ARGENTINA’S INFORMAL ECONOMY:
A CASE STUDY OF PATRIA GRANDE UPON THE INFORMAL TEXTILE INDUSTRY

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ARGENTINA’S INFORMAL ECONOMY:  
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ABSTRACT

In order to strengthen their economic positions, developing nations like Argentina have produced laws aimed at salient informal manifestations. Argentina’s 2005 law “Patria Grande” sought to answer public outcry after a deadly fire exposed the inhumane conditions of illegal textile workers. What is the relationship between public policy and informality, and what legal, economic, and social characteristics identify the informal economy generally, and in Argentina specifically? What is the historical foundation of Argentine informality, and how has it behaved in the 21st century? Finally, how did Patria Grande develop, and what lessons can we learn from its results?

By taking a public policy approach to informality, this study unravels the current characteristics and the historical roots of Argentina’s institution of informality. Three empirically recognized factors of informality are applied in a MIMC model and discussed with regard to Argentina’s history and present condition. These indicators support that, since the 2001-2 crisis, the Argentine informal economy appears to be shrinking, but at a decreasing rate. An investigation into Patria Grande uncovers challenges in enforcement, societal biases toward inaction, and power imbalances and accountability crises imbedded in the production chain. This investigation aspires to be a model to identify and address informality in other sectors, and in other nations.
The thesis is dedicated to Professor Andrenacci, who inspired this research, and to Dr. Carnes, who read draft after draft, and always answered quickly to even the smallest question I had.

Many thanks,
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INTRODUCTION

This public policy approach to the informal economy proceeds in six sections. The first section defines informal business and discusses the relationship between informality and policy—noting challenges of policy development and how informality signals a state’s strength, wealth, and rule of law. The second section reviews informal characteristics by telling a “supply and demand” story in terms of human and capital resources, location of operations, and market strategies. Together with the third section, and contributions from North, Pierson, and Argentine history, these sections carry a principle theme of this paper’s argument: informality is an institution that is built over time, persists over time, and carries its own economic and social peculiarities. As the reader will see, these peculiarities are harbingers for policy makers to identify informality and produce targeted law. So what does this institution look like? The fourth section uses the reputed “MIMC” model to gauge the Argentine informal economy through three driver variables: the tax burden, the intensity of state intervention, and the condition of the official economy. The fifth section offers Patria Grande as a case study—explaining the legal heritage and social context of its beginnings, and discussing the governmental and public response to its implementation. The sixth section analyzes the textile industry in terms of competitive forces, cost and profit margins, and employment; this reveals a historically created economic structure and legally protected negotiation imbalance that facilitate informality. Finally, the study concludes with a review of the findings, public policy recommendations, and a call to action for the state. This study reasons that if the foundations of the Argentine informal economy are understood, then the state’s actions toward the textile industry may provide a model for addressing informality in other areas.
I. RELATIONSHIP BETWEEN INFORMALITY AND PUBLIC POLICY

Introduction

The informal economy is an enigma from which no nation escapes. An invisible network of goods and services integrates seamlessly into everyday lives, yet the products and their creators are often left undocumented. This endangers human lives, damages fair competition for domestic and international markets, and steals the right of employees to receive equal treatment for equal work under the law. Public policy and informality are intrinsically linked.

What Is Informal Business?

Academic discussion* has split informal varieties into different branches, or sectors. For the purposes of this study, further discussion on informal household production, traditional criminal activity, and comprehensive legal enforcement is shelved in order to focus primarily on informal business in the irregular sector. This includes: all legal market-based production of goods and services deliberately concealed from public authorities for any of these reasons:

*In the early seventies, a series of anthropologic studies in Africa jumpstarted interest in informality. By 1972, the International Labor Organization (ILO) christened the “informal sector” as one composed of activities that were unrecognized, unregistered, or unregulated by public authorities, and populated by poor or marginalized workers who were often involved in low-scale production with weak or non-existent technology (ILO, 1972). This broad definition covered a swath of illegal and legal actions. More recently, in 2002, the ILO broke the sector into individualized pieces, defining informal workers as those whose employment fell outside government regulations, protections, and taxes. In short, as understanding of the “informal sector” deepened, individuals became the primary focus. This atomized conceptualization is important for two reasons. Firstly, it recognized that the citizen relationship to the state and the social protections they receive is an individual condition, often contingent upon the individual’s employment situation. Secondly, the change reflected an attitude shift in academia. From the 1970s, the intellectual optimism that had bolstered development theory had faded into pessimism. Economic growth stagnated, oil crises bracketed either end of the decade, and the political fallout from Vietnam and non-democratic coups in South America inspired a counter-culture that asked, “is development dead?” In response, a national focus of development, which had clearly failed, was replaced with a bite-sized “individual focus.” It became necessary that, in 2002, the ILO also shifted attention from an informal sector toward informal workers (Leys, 1996).
1) To avoid income/value-added/other taxes;
2) To avoid social security contributions payments;
3) To avoid legal labor market standards on wages, working hours, safety standards, etc;
4) To avoid administrative procedures such as completing statistical questionnaires or other forms (Friedrich Schneider, 2009).

In the present study, when faced with personally identifying transactions or productions, the above qualifications are used to define an activity as informal or not, particularly within the irregular sector. Additionally, when encountering government-provided statistics on identification, punishment, or enforcement mechanisms, informal firms are understood as those entities not registered with Argentina’s tax collection agency, the Administración Federal de Ingresos Públicos (AFIP) (World Economic Survey, 2010). Often, government sponsored surveys will classify informal activity into industry sectors, for example, in the manufacturing or services stratum, and exclude strictly illegal activities (e.g. prostitution or drug trafficking) and/or individual activities (domestic servants or windshield washers) (World Economic Survey, 2010). These qualifications are also useful in identifying certain productions and transactions as informal or not.

Relationship Between Informality and Policy

Though the above definition appears clean-cut, it is worth assuring upfront that this paper appreciates the concept and reality of informality as anything but tidy. A scholar may look, by way of example, to theorists like Subirats, who defines public policy as a collection of repeated decisions and interactions between public and private actors, which are influenced both by available resources, the general institutionalized system, and the
environment in which these decisions and interactions are made (Subirats, 2008). This definition suggests a dichotomous and opposing relationship, split between the binary condition of being “public” or “private;” the actions of the state are directed toward private acts and vice versa (private actions towards the state). In the present analysis of informality, the author recasts Subirats’ public-private understanding neither as a binary nor hierarchical condition but rather as a horizontal spectrum bracketing a range of public & private proportions. An organization, for instance, has some level of privatization that causes it to fall between a 100% private and 100% public composition. In a similar manner, individual or business activities also fall within a range of legality.

**Policy Complexity and Risks of Dysfunction**

Multifaceted policy stems from the complexity of societal functions as well as the number of authors and interests influencing the policy. According to Muller, the first unit of economic production was the family, which evolved into specialized professional roles, which were then regrouped into new divisions of labor (professional, vertical, horizontal, sectorial, and territorial), which finally resulted in a dialectic that realized center-periphery and global-regional interaction (Muller, 2008). Muller discusses the societal implications of this evolution; considering sectors “at the selection of elites” as if social factions defined sectors, and citizens were grouped into pre-determined classes (Muller, 2008). Considering these different societal categories, Muller recognizes that different sectors have competing objectives, which causes permanent disequilibrium. Likewise, two policies may have clashing objectives or political forces behind these policies themselves may be at odds (Pressman and Wildavsky, 1973). It must then be a primary goal of public policy to mediate its own dysfunctions, which are increasingly likely
considering their multi-actor authorship. Policy establishment, at least of a semi-
democratic nature, is the final “result of a series of decisions and actions of many
political and governmental actors” (Pressman and Wildavsky, 1973). In fact, there is a
greater risk within a participatory democracy than within an autocracy that the number of
actors and decision-makers increase to a point where public policy likens a “coordinated
game.” As Thomas Schelling explains in *Strategy of Conflicts*, a “coordination game is
an interactive decision where two or more players have a common interest coordinating
their actions and their expectations. […] The focal point is any feature of such a game that
provides a focus of convergence” (Colman, 2006). This interaction increases in
complexity and decreases in probability for optimal outcome, including finding
coordination, as additional members are added (Colman, 2006). Having more players, or
political decision makers, means having a lesser availability and therefore probability of
convergence (Colman, 2006). The greater level of participation in regimes, the greater
difficult of policy convergence, and higher risk of policy dysfunction. These
contributions support Muller’s argument that public policy production inherently
produces risks for dysfunction, and therefore it is an aim of policy to mediate its own
conflicts, as well as those brewing in society.

**Informality as a Strategy**

After discussing the complexity of public policy, it then seems possible that
informality is the extra-political way to mediate societal or policy conflicts. Informality
should not be distinguished as a sector, as Muller identifies it, but rather the grade to
which an activity or set of activities acts outside of policy. No sector nor production unit,
be it chiefly economic or societal in nature, is completely “legal” or “in the white” nor
completely “illegal” or “in the black.” Rather, each sector itself lies along a spectrum with various elements in different shades of illegality (see below).

Figure 1: Spectrum of Legality

| 100% Outside the Law | | | | 50/50 | | | | 100% Inside the Law |

A construction unit may purchase materials legally (like nails and wood from a local distributor) but sell their final products illegally if they do not pay taxes on the sale. In contrast, another business may purchase materials illegally (marijuana for example) and sell the final products illegally (if all consumption is illegal). Informality of whatever variant might constitute what Oszlak and O’Donnell call a “socially problematic” issue; they argue that public policy is the position the state takes toward that issue (Oszlak and O’Donnell, 1995). However, there is no consensus, and cannot be within a large and/or diverse population, on what is socially problematic. Furthermore, to put public policy on one side of the scale and “social problem” on the other automatically makes the government system the “solution,” as Evans defines it (Evans, 1992). If informality lies on a spectrum of legality, it cannot simply sit opposite what is legal. If we take Muller’s understanding of public policy, that it must address its own flaws and failings, then we cannot wholly accept Ozlak and O’Donnell’s definition that public policy faces only what is problematic. Rather, informality weaves together with formality.

Informality as a Mirror Image of Policy & State Strength

If formal actions do not mediate societal conflicts or policy inconsistencies, as Muller directs, informal activity undoubtedly fills the gaps. To look only at policy intention or literal instructions yet ignore informal implications slams the door shut to
understanding state capacity and the actual reach of that policy. Informality is key to economic development, political legitimacy, social cohesion, and even international standing. The condition of having or being connected to an informal business indicates lost government wealth from taxes, lost real and perceived security in areas of operation or those affected, lost oversight and protection for labor laws, safety standards, and lost property of both a physical and intellectual nature (e.g. a street seller offering CDs doubtfully recognizes copyright protections or the original manufacturer). By understanding a small fraction of the informal environment, a scholar can assess the real reaches of public policy, and understand the actual strength of the state behind that policy. This theoretical argument would be served well by a practical example.

