

Is Argentina a Model of Redistributive Policies?

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Argentina's income inequality and poverty fell quite dramatically between 2003 and 2009. The Gini coefficient for disposable income (after direct taxes and transfers) declined from 0.52 to 0.45, and the headcount ratio declined from 23 to 5.5 percent (based on the US\$2.50 PPP/day international poverty line). During this period, GDP per capita rose significantly and the government increased social spending from 13 percent to 20.6 percent of GDP.

How much of the decline in inequality and poverty was due to improved market opportunities linked to economic growth and how much to the expansion of government transfers? We answered this question by disaggregating the changes in inequality and poverty into two components: the “market component” and the “redistribution component.” ([Lustig and Pessino, 2013](#)) While for the period 2003-2006, the decline in inequality and poverty were market-driven, for the period 2006-2009 over 40 percent of the decline in inequality and close to 90 percent of the decline in poverty were due to redistributive policies. The main redistributive intervention has been the *pension moratorium* –in essence a large-scale noncontributory pension program--which increased the number of old-age pensioners from 3.6 to 6.3 million between 2006 and 2009, with the largest increase taking place among women.

The rosy picture of Argentine redistributive policies, however, becomes significantly tainted when one takes note of two things. The redistribution linked to the pension moratorium creates distortions and has been partially funded by formal sector retirees who, although not poor, are very far from rich. In addition, the sharp rise in public spending during the 2000s has been increasingly financed by volatile and distortionary taxes and unorthodox revenue-raising mechanisms, such as the inflation tax and the tapping of international reserves and International Monetary Fund special drawing rights. All in all, the Argentine government has embarked on a redistribution process that generates unfair losses to formal sector retirees, generates significant distortions, and may not be fiscally sustainable.

Changes in Inequality and Poverty: Market and Redistribution Components

Table 1 shows that in the case of inequality, between 2003 and 2009, the change in the redistribution component accounts for 12 percent of the change in the disposable income Gini. If we take the two sub-periods separately, however, there are two distinct patterns. Between 2003 and 2006, the change

in the disposable income Gini is entirely due to the decline observed in the market income Gini. In fact, the latter more than compensated for the reduced role of redistribution. In other words, if the net market income Gini in 2006 had been the same as in 2003, the disposable income Gini in 2006 would have been higher than in 2003. In contrast, between 2006 and 2009, over 40 percent of the decline in the disposable income Gini is accounted for by the redistribution component. The story for poverty is similar but even more forceful: close to 90 percent of the decline in poverty between 2006 and 2009 is due to redistributive policies.¹

Table 1. Contribution of Redistribution to Change in Disposable Income Inequality and Poverty

Gini	2009/2003	2006/2003	2009/2006
Change in Net Market Income Gini	-0.064	-0.041	-0.023
Change in Disposable Income Gini	-0.073	-0.033	-0.04
Change Attributable to Redistribution	-0.009	0.008	-0.017
Change Attributable to Redistribution %	12.33%	-24.24%	42.50%
Headcount index (US\$2.50 PPP/day)	2009/2003	2006/2003	2009/2006
Change in Net Market Income Poverty	-0.153	-0.148	-0.005
Change in Disposable Income Poverty	-0.177	-0.135	-0.042
Change Attributable to Redistribution	-0.024	0.013	-0.037
Change Attributable to Redistribution %	13.56%	-9.63%	88.10%

Source: Lustig and Pessino (2013), Table 3.

Note: A negative percent change means that the contribution of redistribution fell: That is, in the absence of a reduction in market income inequality (poverty), disposable income inequality (poverty) would have been higher in the second period.

