries, as mentioned in the Introduction.

Social security reform in Argentina in the 1990s, though in line with the above-mentioned common trend of the Latin American countries, was also characterized by the following unique features: the social insurance and labor reforms in the 1990s, on one hand, were a response to neoliberal economic policy as illustrated by partial privatization of the pension system and the optional system of health insurance, but they retained, on the other hand, a certain continuity with the traditional system of social insurance and the collective negotiation system. The Menem Peronist government, which promoted the reforms, demonstrated some similarity with delegative democracy as propounded by O’Donnell in the sense that the president, who was elected in a democratic manner, promoted reforms by exercising powerful administrative authority incomparable with that of any other agency. At the same time, social insurance and labor reforms were affected by the legacy of corporatism of the Peronist Party,<sup>12</sup> with its links to trade unions, which, though weakened, still constituted the biggest support organization of the government. This is the very reason for the continuation of the traditional system in social insurance and labor legislation in Argentina as contrasted with economic liberalization. This transfor-

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grasped as the welfare regime and its cluster, and welfare state as a social security regime and the aggregate political and economic paradigms that helped its formation.

<sup>11</sup> There are many definitions of democracy, and “democracy” here is used in the sense of democracy containing elements of O’Donnell’s delegative democracy.

<sup>12</sup> Panizza (2001) uses the term “old politics” to describe this legacy of corporatism of the Peronist Party.

mation of Argentine's welfare state can be described as a shift from a limited conservative corporatist welfare state (Figure 2.A), to market-oriented conservative corporatist welfare state (Figure 2.B).

Despite the fact that the above-mentioned social security reforms were partially prompted by the fiscal deficit in the 1980s, in the 1990s social expenditures were rising trend-wise vis-à-vis economic expenditures (de Flood 1999, p. 47). This is partly because the pay-as-you-go pension debt was borne by the state in the pension system reform, and also because the protection for the vulnerable, i.e., social assistance, became increasingly important in the midst of the move to a market economy. It involved the dual characters of traditional "political clientelism" and familism on one hand, and the expanding domain of participation of civil society represented by NGOs on the other. How civil society will develop and what roles it can play in the Argentine welfare, a country moving rapidly toward the market economy, is one of the important subjects for future research.

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APPENDIX TABLE  
 CHRONOLOGY OF THE SOCIAL SECURITY SYSTEM OF ARGENTINA

Year	Politics	Social Security
1916	Yrigoyen Radical government	
1922	Alvear Radical government	
1928	Yrigoyen Radical government	
1930	Coup d'état, military government and conservative government	
1944		Pension for commercial workers
1946	Peron Peronist government	Pension for industrial workers
1954		Pension for self-employed and agricultural workers
1955	Coup d'état, military government	Accident compensation insurance for all employees
1956		Pension for all workers
1957		Family allowance for commercial and industrial workers
1958	Frondizi Radical government	
1962	Coup d'état, military government	
1963	Illia Radical government	
1966	Coup d'état, military government	
1967		Integration of pension systems
1970		Health insurance for all employees
1973	Peron and Isabel Peron Peronist government	
1976	Coup d'état, military government	
1983	Shift to civilian rule, Alfonsín Radical government	Integral protection for handicapped persons
1989	Menem Peronist government	
1991		Employment Law
1993		Partial privatization of pension system
1995	Menem Peronist government II	
1996		Reform of family allowance system
1997		Reform of health insurance
1999	De la Rúa Alliance government	
2001	Financial crisis	
2002	Duarde Peronist government	

Sources: Compiled by the author based on Nakagawa, Matsushita, and Osonoi (1985) and Usami (2001b, chap. 7).