Illustrative Instances of Informality in Argentina

The physical impact of informal activity on the public landscape is not to be underestimated. In December 2010 and March 2011, two international publications recognized the Buenos Aires feria “La Salada” as Latin America’s biggest black market (Mojonnier, 2010; Forbes, 2011). La Salada draws an estimated 20,000 people per day and generates anywhere from $500 million to nearly one billion USD in revenues—a sizeable comparison next to the “$8.5 billion earned by the country’s regular shopping centers combined, according to the government statistic agency INDEC” (Mojonnier, 2010). What does this tell us about Argentine governance? What does La Salada communicate about its public policy effectiveness? Like much of Argentina, the feria displays the strength and organization of unions in an otherwise potentially chaotic environment; it is run, apparently successfully, by three workers’ cooperatives: Punta Mogote, Urkupina, and Ocean (Mojonnier, 2010). However, La Salada doubtfully pays
its full share in taxes or follows basic laws, like labor and copyright protections when collecting source material like garments and DVDs. Instead, La Salada thrives upon its ability to undercut prices across the board (Mojonnier, 2010). This strategy displays not only the social bifurcation of Argentine wealth—the poor shop at La Salada and the wealthy at Alto Palermo Mall—but also the geographic conditionality of the rule of law.

**Negative Relationship Between Informality and Wealth, the Rule of Law**

Enforceability or respect for the rule of law seem to correlate with areas and levels of wealth. The ILO has produced a report on the inverse correlation of income per capita and informality (International Labor Organization, 2011). This relationship is particularly pertinent in light of Evan’s conception of the state as a “development agent” (revisited in the conclusion) (Evans, 2007). The ILO’s findings suggest that if a state does act in a developmental capacity—by aiming to increase wealth and well-being—then the state indirectly fights against the informal economy. This means: enhancing the state’s physical and economic domain, converting previously illegal goods, transactions, and areas into legal ones, and reinforcing its own legitimacy, thereby ensuring its relevance and survival. Putting public policy into an informality context just makes sense.
II. REVIEW OF INFORMAL CHARACTERISTICS

Introduction

Scholarship from De Soto, North, and Ben Ross Schneider helps to visualize what informality looks like “on the ground,” by examining possible causal links between political decisions and their economic consequences. While these scholars look to other environments, their findings can apply to Argentina. This discussion reviews informal characteristics by telling a “supply and demand” story in terms of human and capital resources, location of operations, and market strategies. Why do businesses act informally, what workers tend to work informally, and what are the characteristics of the geographic scope of operations, including supply chains and end markets? Everything from the resources employed to the final market may be explained in terms of this supply and demand story. As the next chapter reveals, these forces intertwine with Argentine law and a historically created landscape that foments a deep distrust in formal institutions.

De Soto in Peru: the Aspect of Vulnerability

Since political theorists tend to position formality as the default, and informality as the deviation, it is not unusual for some sort of blame creep in. For some analyses, the distinction implies a question responsibility, even victimization. De Soto 1980’s and 1990’s research in Peru offers a case in point. De Soto’s work progressed Ronald Coase’s examination of transaction costs of state actions by suggesting that a more laissez-faire approach to business policy would release the shackles of regulation and impending informality. While De Soto’s work offended critics of neoliberalism, he made an important contribution by recognizing the vulnerability of informality, not just the
criminality. In 2002, when the ILO evolved the definition of informal work, it made vulnerability its key characteristic.

The Privilege of Legality

Although De Soto focused on informal housing more than informal business, he provided a valuable perspective on legally unrecognized wealth. Personal interviews with informal and formal actors in Peru allowed him to conclude that legality is not the default status but rather a privilege available to those with sufficient economic or political power. The “poor have no alternative but illegality” in the cumbersome legal system that “imposes rules, exceed[ing] the socially accepted legal framework [without honoring] the expectations, choices, and preferences of those whom it does not admit” (De Soto, 1990). The legal system behaves like an exclusive club that allows some members while barring those who cannot claim wealth through their informal home or employment. In this way, initial exclusion preserves marginalization. De Soto argues that if ‘the rest’ could declare ownership of their home through government sponsored titling, then they could convert their informal house into a formal asset in the marketplace (De Soto, 2000). Titling allows the owner to post it as collateral for a loan for house improvements, business investments, or simply as a defensive stream of liquidity to insure against an otherwise volatile capacity to afford basic needs purchases like food, water, clothing, etc. The cost of not titling a house is the opportunity cost of these possibilities.

The Costs of Illegality

Along with homes, De Soto discusses the informal wealth of microenterprises in their efforts to legalize land, crops, goods, or sites; actual and opportunity costs of these efforts weigh upon their operations. De Soto contends that bureaucrats’ corruption and
excessive licensing requirements are cost-prohibitive to poor entrepreneurs and dissuade businesses from performing legally (De Soto, 1990). He muses that in a cost-benefit calculation, it might be wiser to avoid the time and monetary burden of licensing, taxation, and regulation. But informality is not an easy solution. In formal work, a third-party governmental actor regulates the economic exchange and social protections of a strategic two-party relationship, ensuring minimum standards of pay, health and safety, time-off, ability to unionize, etc. In return, the government receives taxes that are vital to funding social services and assuring a form of legitimacy and accountability to its citizens. Moreover, current or prospective business owners maneuvering around the law do so at a productivity cost; by keeping their businesses artificially small to prevent detection, they lose potential benefits from economies of scale (De Soto, 1990). It is “well known that informal firms operate at a very small scale which makes it difficult for them to exploit economies of scale in specialization, innovation, and investment in fixed capital” (Amin, 2011-24). Staying small is not only a strategy but in part a forced condition, considering the business’ financial limitations (De Soto, 1990). Informality bars access to the growth and investment opportunities of traditional credit markets, legal institutions, and other government-sponsored programs. World Bank surveys reveal a wide-scale perception among informal firms that benefits from registering include “better access to finance, better access to raw materials, infrastructure and government services, less bribes to pay, and being able to issue receipts” (Amin, 2011-25). Therefore, it is deducible that informal firms have motivations that supersede these recognized opportunity costs or feel that they are inevitable.
Restricted Resources and Impact on Product Quality

In addition to poor credit access and licensing, as De Soto emphasizes, informal businesses also suffer suppressed growth from restricted supply chains and market access. Informal businesses have a more limited resource base from which to gather basic components for goods or services, and must design a more narrow distribution pathway through which to transport or enhance goods or services. Essential components include both physical resources and human resources necessary to satisfy operations.

Filling out the correct, legal forms does not necessarily produce higher quality goods; higher quality goods are simply more difficult and costly to produce under illegal conditions than under legal ones—at least with respect to the human resource component. Informal work is accepted by a subset of the working-age population, and typically those who are endowed with less education and resources. If we assume that higher skilled labor produces higher quality goods, then we recognize that the greater difficulty informal operations have in obtaining higher skilled labor directly impacts their opportunity to generate higher quality goods. For one, higher skilled labor is in greater demand, by both formal and informal sectors, and is thus more expensive to placate with wages and benefits. The benefits of an informal job, for a high-skilled worker, must outweigh the cost—for example, the risk of losing their current or potential personal and occupational status. This status would provide certain social and economic benefits like a valuable reputation, a certain type of lifestyle, private or public social protections, and even more varied choices of what to buy, how to pay, and if they need to work at all. Other mediating factors in the self-calculated cost-benefit analysis of informal work could include: actual and perceived state capability to prosecute, judicial integrity, and
the threat of a civil society backlash. In conclusion, there is a smaller pool of higher-skill labor available for informal products since they can choose between more illegal and legal positions, and, they have a higher personal cost of detection and/or punishment. Since the nature of the work attracts a smaller supply of high-skilled labor, informal businesses must fill positions with a certain type of worker who accepts its “illegality.”

Some might argue that immigration can be so abundant in developing countries, like Argentina, that it provides an endless supply of labor for all sorts of occupations. However, this quantity focus ignores quality implications. The socio-economic class that accepts informal work often has poorer health, less education, higher personal risk, higher job turnover and few to no government-regulated guarantees that ensure these resources. The World Bank’s Enterprise Analysis Unit has shown that of 384 informal firms surveyed in Argentina, the vast majority of owners have limited education compared to formal firms (Amin, 2011). Around 74 percent of owners have secondary education or higher, but there is a correlation with higher education and greater willingness to register the firm, suggesting that the firms persistently in the shadows are those with the least educational background (Amin, 2011). Furthermore, while the owners of informal firms might display tolerable levels of education, informal employees certainly do not. Over the past decade, the Argentine National Ministry of Labor has conducted a series of investigations that demonstrate the multifaceted vulnerability of Argentina’s informal workers. The majority are young (less than 25 years old), mostly women, and often without primary or secondary education. Additionally, informal firms attract a disproportionate supply of migrant labor compared to formal firms, indicating

*For Argentina’s historic patterns of immigration in Argentina, see Chapter III: Political and Economic Roots of the Informal Institution, pg. 23
that informal employees may lack a social support system, financial resources, and adequate knowledge of the area and their political rights therein in order to fully defend themselves in their new environment. All of these characteristics make informal workers vulnerable to exploitation; this lack of personal and political resources also assures that informal businesses may face little resistance when lowering wages and neglecting working conditions to meet competitive pressure. In sum, informal positions could inherently produce lower quality products, due to the tendency to draw a lower quality of human capital resources. The aforementioned costs—from remaining illegal, staying artificially small, a limited human and capital resource base, and the impact on product quality—all decrease potential efficiencies for informal enterprises.

Constricted Consumer Market

It goes without saying that opportunity in the consumer market also shifts for informal business. One market characteristic stems from the potentially lower-quality aspect of illegal goods, previously discussed. If the price is held constant, then theoretically, fewer people will demand lower-quality goods; but a sale price draws them back. People swarm to ferias in the thousands. At the same time, if the price is reduced, then the profit margin is tighter, and businesses struggle to find profit, often seeking refuge in large output numbers or illegal production methods. Another consumer market difference for informal firms may include a limited, geographic range.

Reduced Geographic Reach

Intentional efforts to remain undetected, price-conscious consumer demand, and squeezed profit margins all prune an informal business’ branches from new corners of the market. Wealthier areas, and obviously wealthier consumers willing to pay higher prices,
usually correspond to areas of relatively stronger government presence and civil society activity—both of which are more uncomfortable with illegal goods than perhaps poorer areas without the same public and private pressure. One indication of market characteristics and the purchasing power of consumers is given through price variations between Buenos Aires neighborhoods. Since laws tightly regulate real estate, and property purchases are required in USD (for locals and foreigners across the income range), real estate prices are fairly reliable and mostly insulated from inflation. As shown below in figures 1 and 2, the wealthier neighborhoods of Buenos Aires city lie almost exclusively on the coast and to the north of the city. The eastern coast holds the political epicenter, including the President’s Casa Rosada, while the north reflects a historic capital flight of political and economic powerbrokers.