The Rise in the Redistribution Component: The ‘Explosion’ of Noncontributory Pensions

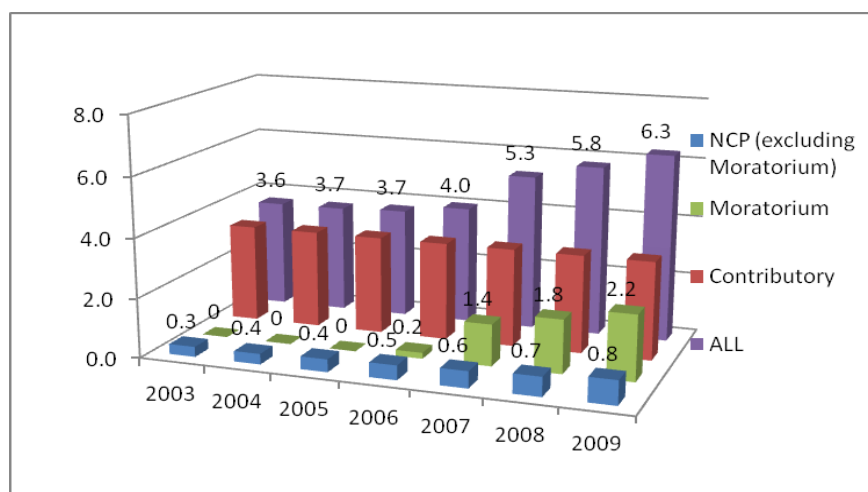
The large contribution of the redistribution component to the reduction of inequality and poverty between 2006 and 2009 was primarily due to the sharp expansion of noncontributory pensions. In particular, it was due to the so-called *pension moratorium (moratoria previsional)*, launched in the mid-2000s. Spending on the moratorium program rose from approximately 0.4 percent of GDP in 2003 to 2.4 percent in 2009. The number of beneficiaries grew from a negligible number in 2003, to around 200,000 in 2006, and to approximately 2,200,000 beneficiaries by the end of 2009.

¹ Due to behavioral effects, the figures for the market income Gini and poverty in Table 1 do not necessarily represent what inequality and poverty rates (in terms of net market income) would have been in the absence of transfers. However, since we have information on the pre- and post-transfers inequality and poverty levels before and after the implementation or expansion of several of the major transfer programs, we can assume that the observed (net of taxes) market income before and after the programs were introduced reflects – among other things – behavioral responses to the programs. That is, because we are focusing on the marginal incidence effects, the behavioral responses should be reflected in measured market income in 2006 and, more forcefully, in 2009.

The target population of the pension moratorium consists of women aged sixty or older and men sixty-five or older who were not eligible to receive the formal social security pension, either because they had never contributed to the system or did not contribute enough. It is called a “moratorium” because beneficiaries are allowed “to catch-up” on their payments to the social security system once they reach retirement age. Although beneficiaries pay back part of what they should have contributed and the amount is subtracted from the moratorium pension during the first five years, these payments can end up being smaller than the cumulative amount that would have been paid through the social security system for similar benefits.

While it is true that the number of beneficiaries of the pension moratorium will decline over time and eventually reach zero, since the moratorium applies only to people who were born before 1975, a lucky cohort of pension moratorium retirees has received a significant boost to their incomes. Figure 1 shows the evolution of the three types of pensions that exist in Argentina: social assistance, moratorium, and contributory pensions. The increase in beneficiaries from 3.6 million to 6.3 million observed between 2003 and 2009 is explained almost entirely by the increase in beneficiaries in noncontributory pensions. The proportion of beneficiaries with noncontributory social assistance and moratorium pensions increased from 9.3 percent to 47.8 percent of the total population receiving pensions, of which the lion’s share are moratorium pensions.

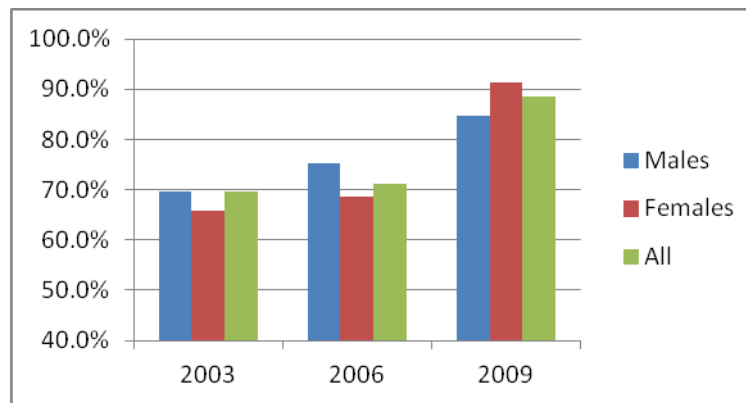
Figure 1. Evolution of Social Assistance, Moratorium, and Contributory Pensions 2003-2009: Millions of Individuals



Source: Lustig and Pessino (2013), Figure 1.

