

APPENDIX 3

A Retrospective on Argentina's Fiscal Policy, 1991–2001

By most measures, Argentina's fiscal discipline in the 1990s represented a substantial improvement over the previous decades, largely reflecting increased tax revenue (Table A3.1). Yet, by the end of the decade, Argentina's public sector had come to be perceived as having fiscal problems. There were two reasons to explain this paradox. First, actual fiscal performance was worse than it appeared, because of deficiencies in fiscal accounts. Second, despite the significant improvement, fiscal discipline was insufficient relative to the strict constraints imposed by the convertibility regime, particularly when the country was hit by a series of adverse external shocks. In this appendix, we present four aspects of this explanation, by employing several alternative (and not necessarily consistent) data sources, including those provided by Argentine scholars.

Initial gains in fiscal discipline were not sustained. Most of the improvement in fiscal accounts took place during 1991–94, but the later years saw a deterioration (Table A3.2). In particular, the persistent deterioration in the overall balance of the consolidated public sector reflected a gradual increase in interest payments and other expenditures, while revenue did not keep pace. It was, however, only in 2001 that, with the economy in its third year of recession and soaring interest premia on Argentine debt, the overall balance reached pre-1990s levels.

Issuance of debt to finance off-budget expenditures led to a steady increase in debt that was substantially greater than the cumulative deficits. This explains why the stock of public debt doubled as a share of GDP between 1992 and 2001, when fiscal deficits appeared moderate and the government was receiving significant revenue from privatization (Table A3.3). Some of the off-budget expenditures represented the recognition of preexisting debt (such as overdue obligations to pensioners and suppliers), but it is said that bonds were also issued to pay for ordinary expenditures.¹ In any case, the treatment of

these expenditures in the budget represented the lack of fiscal transparency.

The 1994 reform of the social security system (along with associated core decisions and tax changes) led to an increase in public debt and a deterioration of fiscal balance (Table A3.4). Two factors contributed to this. First, court decisions upheld the obligation of the government to honor the overdue pension payments of almost \$7 billion upon which it had remained delinquent since 1991 (see Schulthess and Demarco, 1993). Second, the reform only slightly reduced the benefits, while cutting the collection of social security tax by almost 40 percent (both through lower tax rates and through a transfer of contributions to the new system). This is not to say that the pension reform itself was ill-conceived. The system was clearly underfunded,² and it was appropriate to address the problem when the economy was booming and fiscal accounts were substantially in better shape; moreover, a part of the loss of social security contributions had a counterpart in the reduced future benefits to those leaving the system.³ Nevertheless, the way in which the reform was done magnified the country's fiscal problems.

Fiscal federalism, as practiced in Argentina, made overall fiscal accounts less reliable and fiscal control more difficult. The provincial finances constitute a significant part of the consolidated fiscal account of the public sector in Argentina (Table A3.5). In fact, the assignment of tax resources and spending responsibilities between the federal and provincial govern-

use of nominal value in the absence of market value), the overall numbers are not very different from the recent estimates provided by IMF staff.

²As an indication of the magnitude of the underfunding, the ratio of workers to retirees was only 1.3, and while workers paid about 26 percent of salary to the federal social security system, pension benefits were set at 70 percent of wages. See Cetrángolo and Jiménez (2003).

³In fact, if contributions and benefits were set to match in present value, there would be no cost of transition to a funded system: a fund accumulated from earlier contributions could be used to pay for the benefits. In Argentina, like in most PAYG systems, such a fund did not exist (because any social security surplus was used to finance general expenditure and the benefits exceeded the amount funded by lifetime contributions).

¹According to Teijeiro (1996, 2001), \$31 billion in fiscal expenditure was "paid for with bonds" during the decade. Though his estimates could be challenged on some grounds (including the

Table A3.1. Public Sector Balance, 1961–2000*(Annual average; in percent of GDP)*

Period	Public Sector Balance		Gross Revenues		
	Overall	Primary	Total	Taxes on goods and services	Social security
1991–2000	1.27	0.58	17.38	8.75	4.32
1981–90	6.23	4.38	12.57	6.17	2.87
1971–80	6.66	5.73	13.97	5.47	4.51
1961–70	3.46	2.9	13.86	4.85	4.20

Source: Cetrángolo and Jiménez (2003), Tables 1 and 4.