Real Estate Prices as Indicators of Wealth (and Informal Markets)

By real estate prices alone, one could infer the areas with the highest informality. The wealthier north and coastal areas of Buenos Aires city have the strongest political presence and the least consumer demand for price-conscious, relatively low quality products (informal goods). In contrast, lower real-estate prices represent the southern and western areas of the city; if we assume the opposite socio-economic and political

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*The first graph displays the price range and rank; the least to most expensive neighbors are listed from 1-10. The second map locates these same neighborhoods with their corresponding numerical rank, next to their average real estate price (USD). The neighborhood is outlined in green, if its real estate price average falls below the citywide average, and in blue if the opposite is true.
†A number of epidemics raged in the 19th century and spurned internal migration. Multiple instances of yellow fever in the 1850s and especially the 1870s caused thousands to perish, public order to break down, and those with means to flee northward from areas that bred disease—slums and rivers in the south of the city which became breeding grounds for disease as sewage and slaughterhouse waste was dumped there.
conditions here, then we may expect the highest probability of finding informality
production and selling in these locations.

Figure 2: Buenos Aires Neighborhood Real Estate Prices (USD)
Listed 1-10, least to most expensive condos (450 ft² = 1 room, 900 ft² = 3 rooms)

Figure 3: Map of Buenos Aires Neighborhood Real Estate Prices (USD)
Average neighborhood price, ranked 1-10, compared to city average (blue/green outline)
In fact, both inspection data from the Argentine Ministry of Labor and news outbreaks regarding informal labor and production suggest this relationship to be true. On a wider geographic scale, the Ministry of Labor offers tentative, positive correlative data between levels of informality and provincial GDP.

Social Aspects of Wealth

It is worth noting that De Soto’s focus is primarily economic—he discusses houses and businesses as assets, not as a means for family development or social networking opportunities. At first glance, this makes sense, considering his emphasis on economic mobility as the means of escaping poverty; he sees assets as the tools to do so. He insists, “Assets themselves have no effect on social behavior: They do not produce incentives; they make no person accountable, no contract enforceable” (De Soto, 2000, pg 157). But even from an economic perspective, he ignores the social value of assets. Within unofficial circles, assets may serve as collateral, status recognition, or tradable goods for a more-desired product or outcome. Within a collection of other high-value goods (like homes or cars), assets can act as a lubricant for social networking; members of a yacht club and members of a neighborhood mingle and exchange information within the boundaries of their group. Valuable assets could even add negative social value, by damaging the owner’s status depending on the perceived ways they obtained the asset, and the expectations for doing so. Even registration brings a social element, neglected in

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See Chapter V: The Public Response and Renewed Discussion of Informality
See Chapter IV: Driver Variables, 3.
*e.g.* The external expectations of a public-level salary and being held accountable to society could lead a lowly policeman who owns multiple apartments to become suspect and risk his job or status from perceived corruption. On the contrary, a local gang leader could rise to power.
De Soto’s analysis. Regardless of the implications as a marketable asset, property registration may benefit an owner’s overall social standing and security (in the very tangible sense of protection, or collateral) while registration of one’s home or business may make the owner less susceptible to law enforcement viewing them as potential “delinquents,” and ensures some public record will defend their ownership.

**Review of Registration Challenges**

Registration, of houses or businesses, forces the government to confront their existence, their possibly derelict social services, and then respond. This is a task that requires state power, resources, and willpower that may not exist. De Soto seems to overemphasize the ease and benefits of registration and underemphasize the challenges of execution. It is possible that governments have an incentive *not* to officially record illegal housing or informal business, as slum growth and black market activities directly affects: domestic and international state perception, multi-national corporation (MNC) risk analysis and consequently foreign direct investment, and the amount of money and services the government may be pressured to provide a slum-ridden area under focus.

One common theme running through the discussion of registration, employment and capital sources, productivity calculations, and consumer market distinctions is that each challenge remains particular to each informal business. In discussions of state and policy objectives, what matters most to public policy makers is how these micro-transactions fit into the complex *institution* of informality.

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based on his assets, or, if he suddenly has an unexpected amount, he might be suspected of selling out his compatriots.
III. INSTITUTION OF INFORMALITY: NORTH, SCHNEIDER, AND ARGENTINE HISTORY

Introduction

The institutional nature of informality signals both its complexity, to weave between the cracks of formal law, as well as its ability to be preserved. The self-reinforcing capability of institutions ensures that once a pattern of behavior or activity initiates (or fails to be eradicated), then it cements into the daily lives of citizens. Like any political framework, the sum could be conceptually different from its individual parts; separate instances of informality could compose an overall perception of the rule of law. But Argentina’s institution of informality was not created overnight; it is political and economic roots reach back decades into past migratory flows, state dismantlement, and breakdowns in the rule of law and economy. Contributions from North, Pierson, and Ben Ross Schneider frame this perspective.

North’s Discussion of an Institution

North defines an institution as “the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction” (North, 1990). North describes the state neither through its effect (be it predatory or restorative) nor its intention, but as an imbedded institution.* The state is built around a system of rules and norms that adhere to dominant concepts or theories, like rational choice, economic neo-institutionalism, etc. (North, 1990). The more that state encouraged rules and norms interlace throughout society, the greater preservation they will have. From this standpoint,

*This contrasts with Evans’ discussion of a state (1992, 2007) revisited in the conclusion.
the relationship of the state to public policy is the ability to enforce one or more of its institutional powers to govern the populace and further its agenda. An institutional image of the state and its policy products is worth emphasizing because it helps explains the duration of their consequences—namely, political economic conditions like informality.

Part of this durability stems from what North identifies as an “adaptive efficiency” that allows the institutional framework to reproduce itself with greater ease over time (North, 1990). Not only do people become accustomed to the “rules of the game,” but all public policy—be it mandated wage increases or minor housing initiatives—begets interest groups which resist change and affect the “stickiness,” or the ability of a system of defined rules and/or undefined human interactions to persist over time (Pierson, 1994). This is why mere registration, touted by De Soto as the golden ticket, cannot be overestimated as a solution to informality. Enacting and receiving licensing fees, administering or failing to administer regulatory components, and state enforcement capacity (e.g. through tax collection) are all state characteristics that carry their own interest groups. The fees go somewhere, the regulation jobs belong to someone, and the state’s overall coercive power cannot be transformed by printing and passing out house titles. If, by lack of formality and proper accountability, some businesses are not taxed, then they or their value chain partners have an incentive to uphold the current system as it provides a competitive advantage.

Schneider’s HME Institution

Another institution behind Argentina’s informality is Ben Ross Schneider’s Hierarchical Market Economy (HME). Schneider defines HME systems as having diverse business “Grupos,” a strong presence of MNCs, low-skilled labor, and atomistic
labor relations (Schneider, 2009).* Grupos are basically family-owned, multi-sector oligarchies whose operations resemble a well-structured investment portfolio; assets and operations are diverse and dispersed throughout the economy, defending against a host of associated risks and reaping significant economies of scale. There is presumably a high level social value associated with these Grupos—both cause and effect of their economic, and probably political, power. If an HME model is applied to Argentina, it follows that new businesses face more barriers than just legal ones. Informal firms may remain in the shadow-market’s low-skilled realm because they do not directly challenge the supply chain and consumer market territory of Grupos and their spin-offs in other sectors. The mentioned advantages of a Grupo could display insurmountable competition for a new entrepreneur, particularly if they lack legal and financial backing, as they do in De Soto’s analysis. In contrast, MNCs in HMEs do not face this problem. According to Schneider, they require limited integration within the society or domestic financial markets, since much of their resources and direction come from abroad (Schneider, 2009). Therefore if informal entrepreneurs and workers, who presumably lack a solid educational background, financial backing, and social network (if they have migrated), also encounter looming Grupos and MNCs, it is apparent why informal firms might perceive unequal footing in the marketplace. If informal participants can avoid taxes, licensing, and bureaucratic hassle—why would they not?

Argentina’s Variety of Capitalism

Considering the legal and institutional challenges above, is informality a result of avoiding the law, or a manner of dealing with it? Recent reviews with an eye on the

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*This model sustains a division between individual wealth and business wealth. Individual wealth is composed of marketable and nonmarketable assets while business wealth refers to estimates of market capitalization, firm size, and financial statements.
uniqueness of urbanity claim that the poorest of the poor are the ones who will be most affected by a financial crisis akin to Argentina’s 2001 default, and the level of suffering often depends on the poor’s capability of adapting through certain strategies employed (Ruel, 2010). It seems that informality is one of these strategies. Ben Ross Schneider and Sebastian Karcher might consider informality a “complementarity” to a variety of capitalism, inspired by Hall and Soskice (2011), and specific to Latin America. Along with a large informal sector, they identify other core features of the region’s labor markets: high labor regulation, low skill levels, short job tenure, and small, politicized unions that lack plant level representation (Schneider and Karcher, 2010). These features help maintain a large informal sector. Additionally, the mix explains in part why labor markets have responded poorly to market reform and globalization. Though the two authors explain the disappointing reform in terms of “the quality of jobs generated, [specifically] what a recent World Bank study called ‘growthless’ jobs,” it is worth mentioning that market reform should include attempts to design better regulation, smooth out enforcement, and formalize activities (Schneider and Karcher, 2010).

Informal business is one characteristic lodged within an institutionalized matrix of other components that distinguish Argentina’s own “variety of capitalism.” When formal institutions fail to meet a demand, or they impede activities in the political economy, informal institutions compete accordingly, readily springing into the gaps.

Political and Socio-Economic Roots of the Informal Institution

As O’Donnell in Delegative Democracy aptly states, various kinds of democracy are not wholly related to “characteristics of the preceding authoritarian regime or to the process of transition [but rather] upon various long-term historical factors, as well as the
degree of severity of the socio-economic problems that newly installed governments inherit” (O’Donnell, 1994). The same review is necessary to understand Argentina’s evolved form of democracy, including the historical roots of informality—namely migratory flows, political decisions, and economic conditions. The overall volatility and social interpretations of these occurrences are not to be underestimated.