Comparing the share of the population age sixty-five and over that enjoyed coverage with that which was not covered for the period 2003 and 2009, we find that the coverage rate increased from 69.6 percent to 88.6 percent (Figure 2). The largest increase was among women, whose coverage increased from 65.8 percent to 91.3 percent. In fact, in terms of coverage, by 2009, women surpassed men by over 6 percentage points.

Figure 2. Percentage of People 65 and Older Receiving Any Kind of Pensions: 2003, 2006, and 2009



Source: Lustig and Pessino (2013), Figure 2.

Is Argentina a Model of Redistributive Policies?

Undoubtedly, between 2006 and 2009 the Argentine government achieved remarkable inequality and poverty reduction through its cash transfers programs, and through the pension moratorium in particular. When compared to other countries in the region, Argentina stands out, both for the extent of redistribution and redistributive effectiveness (that is, the reduction in inequality and poverty achieved per amount spent on transfers as a share of GDP) (Lustig et al., 2013). Is Argentina a model of redistributive policies? Helping the elderly—especially women—avoid poverty may seem to be a perfectly reasonable and desirable redistributive policy. However, there are two main reasons why the Argentine government’s redistribution programs should not be taken as a model.

1. Redistribution Among Retirees is Unfair and Distortionary

The redistribution linked to the pension moratorium has been partially funded by those retirees in the formal social security system who receive a pension above the minimum because their benefits have not been adequately adjusted for inflation (i.e., for actual inflation, not what the government claims it is). Although people who receive a pension higher than the minimum are not poor, they are definitely not rich. Thus, when one considers who has been forced to shoulder the cost of this intervention, at least in part, the moratorium pensions program has a substantial degree of unfairness. The inequality and poverty indicators—all of which show a significant decline due to redistribution-- do not capture this unfairness because the losses inflicted on the losers are more than compensated for by the rising incomes of the winners. In addition, by not adjusting pensions to inflation, the government is violating the social security law and creating disincentives to contribute to the formal system whenever this can be avoided or eluded.

2. *Fiscal Sustainability of Redistributive Policies is Highly Questionable*

The sharp rise in public spending during the 2000s has been increasingly financed by distortionary taxes and unorthodox revenue-raising mechanisms. Ever since Argentina defaulted on its international creditors during the crisis of 2001-2002, it has not had access to external sources of funding, and the government has therefore been forced to resort to domestic sources. From 2000 to 2009, taxes increased by 9.9 percentage points of GDP. Most of this increase is accounted for by Social Security taxes (34 percent), export taxes (28 percent) and a financial transactions tax (18 percent). The first and third sources can have significant distortionary effects, and export taxes depend on the fate of volatile international commodity prices. As for the latter, history has proven that international commodity prices are an unreliable source of steady revenues.

The vulnerability of public finances has been compounded due to the fact that, since tax revenues were not sufficient to cover the much higher levels of public spending, the government has had to resort to more unorthodox sources of revenue. These have included tapping into IMF special drawing rights, interest earned on the fund created with the confiscated assets from the individualized social security accounts, and the inflation tax. One should note that the inflation tax is much higher than the official inflation statistics would lead one to believe. Official inflation statistics have been around a third of those produced by independent, nonpartisan research institutions (who have faced fines and lawsuits for publishing inflation data different from the official data). Since the inflation tax tends to be regressive, actual redistribution in Argentina may be significantly lower than what the standard incidence analysis yields.

References

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