Table A3.2. Consolidated Public Sector*(In percent of GDP)*

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Balance	-0.4	0.0	-1.4	-2.3	-3.1	-2.0	-2.0	-4.1	-3.6	-6.3
Revenues	23.4	24.6	24.2	23.2	22.2	23.2	23.8	24.3	24.7	23.6
Expenditures	23.8	24.6	25.6	25.5	25.4	25.3	25.9	28.5	28.4	29.9
Primary balance	1.4	1.4	0.2	-0.5	-1.1	0.3	0.6	-0.7	0.4	-1.4

Source: PDR (2003).

Table A3.3. Adjusted Fiscal Balance*(Adjusted for off-budget expenditures; in percent of GDP)*

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
IMF estimate	-3.1	-3.4	-3.9	-3.4	-4.0	-2.6	-2.5	-4.8	-4.2	-6.9
Teijeiro (2001)	-4.8	-4.8	-3.5	-4.9	-5.5	-2.1	-3.7	-6.6	-5.4	n.a.
Balance implied by the increase in public debt ¹		-1.2	-4.4	-1.4	-3.9	-0.9	-4.4	-4.3	-2.8	-8.8
Memorandum items:										
Privatization revenue		0.4	0.4	0.6	0.4	0.6	0.2	1.0	0.1	0.1
Public debt (end of period)	30.7	30.6	33.7	36.7	39.1	37.7	40.9	47.6	50.9	62.2

Sources: IMF database; Teijeiro (2001); and IEO estimates.

¹Change in debt plus privatization receipts.**Table A3.4. Social Security Balance***(In percent of GDP)*

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Social security contributions ¹	5.4	5.6	5.4	4.8	4.0	3.8	3.7	3.6	3.4	3.3
Pension payments ¹	6.1	5.6	6.2	6.1	5.7	5.9	5.9	6.2	6.1	6.2
Balance ¹	-0.7	...	-0.8	-1.3	-1.7	-2.1	-2.2	-2.6	-2.7	-2.9
Memorandum items:										
Net effect of 1994 reform ²			-0.8	-1.4	-2.2	-2.4	-2.4	-2.7	-2.9	-2.7
Social security contributions ¹	5.4	5.6	5.4	4.8	4.0	3.8	3.7	3.6	3.4	3.3

¹Cetrángolo and Jiménez (2003), Tables A.3 and A.9.²Revenue loss due to pension reform, plus assumption cost of provincial pension systems, minus savings in expenditures. Rofman (2002), Table 1.

Table A3.5. Federal and Provincial Fiscal Accounts*(In percent of GDP)*

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Federal government										
Total expenditures	18.93	18.04	18.76	19.62	19.11	20.09	20.26	21.93	21.96	22.02
Of which										
Transfers to provinces	6.06	5.72	5.74	5.62	5.84	6.04	6.13	6.29	6.35	5.93
Total revenues	19.55	19.19	18.73	19.09	17.18	18.63	18.9	20.25	19.57	18.78
Fiscal balance	0.62	1.15	-0.03	-0.53	-1.93	-1.46	-1.36	-1.68	-2.39	-3.24
Consolidated provincial governments										
Total expenditures	10.75	11.53	11.48	11.61	11.13	11.18	11.73	12.83	12.61	13.47
Of which										
Personnel	5.75	5.99	5.86	5.87	5.42	5.34	5.63	6.37	6.52	6.98
Total revenues										
Provincial taxes	3.54	3.72	3.76	3.55	3.6	3.72	3.9	3.9	3.82	3.63
Coparticipation federal taxes	6.92	7.07	6.87	6.8	7.09	7.42	7.18	7.48	7.63	7.52
Fiscal balance	-0.29	-0.74	-0.85	-1.26	-0.44	-0.04	-0.65	-1.45	-1.16	-2.32

Source: Cetrángolo and Jiménez (2003), Tables A.2 and A.5.

ments has remained one of the most contentious fiscal issues. As a notable feature of Argentina's fiscal federalism, the bulk of provincial revenue comes from "coparticipation" of federal taxes, according to revenue-sharing criteria that have changed over time through various fiscal pacts (Schwartz and Liuksila, 1997; and Cuevas, 2003). At the same time, starting in 1993, a program of decentralization transferred to the provinces more and more of the responsibility for

basic social services, but without a significant reduction in federal expenditures. This system has created adverse incentives,⁴ and increased complexity and opacity in the true fiscal picture.

⁴The system allows elected officials to enjoy the political benefits of spending without much of the costs of tax collection; creates procyclical patterns in provincial spending; and limits fiscal planning by subjecting revenue sharing to political negotiations.