**Historic Volatility in Latin America**

The economic environment in Latin America has oscillated over the past three decades. While the 1970s were generally a time of growth for the region, it ushered in a dictatorship in Argentina that crushed industry and allegedly disappeared tens of thousands of dissidents. Both the economy and the rule of law fell under siege. The 1980s, “the lost decade,” bore widespread, slacking growth and a debt crisis. Throughout the region, the 1990s saw green shoots of recovery and growth, lowered inflation, and technological advancements (Thomas, 2002). Intriguingly, this decade also experienced “the expansion of the informal sector in nearly every country, and a reduction in social protection coverage” (Thomas, 2002). The service sector grew, and the prevalence of women in the informal economy increased. Each South American country contained a specific mix of political and economic elements that produced these outcomes. For Argentina, the origins of its formal and informal economic pattern correspond to migratory flows, political decisions, and economic conditions. While most modern economic narratives of Argentina open in 2002—the default of IMF loans that overturned the country and spiked every negative economic indicator imaginable—the story of informality began a few decades earlier. Immigration planted seeds of informality, which
sprouted in an era of state dismantlement, and flourished in the real and perceived
ailment of the rule of law.

**Argentina’s Influx of Migration: 1970s & 1980s**

Since its independence from Spain in the early 1800s, Argentina has instituted a
relative open immigration policy. Immigration, mostly from Southern Europe, remained
steady until the turn of the 20th century when global economic depression, sandwiched by
two world wars, and a military dictatorship in Argentina stemmed the flow and changed
the nature of immigration (International Organization for Migration, 2009). While
improving global conditions in the second half of the century reestablished Argentina as a
destination country, unstable political conditions during the late 1960s and 1970s saw
Argentina’s “first significant emigration outflow of native-born citizens, especially of the
high skilled” and often wealthy classes (Jachimowicz, 2006). At the same time, low-
skilled immigration from neighboring countries increased, as individuals sought
relatively favorable economic opportunities. These shifts in nationality and skill-sets are
noteworthy with regards to the informal labor market. Below, the United Nation’s
Demographic Bulletin displays the concentration of immigrants from neighboring nations
and its steady rate, slowed but not halted by the ‘lost decade’s’ dictatorship and its impact.

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**Figure 4: Immigration Flows to Argentina from Select Latin American Countries, 1960-1989**

<table>
<thead>
<tr>
<th>Period of Entry</th>
<th>Bolivia</th>
<th>Chile</th>
<th>Paraguay</th>
<th>Uruguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-1969</td>
<td>21,888</td>
<td>25,057</td>
<td>50,355</td>
<td>9,226</td>
</tr>
<tr>
<td>1970-1979</td>
<td>22,736</td>
<td>63,559</td>
<td>51,039</td>
<td>48,172</td>
</tr>
<tr>
<td>1980-1989</td>
<td>38,854</td>
<td>54,120</td>
<td>37,918</td>
<td>42,655</td>
</tr>
</tbody>
</table>

Dismantling the State: 1990’s

Throughout the nineties, President Menem led a right-leaning administration that enacted significant market-based policies, shrunk the size and reach of government in domestic affairs, and chose convertibility to tackle hyperinflation. The two-term, Peronist party president paradoxically inverted Perón’s social gains and protections. Menem offered up state assets and companies to private bidding, erased protectionist trade barriers and business regulations, and racked up unsustainable debt, thanks to the peso-dollar parity (US Department of State, 2011). Meanwhile, the migration patterns established since the sixties deepened: low-skill labor from the Southern Cone continued pouring in, contributing to variable but increasing immigration admissions (see below)…

Figure 5: Permanent Immigration Admissions to Argentina by Year, 1995 - 2002

![Bar chart showing immigration admissions to Argentina by year (1995-2002).]

Source: Ministry of Interior, National Migration Directorate, June 2003

…while the young and often high-skilled labor grew wary of the piling debt, spreading corruption, and widening social inequality. Western industrialized nations began to look promising in comparison. The confident tech boom, rising wages, and easy movement within the EU encouraged the amount of Argentine emigrants to Spain and Italy to
The rate of Argentines flowing to the United States, Canada, Mexico and Venezuela also increased (Jachimowicz, 2006). The social and economic conditions in the Menem era furthered the immigration trends initiated a few decades earlier, and contributed to labor market conditions conducive to informal business.

Lost of Trust in Formal Institutions, Erosion in the Rule of Law

Other features of the nineties affected the presence of informality. Inflation, trade imbalance, volatility, corruption allegations, and crime all contributed to the erosion of the rule of law and a general mistrust in formal institutions. As financial and political arrangements revealed their inherent weakness, broken credibility in these formal institutions drove participation and innovation in informal arrangements.

Inflation as a Contributor

The two graphics below display the volatile economic conditions of the seventies and eighties (no doubt tied to the military dictatorship) and the marked change upon inflation from Menem’s decision of convertibility.

![Figure 6: History of Inflation in Argentina](Source: Kiguel, 1999)
Figure 7: Argentina’s Performance During the Nineties (Note the inflation change)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>-1.1%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Investment growth</td>
<td>-7.6%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Export growth</td>
<td>4.4%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Fiscal Balance*/GDP</td>
<td>-9.7%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Inflation***</td>
<td>386.6%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

* Excluding proceeds from privatizations
** Median
(Source: Kiguel, 1999)

Trade Imbalance as a Contributor

Although currency convertibility helped address hyperinflation, it crushed export competitiveness. This starved Argentina’s current account—which was bankrolled by considerable borrowing. Throughout the nineties, the balance of trade flirted with the breakeven point. The graphic below reveals the gap between the monetary value of exports and imports; exports exceeding imports results in a trade surplus, while the negative condition represents a trade deficit. The long-standing peg hampered export competitiveness, needed to address this imbalance.

Figure 8: Argentina’s Balance of Trade, 1990-2011
(Graph compiled with data from TradingEconomics.com and INDEC, Argentina)
The wider current account, which takes the balance of trade together with FDI and international aid, was also drowning. This occurred despite the country’s lower risk premium advantage from the peg and the influx of international funds, suggesting that loans and purchases were used more for consumption than for building investments and public reserves. The current account’s precarious fluctuations and spending implications fostered a growing public mistrust in financial institutions.

Figure 9: Argentina’s Current Account, Pre & Post Crisis
(Graph compiled with data from TradingEconomics.com and INDEC, Argentina)

Loss of Trust in Markets and Government Unimpeded by Free Capital Mobility

What was essential to maintaining market stability was trust in the peso convertibility. The 1994 Tequila crisis and the 1997 East Asian crisis both shocked the Argentine system. The Mexican devaluation of 1994, for instance, instigated an outflow of (especially short-term) private capital. Menem’s convertibility plan removed “controls on any type of foreign exchange transaction between residents and non-residents” and demanded that the newly independent central bank finance fiscal deficits by purchasing government bonds at market prices (Kiguel, 1999). In short: when the market spooked, it
was tied directly to the Argentine treasury, and there were no barriers to stymie money outpouring when people lost confidence.

**Loss of Trust Due to Corruption Allegations and Security Breakdown**

Allegations of corruption undermined the government’s credible commitment to maintain the peg. The public lost confidence from global crises externally, and by watching crime and inequality mount internally. During the nineties, the “unemployment rate and income inequality indicator were found to have a positive and significant effects on the crime rate” (Cerro and Meloni, 2000). As Adam Smith in the *Wealth of Nations* cautions: “the affluence of the rich excites the indignation of the poor, who are often both driven by want, and prompted by envy, to invade his possessions. It is only under the shelter of the civil magistrate that the owner…can sleep a single night in security” (Smith, 1776). Without the even-handed enforcement of the government, the rule of law breaks down, and manifests itself in manifold ways.

**Crime and Enforcement as an Indicator of the Failing Rule of Law**

Argentine crime in the nineties represents a stark swoop upward. In fact, from an average of 170 crimes (per 10,000 inhabitants) in 1990 to 290 crimes in 1999, the crime rate jumped 70.6%, and the quantity of crimes nearly doubled. One qualitative feature shared among provinces was the type of crime: the majority, 68%, of reported crimes were property crimes (robbery, burglary, larceny) while 18% reported crimes were against persons (homicides, injuries) (Cerro and Meloni, 1999). This feature perhaps demonstrates the frustrations of wealth inequality. More descriptive, than crime, of the rule of law is the actual rate of enforcement. Alas, on average for 1990-1997, “only 40 out of 100 crimes reported had identified suspects” (Cerro and Meloni, 1999). Still more
daunting are figures for the Capital Federal and Neuquén, where over 80% of reported crimes were left unidentified (Cerro and Meloni, 1999). This data says nothing of final prosecution; Cerro and Meloni calculated the probability of actual conviction and found that it declined throughout the decade.

Like values in the marketplace, what matters to the political economy is not a mathematical indicator of the rule of law, like crime; what matters is the public perception of the rule of law. Concurrent with the real rates of rising crime, the nineties presented opinion polls that showed that “the perception of insecurity [was] far higher than is warranted […] and this perception has increased, independent of increases in crime,” as significant as they were (Smulovitz, 2003.) It is possible that public perception and insecurity was (and may still be) tied to the expected probability of prosecutorial follow-through, rather than the probability of the initial crime. Likewise, “increasing insecurity among large segments of the Argentine population is attributable to […] the very entities responsible for maintaining law and order. The population distrusts and fears
the police as well as other government institutions responsible for guaranteeing citizen security, such as the judiciary” (Smulovitz, 2003.) In other words, fear and insecurity festered in Argentine souls not from compatriot betrayal, but from citizenship anguish.

The 21st Century Brings a Full-Blown Economic and Social Crisis

The erosion of trust in formal institutions and their mismanagement prepared the grounds for informality, and culminated in a devastating social and economic crisis. In late December 2001, Argentina defaulted on over $100 billion USD in government loans. In early 2002, when the Duhalde government converted the exchange rate regime* from a pegged currency to a floating one, the currency value plummeted and inflation spiked (see Figure 11). Business activity ground to a halt. Poverty soared. Formal agreements, in business and government, were worth only the ink that etched them.

Growth and Restructuring Attempts

The Specific Factors model explains the difficulty of re-starting the economy and shifting factors of production.† Only after Argentina defaulted massively on loans and

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*As an exchange rate regime is the “set of rules” governing the national currency’s value in the foreign exchange market, it compares, on an international scale, the weaponry a country chooses to play the game of trade. Broz and Frieden refer this exchange rate as the “starting point of interaction.” When pegged, the government actively intervenes in the market to maintain a pre-determined value. When floating, the government stands back and lets market forces decide. The Mundell-Fleming model illustrates why a government faces a “pick-two” menu offering between: a fixed exchange rate, free capital flow, and monetary policy autonomy. This holy trinity of options demonstrates the irrevocability of a government’s decision to intervene in the currency regime, and the limited options it has to combat the consequences.

†At least in the short-term, factors mold to their sector and industry, and cannot readily be sent to another. As people lose current jobs, they need social protections to survive unemployment, battle poverty and find retraining. Capital might appear mobile, but it too depends on its liquidity and debt demands. Only after Argentina defaulted massively on loans and broke unserviceable contracts could it release capital to other activities. Property, plant and equipment are more difficult to shift, but in the long-term, they are absorbed in the economic restructuring process through recycling, reselling, or writing of their cost as losses. The Stolper-Samuleson model takes this long-term view with free trade. Eventually, painful short-term costs diminish and allow stronger, mutual growth between countries hosting comparative advantages. Oatley’s calculations support that under free trade, consumers gain more than producers lose.
broke unserviceable contracts could it release capital to other activities. As Stolper-Samuleson and free trade theories predict: after the initial slump, gradual and prolonged external growth during the early 2000s, helpful international commodity prices and interest rates, and an eventual uptick in domestic demand all pushed Argentina toward recovery. Its economic potential was liberated from the unconvincing “credible commitment,” damaged up to 2001. Instead, the government could use revenue growth to cushion reserves (thereby appeasing investors), support public investment like education and R&D programs, and hedge against future crises. Value chain actors—suppliers, distributors, and buyers—could resurface and begin expanding their activities.

Figure 11: Inflation Rate of Greater Buenos Aires, by Government and Private Estimations
(January and July correspond to Enero (Ene) and Julio (Jul) Respectively)

(Source: INDEC & “Buenos Aires City”)
The Kirchner Era

Both late President Néstor Kirchner (2003-2007), and his succeeding widow Cristina Fernández de Kirchner (reelected in October 2011) have defined the first decade of the 21st century as one where social policies and a heavy government hand weigh upon business and labor market activities. Following the 2001-3 crash and crisis, social and economic policies were vaguely reminiscent of the early Perón years. Social provisions were established regardless of citizenship or nationality. In 2002, for instance, the government launched a massive social transfer program called the “head of households plan” to help cushion crisis effects and combat the massive poverty. Key funds and resources were nationalized. In 2008, Cristina’s government seized almost $30 billion in private pension funds, and by the end of 2011, plans to nationalize YPF became apparent. There remain similarities with the Menem era, however. Tales of political corruption have not ceased. Sovereign debt default and hefty investments have placed national finances in a perilous situation—relying heavily on commodity prices, protectionist industrial manufacturing, and internal market growth that is fueled by government spending. But, as of late 2011, unemployment hovered around 7.9%, which was a percentage or two less than the United States’ 8.5-9% (the Heritage Foundation). While administration officials have worked hard to recapture control of the political economy, and regain public trust in institutions and the markets they govern, the paradox is that the overenthusiasm expressed in abundant regulation might have had an adverse effect in stimulating informal business.
IV. MEASURING THE INFORMAL ECONOMY

Introduction

What then does Argentina’s informal economy look like? And how has it behaved, specifically in the post-crisis era? Recalling our definition of informal business and its relationship to policy (Section I), alongside characteristics of informal business (Section II) and the institutional and historically created structure of informality (III), we now turn to attempts at measuring the informal economy. After discussing measurement options, this study uses the MIMC model to investigate three driver variables of the informal economy: the tax burden, the intensity of the state’s business and labor regulation, and the condition of the official economy. Understanding the national context over the past decade, within which Buenos Aires’ informal business has arisen, will further explain the environment and durability of various informal sectors, like textile manufacturing.

Choice of Measurement

Estimating the size and scope of the informal economy faces inherent challenges of data limitation and testability, ensuring that researchers must rely in large part upon proxies or indicators. Furthermore, after indicators are identified, it is often difficult to determine a causal direction. Proper reading of results falls to the researcher’s critical analysis within a given spatiotemporal context (i.e.: the country or region’s relevant history and geography). In discussing a few techniques relevant to Argentina, the Multiple Indicator Multiple Causes model (MIMC) emerges most prudent.

“Demand” Approaches: Currency, Electricity, Labor

Many studies suggest that the unofficial economy has “official” demands on resources such as money, electricity, labor, and rates of consumption and production. If
the informal economy’s added demand on these resources and rates can be estimated, then the informal economy may be exposed. Upon examination of Argentina’s unique case, the currency approach—estimating the “additional” use of cash by the informal economy—seems unwise. The method not only presents internal conflicts (see the study by Ahumar et al, 2007) but Argentina’s “normal” working use of cash, regardless of any additional flows, is difficult to measure. Inflation is volatile and estimations are contentious. State measures of inflation differ widely from private ones* and journalists are threatened by the government, according to law, to publish otherwise (see Ley de Defensa del Consumidor, 24.240 and modifications).†

Estimating electricity and labor demands also proves tricky. The electricity demand approach should be avoided for Argentina’s case because informal businesses, like street vendors, can be so small that they do not use electricity. Additionally, direct usage measurements do not acknowledge varying electricity reforms, like electricity subsidies, and Argentina’s state-controlled vertical operators of electricity form a partially nationalized and non-independent electricity sector (Pollitt 2008, Nagayama & Kashiwagi 2007). Labor demands are also difficult to calculate with certainty. Argentina draws fluctuating regional immigration (Cacopardo and Maguid 2003) and recent government actions‡ targeting previous brain drains have had uncertain effects upon which workers may leave or return from overseas. Instead, labor market conditions are a

*See Figure 11, “Inflation Rate…” graph on page 32
‡Cristina Fernandez de Kirchner has repeatedly promised government grants and a greater emphasis on science education to reverse trends of a “brain drain.” (Dalton, 2008). The law 26.421 and the program “R@ices” demonstrate this support. The details of R@ices may be found here: [http://www.raices.mincyt.gov.ar/documentos/Programa%20Raices%202011.pdf](http://www.raices.mincyt.gov.ar/documentos/Programa%20Raices%202011.pdf)
proxy preferable to economically active population rates. The MIMC model takes care to incorporate these conditions.

The MIMC Model

The Multiple Indicator Multiple Causes model is a theory that hails back to Weck (1983) and Frey and Weck-Hanneman (1984) in their application of cross-sectional data of 24 OECD countries.* Although estimations of informality are naturally tenuous, the MIMC model allows an examination of the consistency between the actual data and informal economic indicators through a hypothesized relationship. The MIMC model reasons: “a statistical theory of unobserved [informal] variables [must incorporate] multiple causes leading to the existence and growth of the [informal] economy, as well as the multiple effects of the shadow economy over time” (Schneider, 2010). In other words, MIMC examines the consistency between the actual data and informal economic indicators through a hypothesized relationship (Schneider, 2010). It sees if suggested informal drivers (independent variables) correspond prima facie with a suggested informal indicator (or dependent variable). By applying the MIMIC method to Argentina, one may hypothesize that tax and social security obligations, labor market regulations, and the condition of the official economy all drive the informal economy, as estimated through income per capita. As mentioned, the informal economy includes all legal market-based production of goods and services deliberately concealed from public authorities to avoid: income/value-added/other taxes, social security contributions, legal labor market standards (on wages, working hours, safety standards), or to avoid administrative procedures such as completing statistical questionnaires or other forms (Schneider, 2009).

*Other researchers covering this approach are: Giles (1999); Giles, Tedds and Werkneh (2000); Giles and Tedds (2002); Dell-Anno (2003); Bajada and Schneider (2005); Pickhardt and Sarda Pons (2006); Chatterjee, Chaudhury and Schneider (2006); Buehn, Karmann, Schneider (2009)
Driver Variables

Driver variables of the informal economy include: the tax burden, the intensity of the state’s business and labor regulation, and the condition of the official economy. Except for the unemployment rate, as one measure of the official economy, all are “statistically significant [at] the 90 percent confidence level” with the presence of an informal economy (Schneider, 2010). A host of studies on the informal economy concentrate on tax and social security demands as the chief informal driver. In fact, related features like the share of direct taxation, the size of government expenditure, the fiscal component of the Heritage Foundation’s Economic Index, the World Bank’s Business Freedom rating, the labor force participation rate, GDP per capita and growth of GDP per capita are all “highly” statistically significant with the expected negative correlation with the presence of the informal economy. Consequent to their relative impact, the first variable under focus is the tax burden.

1. The Tax Burden

Indictors of the Tax Burden: the Heritage Foundation’s Fiscal Freedom Rating

Frey and Pommerehne (1984) describe well the relationship between informality and the tax burden. In short, a heavier and more complex tax burden hurts formal businesses. It lowers profit incentives, reduces growth and investment opportunity, increases risk and uncertainty, and dissuades new entrants.† Argentina’s tax burden is assessed by graphing (below) the raw data from the Heritage Foundation’s Fiscal

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*Empirical studies supporting the statistical significance of taxation upon the informal economy are produced by Schneider (1994, 2000, 2004, 2005, 2007), Johnson, Kaufmann and Zoido-Lobaton

† This tax relationship is empirically supported by Thomas (1992), Enste (2005), Davis and Henrekson (2005), Bouven (2005), Torgler and Schneider (2007).
Freedom rating, * which falls under the general Economic Freedom rating. The organization defines Economic Freedom as “the right of every human to control his or her labor and property [where] individuals are free to work, produce, consume, and invest” how they please (The Heritage Foundation). The rating represents the supposed fulfillment of this definition in light of the country’s legal constraints. Fiscal Freedom, more specifically, is “the tax burden imposed by government [that] includes the direct tax burden in terms of the top taxes rates on individual and corporate incomes and the overall amount of tax revenue as a percentage of GDP” (Heritage Foundation, 2011). While Economic Freedom is a broad and ideological concept, the Fiscal Freedom rating is a calculable component. Ratings range from 0 to 100 to indicate the least to most fiscally free environments. Using all available dates in the Heritage Foundation’s compiled data, Argentina’s score was charted alongside Chile, † Uruguay, and the world average.


†Chile provides an interesting comparison for a number of reasons. Some discuss the 1982 financial crisis as causing devastation similar to Argentina’s 2001-3 crisis (GDP was nearly halved and almost 50% of the population fell under poverty.) Against this backdrop, Chilean President Aylwin undertook a significant social agenda not unlike the Kirchners’. Along with increasing world trade, and reaping a surplus from positive export growth, the Chilean administration expanded the domestic market and was able to reduce poverty from 40 to 20 percent. Therefore, while the graph above shows an initial rise and fall of fiscal freedom, this is most likely due to tax increases needed to support social policies, and then as growth gained traction, a reform of tax policies and expansion of growth (trade) opportunities. The Kirchners’ social provisions found similar success in addressing poverty after the crisis, however unlike Chile, Argentina’s fiscal freedom rating has continued to decrease, not increase. (World Bank, 2004) http://info.worldbank.org/etools/docs/reducingpoverty/case/24/summary/Chile%20Summary.pdf
As demonstrated in Figure 12, Menem released many fiscal requirements during his presidency. However, this fiscal laxity was not sustained. Notwithstanding its economic volatility—a financial panic, international loan default, consecutive five-year growth, then another international recession—Argentina has enacted a comparatively large tax burden, falling below its neighbors, Chile, Uruguay, and the world average. Argentina has gradually “increased its level of taxation in a progressive manner in order to increase public expenditure, particularly public social spending. Alongside Chile and Uruguay, Argentina has the highest level of tax revenue as a percentage of GDP in Latin America” (Bertranou and Maurizio, 2011). It is notable that the rate of tax increases has also risen the past couple years, in Cristina Fernández de Kirchner’s presidency.

Factors Influencing the Tax Burden: Population & Demand for Social Services

Since other nations serve as benchmarks, additional factors upon the tax burden must remain in mind. For one example, other conditions held constant, it is likely that population size affects a state’s ability to track and extract taxes. A greater number of

*Compared to Argentina: Chile’s population is roughly half the size, Uruguay’s is nearly one tenth, and Brazil is almost five times as large.
citizens requires a more extensive, informed, and well-organized tax regime. At the same time, a sizeable population incentivizes the state to levy more taxes; more people mean potentially more revenue for the state to maintain, expand, and satisfy demands. Since the 2001 crisis, the Argentine state has reacted to social dilemmas, like poverty, homelessness, and unemployment, by promising more services. Covering the cost and provision of these services requires extra taxes from the formal workforce. To address this relationship, the World Bank’s “Paying Taxes” index was analyzed, and arranged according to population. Consequently, Argentina’s business tax environment remained relatively unfavorable compared to similarly populated nations: it is 118th globally and 46th of the 60 most populated nations (sandwiched between Angola and Pakistan). The number and type of obligations posed by taxes appears both burdensome and tempting to avoid. In fact, the Bank estimates that a medium-sized Argentine business needs at least 453 hours to complete its tax obligations. This duty likely requires a business to hire an extra person, or absorbs the time of the owner (World Bank, 2011).

Figure 13: Total Time to Pay Taxes (Hours per Year)

![Graph showing total time to pay taxes](image-url)
Upon further investigation of Argentina’s taxes, almost a third (29.4%) of business costs are tax and related contributions, and the overall tax amount is slightly more (108.2%) than what businesses take as profit (see graph below). Of course, the competitive landscape is such that all (formal) businesses in Argentina face these taxes, but both of these rates are more than double the Latin American average (World Bank, 2011). Compared to other nations, within its region and with similar populations, Argentina’s government levies a very heavy tax burden on formal businesses.

Figure 14: Total Tax Rate (Percentage of Profit)

Tax Impact on Labor Cost and Productivity

Argentina’s taxes are reflected in the cost of labor, which has risen steadily since the crisis (see graph, below). The economic crisis peaked in 2002, and when Quarter I began, so many were unemployed that the labor cost plummeted. The manufacturing industry, which will continue later as a sectorial focus of informality, illustrates this below. It is worth noting that labor productivity has risen at a slower rate than the labor
cost; this indicates a rising cost for every unit of production. This rising cost could seep into other areas of the market and might be attributed to lagging technological advancements, an inflexible job market (difficult to hire/fire or transfer positions), or an emphasis on lower skill production. Whatever the reasons, the cost to businesses continues growing.

The Influence of Unions on Taxes: Data Limits & the Trade Freedom Indicator

Alongside political agendas and country characteristics, like population, another factor may influence Argentina’s taxation pattern: labor union strength. A strong union presence may intimidate new entrepreneurs, much like Grupos and MNCs do in Schneider’s HMEs. Entrepreneurs that lack leverage in union bargaining must still abide by the laws that unions lobby for, and these unions can be formidable actors in the
marketplace. Nearly every occupation in Argentina—from delivery bikers, to newsstand sellers, cartoneros (trash sorters), and taxi drivers—belongs to some union or collective. Unfortunately, publicly available information on the financial or political power of unions is limited to non-existent. This information is needed to establish a definitive connection between labor union power and tax regulation. However, it can be assumed that government regulation partly reflects internal interest-group dynamics. When labor unions are powerful, they pressure the government for export and import regulations that favor their industries; therefore, trade restrictions, or their absence, is one way to estimate labor union influence. According to the World Bank, Argentina requires 30% more documents for exportation than the Latin American average. Despite Argentina’s income level, size, and containment of an “international city” (Buenos Aires), the cost to export and import remain higher than the Latin American average.* The Heritage Foundation’s data suggest something similar, showing a higher trade restriction in Argentina than in Chile, Brazil, and Latin America overall (see Figure 16).

*Upon analysis of the Bank’s Doing Business report: the number of documents needed to export from Argentina are 9 vs. the 6.6 Latin American average; cost to export from Argentina is USD 1480 per container vs. USD 1228.30 Latin American average; cost to import is USD 1810 v. USD 1487.90 Latin America.
Trade freedom, or lack thereof, may indicate the strength of labor unions in that they have an incentive to restrict the competition from international trade and they pressure the government for compliance. This may be the case with Argentina, despite tempting growth opportunities for foreign trade and direct investment. Union and labor law ratification processes may reveal the relationship, perhaps power struggles, between organized labor and the state. According to the ILO, Argentina’s current “ratification process impedes free collective bargaining because the Ministry (of Labor, Employment, and Social Security) considered not only whether a collective labor agreement contained clauses violating public order standards but also whether the agreement complied with productivity, investment, technology, and vocational training criteria” (US Department of State, 2010). Taxes or trade restrictions implying influential unions are important to the present analysis because both taxes and unions may present a daunting challenge, real cost, and striking disincentive to entrepreneurs facing decisions of informality.
While the Heritage Foundation and World Bank produce unfavorable indicators of Argentina’s business climate, especially the trend of an increasing tax burden, it is also the case that Argentina has a number of bills to pay. The past decade has undergone massive investment to rebuild the economy and redesign government influence, after Menem’s curtailment. Additionally, to keep investors interested and FDI flowing, Argentina has used tax revenue to strengthen its reserves; it was estimated to surpass $52 billion in late 2010 (US Department of State). Therefore, the reactions of the Heritage Foundation and World Bank might be unwise advice for Argentine officials to accept without measure, but they remain noteworthy with regards to the informal economy.

2. Intensity of State Intervention into Markets: Costs & Benefits

State intervention into business and labor markets is the second driver of informality found to be statistically significant with the informal economy. To apply this finding to Argentina, the World Bank’s “Doing Business” index was dissected to the national level and analyzed through geographic and demographic lenses. Despite status as an upper middle-income country, Argentina was found to be 142th lowest of the 183 countries measured on the Doing Business index, and 24th of 32 nations composing the Latin America and Caribbean region (World Bank, 2011). As seen in Figure 17, at least 14 different procedures will cost an entrepreneur around 30 business days and 14.2% his/her per capita income (World Bank, 2011). Meanwhile, Argentina ranks 118th for ease of property registration (it consumes 52+ business days) and the number, time, and cost of permits puts Argentina in 168th place for construction (World Bank, 2011). In fact, in construction, Argentina is dead last among all Latin America and Caribbean countries.
Multiple Indicators of State Intervention Composing a Trend

Government reactions may directly and indirectly stimulate the informal economy—by driving people and businesses underground, and by replacing more effective responses. Schneider suggests that despite their actual efficacy, “some governments [prefer to respond to the informal economy with] more regulations and laws because it leads to an increase in power for the bureaucrats, to a higher rate of employment in the public sector, [and] is easier to implement, immediately perceived, and thus positively rewarded by the public” (Schneider, 2010). While this view seems cynical, it is difficult to disagree with the logic, particularly in a “right to work” state like Argentina. Filling the empty employment ranks with public workers is one way the Argentine state could respond to the 2001 crisis. Overall, the past decade has seen a trend of increasing state interference in Argentina’s formal businesses.
Figure 18: Trend of State Intervention in Argentina, 1995-2011
(Based on data from the Heritage Foundation. Excel sheets available upon request).

Not only do the Heritage Foundation and World Bank indexes display the extent of state involvement into business, but their measures also pose questions about the ability to coordinate such regulation. Organizing and directing regulation is one function of the state as outlined by Margaret Levi. James Scott, in “Seeing Like a State,” also insists that states have a role in standardizing, simplifying, and making laws and regulation legible so that people and businesses can use them. While over-simplification may lead to repression or harm, over-complexity and failed coordination can lead to harm of a different kind: repressing potential entrepreneurship, harming official employment, stifling wealth creation, and working against the state’s own attempts at regulating, protecting, and controlling the economy. Intense state regulation of business and labor results in significant costs, thereby increasing the appeal of informal work. Johnson, Kaufmann, and Zoido-Lobaton (1998b) present empirical evidence for a statistically
significant influence of every measure used to signify labor regulation upon the informal economy. They note, however, that it is the actual enforcement, not scripted intent, of regulation that eventually persuades firms to participate informally.

Regulation Complexity and its Benefits

A number of indexes assess regulations* and they do so by weeding out other factors like the tax burden, tax morale, GNP/capita, the unemployment rate, and others (Enste, 2011). In contrast with “fiscal freedom” approaches, analyses of regulation density deal less with the amount of taxes and more with the scope and complexity of regulations, regarding both monetary and procedural requirements. Regulations may be analyzed by their market focus—labor, product, or capital market laws—or by their specific agenda: banking regulation, foreign transfer limits, education, etc. After reviewing the scholarship of regulatory impact, the author hypothesizes a theoretical, non-linear relationship between the complexity of regulation and its benefits, of diminishing marginal returns (demonstrated below in Figure 19, in blue).

Figure 19: The Benefits of Regulation Complexity

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*Such as the IW Regulation index, the World Bank, the IMF, the Heritage Foundation, etc.
Of course, some regulatory expansion is needed to reduce uncertainty, secure property rights, and establish norms and guidelines for market player transactions. Among these transaction costs, notably emphasized by Ronald Coase, are those related to search and information, bargaining, and policing and enforcement costs. While government officials cannot replace professional entrepreneurs in bargaining roles, the resources needed in negotiation may be standardized through regulation. For example, governments can regularize information and liability requirements in food product markets by mandating information on original sources (lowering B2B transaction costs) and by requiring certain product labels (lowering B2C transaction costs). The government may also lower enforcement costs by acting as a third-party mediator in contract disputes.

However, after fulfilling basic business needs, present until C2 in Figure 19, there are decreasing marginal benefits from an increasing number and complexity of regulations. In fact, they can raise costs and barriers for businesses to invest, employ, or operate formally (Enste 2010). They may also risk individuals’ freedoms, jeopardize enterprise flexibility (of everyday actions, market responses, and crisis reactions), and distort incentives behind factor allocation, capital accumulation, competition and innovation in the official economy (Enste, 2010).* According to Enste, ultimately the “right or best level of state intervention cannot be derived theoretically because it heavily depends on tradition and culture and level of development of the country.” (Enste, 2010, pg 234). This is where scholarship by Enste and others becomes less helpful: while there are interesting empirical findings for groups of countries, like OECD nations, explaining individual country’s variations in shadow economies by calling on their “unique culture”

*Other authors contributing to the effects of regulation are: Thieben (2003), Nicoletti and Scarpetta (2005), Conway and Nicoletti (2006), Enste and Hardege (2006a)
does not contribute much to understanding how to directly challenge shadow markets and their adverse effects, as Patria Grande ambitiously attempts in Argentina.

3. The Condition of the Official Economy: GDP and its Variations

The third significant driver of the informal economy is the condition of the official economy, which is measured by GDP per capita and the GDP growth rate, and demonstrated in the following graphs. Together with the preceding drivers, Argentina’s informal economy may be teased out by noting the strength and direction of these indicators; the informal economy most likely peaked in the aftermath of the crisis, and then slowly withdrew as the economy and the rule of law gained strength. The usage of GDP and the GDP growth rate as inversely correlated informal indicators is reinforced by the International Labor Organization’s June 2011 report. Traditionally, the formal economy presents an opportunity cost to working informally; in times of expanding employment, a potential employee or entrepreneur sacrifices more to be informal. Conversely, in a weak or recessionary economy, or one with high and/or volatile inflation, people may need to supplement official income with informal work. This assumption and the theoretical and physical boundaries of national GDP indicators will be explored.

As demonstrated below, Argentina’s GDP per capita has experienced some of the sharpest shifts in South America over the past decade. This variability (in the uncertainty and risk it breeds) positively links to informality, while the level and direction of GDP negatively relates to it. Although the entire continent felt the ripple effects from the Mexican Peso and Asian Financial Crises, Argentina fell into a four-year depression that

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*Each measure is calculated as the gross domestic product converted into international dollars using Purchasing Power Parity rates and divided by the population estimate that year.

†See: ILO’s June 2011 “Statistical Update on Employment in the Informal Economy”
culminated in political upheaval bearing violent riots, property destruction, bank runs, and a president fleeing for his life (De la Rúa escaped the presidential palace in an helicopter). Argentina’s unprecedentedly large sovereign debt default also made way for devaluation and restructuring; the country had consecutive 8% growth for five years until the 2008 international recession. Even now, in 2011-2013 period, Argentina’s national outlook appears positive—though unevenly distributed among provinces.

Figure 20: GDP per Capita
(Self-produced graph from data provided by the UN Stats Division)
Provincial Variation: GDP, Inspections, and Informality

Theoretically, the level of GDP matters as much to the informal economy as its variability. If Argentina is broken into provinces, the disparity between their GDP is stark.

Figure 21: Provincial Economic Variation
Source: Self-produced with CEP* data

According to Chapter II’s discussion on localized informality within Buenos Aires, it would be expected that the highest percentage of informal to formal economic activity would take place in the provinces with the lowest GDPS. Of course, the poorer provinces might also lack the same resources or incentives to crack down of informal activity, and therefore the data might be comparatively weak or less reliable than data

*CEP is the Centro de Estudios para Producción, of the National Ministry of Industry, http://www.cep.gov.ar/web
from wealthier provinces. An analysis into the activities of the Argentine Ministry of Labor supports both of these assertions. Since 2005, the Ministry has conducted random investigations of businesses in each of the provinces. The results are demonstrated below:

**Figure 22: Status upon Inspection by Percent, 2005-2010**

*Source: Self-produced graph from data provided by the Argentine Ministerio del Trabajo*

Since Buenos Aires, and particularly Capital Federal, holds the locus of all political and economic activity, it makes sense that the informal-formal ratio (aka “no registrado-registrado”) is lowest here at 28% and 15.9% respectively. In contrast, poorer provinces like Corrientes, Formosa, Jujuy, La Rioja, and Salta contain levels that are double or higher than the Capital Federal rate (46.8%, 36.8%, 37.7%, 35.3% and 37.7% respectively). It also appears the case that wealthiest provinces have the most resources and incentives to support investigations, while the poorer ones do not. The graph below
displays the extreme lopsidedness of inspections; the wealthy and politically connected province, Buenos Aires, contrasts with the monocephalic nation’s poorer provinces.

**Figure 23: Total Workers’ Registration Status upon Inspection, 2005-2010**  
*Source: self-produced graph from data provided by the Argentine Ministerio del Trabajo*

From 2005 to 2010, the Ministry of Labor performed a total of 2,322,267 inspections in Argentina; 726,040 inspections of worker’s status took place within the province of Buenos Aires, and another half million (574,539) in the Capital district. In fact, provincial wealth as measured by GDP* (not adjusted for PPP) was found to have a positive 99.374% correlation† with the number of individual investigations conducted. It makes sense that the Ministry would, in a sense, “follow the money” to businesses acting

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*Data requested individually from provincial governments in August 2012. Due to insufficient response rate (around 60%), CEP data from year 2011 was used to establish correlation(s).

†The sample size was 24 (23 provinces & Capital Federal) and the p-value was 0.00001
as both producers (of GDP) and employers (of potentially informal workers). This relationship is nearly perfect. However the relationship between informality and growth, as measured by GDP, remains more complicated. For instance, while there is a 70.43% negative correlation* in between a province’s overall GDP, and its percentage of informality, this relationship falls to a 49.96% negative correlation† when taking into account GDP per capita. Would not an individual’s well being more directly affect their personal decision to conduct business informally? Technically, yes, but the data cannot account for individual variations—only average levels. In addition, this paper contends that because the drivers of informality (tax burden, state intervention into business, economic situation) are primarily environmental conditions, it is logical that there is a stronger relationship of informality with the overall GDP of a province than with its GDP per capita. In sum, a region’s GDP has a very strong positive relationship with the number of inspections conducted (presumably revealing a higher rule of law and greater ability to conduct inspections), while the GDP per capita has a moderate correlation with percentage of informal workers, which is not statistically significant. Other limits to using GDP as an indicator are discussed later.

What about other characteristics, such as cities versus rural areas? Is it merely the case that there are more people and thus more informal activity packed into the cities, than in the rural areas? It is true that denser populations likely correspond to greater urbanity, economic development, number of businesses, and therefore opportunity to inspect multiple businesses. However, current evidence fails to establish a relationship between provincial population density (as measured by inhabitants per square kilometer

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*Sample size of 24, p-value of 0.0001  †Sample size of 24, p-value of 0.024
in 2010) and the percentage of informal activity discovered by the Ministry of Labor; a weak, negative 30.57% relationship results, with a statistically disappointing p-value of 0.146. Other research, beyond the scope of this paper, is recommended to tease out the relationship between urbanity and informality. As mentioned in Chapter II, informal workers often share certain socioeconomic and demographic characteristics. Indeed, the average illiteracy rate of each province has a 59.39% positive correlation\(^*\) with the provincial presence of informality. This evidences the later assertion, in the conclusion, that a state acting as a development agent should make addressing informality a primary goal (Evans, 1992).

GDP Growth Rates

Alongside levels of GDP, Schneider and others have conducted empirical analyses where national GDP growth rates are consistently found to be statistically significant and inversely correlated with the informal economy. Argentina’s GDP growth rate stands stark against other South American countries, including neighboring Brazil and Chile. In the comparison below, Argentina’s economy looks less fit for South America and more reminiscent of Simon Kuznet’s idiom: “There are four types of countries: underdeveloped, developed, Japan and Argentina.” However, if Argentina’s GDP rate were charted for an entire century, the past decade’s volatility would appear more the norm than the exception. Figure 24, below, demonstrates Argentina’s GDP rate using constant 2005 prices; the resulting trend oscillates violently between negative (red) and positive (black) growth rates.

\(^*\)Sample size of 24, p-value of 0.0022
Limitations to Using GDP as an Indicator of Informality

It is important to note that GDP growth rate, as a determinant of informality, brings certain limitations. Scholars often test the *national* GDP growth rate, but at the provincial level, the variable’s predicting power breaks down. The Argentine Ministry of Industry’s CEP (Centro de Estudios para la Producción) calculates the “geographic gross product” (PBG) for each province and, accounting for all data available since 2005, the growth rate for each province has only a 11.57% correlation with the corresponding provinces’ percentage of informality as discovered by the Argentine Ministry of Labor, indicating a weak and statistically insignificant correlation. This suggests that a national indicator has greater relevance to the overall economic climate and the other characteristics that encourage or dissuade individuals to work informally. It is also possible that informality is of more concern at the federal level; a growing GDP allows the national ministries to

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*Sample size of 24 (23 provinces & Capital Federal) and a p-value of 0.59*
conduct investigations, make charges, and pursue projects of development. Provincial growth may have less weight as many rely on resource distribution from wealthier provinces; growth, in other words, is shared rather than isolated within provincial boundaries. Additionally, limited evidence suggests most provincial branches support investigations far less rigorously than branches near or within the federal district. Investigations are either a lower priority or further outside their budget.

GDP levels and GDP growth rates are important indicators of national economic health. However, the prevalent assumption that a weak official economy inevitably pushes people into informality should be questioned with regards to Argentina. Findings from Brazil, Chile, and Mexico, by Taylor, Arango, and Maloney suggest the opposite pattern in Latin America: a strong and growing economy correlates with more informal work.* Immigration might be a mediating factor. A stronger economy could attract more immigration, enact pressure on employment opportunity, and spur greater demand for jobs than formal firms can provide. New or recent migrants could be unfamiliar or unwilling to involve themselves with the host country’s legal system; fulfilling immediate economic needs might be a higher priority. At the same time, a booming economy provides an economic safety net for those wishing to try informal entrepreneurship or employment. An informal venture could be the first step toward eventual formal business; however, the elapsed time in receiving official approval and construction permits (illustrated earlier) might frustrate an entrepreneur’s patience and resources, thereby delaying or indefinitely stalling the process. While formal employment

provides greater job security and perhaps higher pay, informal employment remains more flexible; families needing extra disposable income, or indifferent to the benefits of formal work, might negotiate their own deal with a manager \( i.e. \) the manager evades taxes and the worker receives a portion of the savings in higher wages.) Economic certainty, not merely a measurable “good” or “bad” condition, could also impact the presence of informality. Societal expectations of where the economy is going, or perhaps the perceived stability of current conditions, might influence their willingness to “self-insure” with informal work. Further research is needed to test these possibilities.

Unfortunately, personally held estimations of economic certainty are difficult to measure, and data of individual reasons for starting or remaining in informal work are clouded by mistrust and response bias. Statistics remain blurred as to how many informal workers feel “coerced” into their position by economic or, even interpersonal, constraints. What can be sketched is an overall image of the informal economy in Argentina. Resources like the empirical studies mentioned, the individual survey Encuesta Permanente de Hogares (EPH), and branches like the Ministry of Labor and Ministry of Industry all provide some pieces.

Estimates of Overall Size and Growth trends

Size and Government Attempts to Tackle Consequences

The driver variables, articulated and illustrated above, can infer how large the informal economy is and what its growth trend looks like. Frederich Schneider and others estimate informal activity composes 25-30% of Argentina’s GDP, while data calculations from the Argentine Ministry of Labor suggest a range of 15.86% informality (Capital
Federal) to 46.83% (Corrientes province) with an average of 30.03% (Schneider et al, 2010; Ministerio de Trabajo, 2012).

The Argentine Ministry of Labor and the Encuesta Permanente de Hogares (EPH) gauge the informal economy through surveys and other primary research. In 2009, the Argentine Ministry of Labor estimated that 40% of the urban workforce work informally (US Department of State, 2010). The same year, the biannual, individually reported EPH stated that 39% of active employment was informal, while an additional 9% of the population was unemployed and their last job was informal (Millan-Smitmans, 2010). This means that even when people can find jobs, about or above half the employment remains informal (Bertranou and Maurizio, 2011). Informal workers may be salaried or unsalaried, but the presence of a salary does not indicate a decent wage or higher probability of other provisions, like social security. Eighty percent of all informal workers in the country have incomes below the poverty line and about 96% of informal salaried workers do not contribute social security because “it was not offered by the employer” (Millan-Smitmans, 2010). Still, having a salary is preferable. About 59% of informal unsalaried workers answered in the EPH that they remained where they were because they “couldn’t find a job as a salaried worker” (Millan-Smitmans, 2010).

The informal labor market is so substantial that the government has needed to repeatedly expand social coverage. The 2002 “head of households plan,” formed in response to the crisis, allowed informal workers to be de facto incorporated in the social security administration program. This plan was still active at the end of 2009 and had about 800,000 beneficiaries—although no new participants were incorporated after May 2002 (Millan-Smitmans, 2010). This program stemmed, though only in part, from the
massive upwelling of poverty and informality, and displays governmental awareness of
the problem. This attention upon the informal condition continued in November 2009
when the AUH (Asignación Universal por Hijo) extended child allowance for informal
workers who received less than the minimum wage (Millan-Smitmans, 2010). Until 2009,
lack of coverage for children and adolescents of informal families was “a major issue”
(Bertranou and Maurizio, 2011). A new, non-contributory protection arose for
unregistered and/or in the domestic service (Bertranou and Maurizio, 2011). Formality
was no longer a pre-condition for government assistance.

Trend of Informality: Shrinking at a Decreasing Rate

The evidence for a dual market economy in Argentina appears strong. Previously
mentioned statistically significant driver variables—such as the tax burden, state
intervention into markets, and the official economic condition—all suggest that informal
activity in Argentina exploded during the crisis, then began to decrease the years
following. As economic growth restarted, the state regained elements of the rule of law,
the populace recovered some trust in formal institutions, and all firms increased their
hiring. However, the evidence suggests that while the growth of informal businesses
might be slowing, it is slowing at a decreasing rate. Put differently, the rate of
unregistered workers can be fit to a negative exponential trend with an R-squared value
of 0.9567. If this trend were linear, or exponentially increasing, then it would show a
steady or growing traction in combating informality. Alas, this is not the case.
Two reasons, one practical and one theoretical, may explain this phenomenon. One practical reason is that the obvious hubs for informal workers—relatively large firms with more than 40 people—have drawn attention and been addressed. It also takes more time and resources to begin and maintain a large firm than a quick-shop 5-person firm. Larger firms might be wary of attracting government attention and facing organized employee strength that may threaten to out them or unionize. The smaller the firm, the easier it melts into the city landscape, evading detection. A strong, negative relationship appears between informality and firm size. Firms composed of 41 or more employees have, on average, a 12.3 percentage rate of unregistered workers, while firms with 6 to 40 employees have over double the occurrence, with a 35.4 percent average rate. Not only do the smallest firms, with up to five employees, hold highest occurrence of unregistered
workers (on average of 76.5%), but they also display the most stubborn rate of change. Smaller firms persist, with an average 9.3% yearly decrease in informality the past decade—in contrast to a four to five times sharper rate of decrease in larger firms.

Figure 26: Rate of Informality (According to Establishment Size)

Source: self-produced graph from data provided by the Argentine Ministerio del Trabajo

A second, theoretical explanation for a decreasing rate of formalization points to the endurance of historically created conditions and institutionally entrenched features. A Hierarchical Market Economy like Argentina has its own “variety of capitalism,” where certain structural and “sticky” characteristics make change increasing difficult (Ben Ross Schneider, Hall and Soskice, Pierson, North). Since the eighties, conditions began

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*Data for 2007 Q3 were not provided, so the average data points for 2007 Q2 and 2007 Q4 were used as proxy.
forming an economic, social, and political landscape that cultivated a dual market economy. In the nineties, the real and perceived breakdown of government institutions—through economic mismanagement, crime rates, and corruption allegations—impacted the rule of law, for both then and now. The Kirchner administrations found themselves facing challenges upon a landscape forged in a previous generation; the informal economy of this decade is rooted in the last. For instance, the income gap widened between informal and formal workers during the 1990s, pushing informal workers towards the bottom deciles and precarious situations that the Kirchner administrations were later tasked in handling (De Ferranti, 2002). Addressing informal activities have met increasing resistance for additional, theoretical reasons. Interest groups who face change will organize to lobby laws that protect them, while initial crackdowns weed out which informal actors cannot, in essence, “compete” under the threat of discovery. Other methods of maintaining informality are perfected, or might begin to be tolerated by judicial actors, whose motivation wanes. Argentina’s GDP might be strong enough that the government has less need to squeeze every drop of informality for its tax dollars, or it might be pursuing populist measures that gain (more) votes than those provided by communities directly affected by informal businesses. In other words, a government secured in money and votes might not need to fight the smallest, illegal firm. As for them, informal activity appears to be a strategy of complementarity that governmental branches, like the Ministry of Labor, and legislators through Patria Grande, are trying to combat. The question arose earlier: considering the legal, economic, and institutional challenges described, is informality a way around the law, or merely a manner of dealing with it?
V. Case Study: Patria Grande as an Attempt to Address Informality in the Textile Industry

Introduction

Why cannot lawmakers simply “outlaw” informality? Patria Grande puts informality on a very tangible level—revealing its victims, and displaying its intractability. Furthermore, it offers a platform from which to base proposals and recommendations regarding informal business. The Migratory Regularization Program, also known as la Patria Grande, is a law that attempts to address informality’s worst abuses. It evolved simultaneously of the legal record and in the public memory, particularly after a deadly fire sparked outrage. Therefore, an analysis of its legal heritage will explain the rate and substance of Patria Grande’s development, while primary news outlets will demonstrate the popular response as it followed these advances. After examining the context within which Patria Grande was formed, its impact upon the informal sector and populace, as well as its shortcomings will be addressed.

Legal Context: Government Relationship with Industry, Workers

The government relationship with industry and workers has fluctuated over the past half century. In the fifties, Eva Perón encouraged the growth of small businesses by handing out sewing machines to families. In the mid seventies to early eighties, a suspicious dictatorship actively worked to quash industrial growth. In the nineties, the government communicated full faith in business’ ability to carry on unchecked, and parceled off national industries and resources to private companies at the highest bid. In the 21st century, the government has redrawn a tight lacework of regulations—verbally supporting industry, but physically erecting countless barriers.
In Argentine law, workers’ rights are particularly hallowed. Employment law* applies to all workers, regardless of nationality or location where the contract was formed, as long as the employment takes place within the country (Funes de Rioja and Viñales, 2011). Sources of employment law like the reformed Constitution, the Employment Contract Act (ECA), and others, are worth explaining as informal labor conditions, described in reference to Patria Grande, expressly violate mandated worker provisions.

The 1994 Argentine Constitution: Article 14 bis of the Constitution requires the following: dignified labor conditions, a limited work day, Sunday rest, paid vacations, “just retribution”, minimal salary, non-discriminatory “equal pay for equal task”, participation and collaboration in the direction of companies, protection against “arbitrary dismissal”, and “stability of public employment”†. Article 20 of the Constitution establishes the principle of equality, forbids discrimination, and releases from punishment the person who finds themself victim to crimes relating to their migrations status. In other words, even foreigners have the right to receive state protection regardless of their status, and cannot be punished for illicit activities, like human trafficking or slave labor, that they themselves fall victim to.

The Employment Contract Act gives (formal) employees a number of rights, including: severance payments and minimum notes periods in the case of dismissal; paid sick leave; a minimum weekly rest period of 35 hours and a 12 hour break between work days and

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*Among the sources of employment law: The 1994 reformed National Constitution; International treaties like rights and guidelines established by the ILO; The Employment Contract Act No. 20,744 (ECA); The Workday Act No. 11,544; The Employment Injuries Act No. 24, 557; The Mandatory Pensions Act No. 24, 241; The Collective Bargaining Act No. 14,250 and collective bargaining agreements (CBAs).

†Contrary to private businesses, the government cannot fire without proven wrongdoing from the employee. While private businesses can fire without proven wrongdoing, they must pay a hefty severance package—established as a deterrent to this. Government does not have this option.
overtime; annual paid vacation; a 13\textsuperscript{th} month mandatory year bonus payment; healthcare protection, and a compulsory retirement plan (Funes de Rioja and Viñales, 2011). Formal employers receive many government-provided benefits, such as a reduction in social security contributions when hiring new employees, and a subsidy if their new employee was recently unemployed and previously receiving a subsidy (Funes de Rioja and Viñales, 2011). These rights and benefits often do not reach informal employees and employers.

The Law of Migrations 25.871*: Enacted 20 January 2004 by President Néstor Kirchner, this law establishes the modern legal framework for immigrants and their relationship with the state. The law declares human rights as well as citizenship rights—under single countries, like Argentina, and more broadly, under MERCOSUR.

Article 4 recognizes the right of immigration as “fundamental and inalienable” and deserving of equal treatment. Article 5 and 6 emphasizes the equality of access and guarantee of human rights for both nationals and foreigners. Article 7 and 8 go further, guaranteeing the right of education and health. (This may contradict, or perhaps override, previous Law 22.439 that limited certain access and guarantees to provisions like legal residence and more cleanly established distinctions between nationals and foreigners.) Article 17 establishes that it is the national state’s responsibility, through the National Department of Migrations, to regulate and ensure the migratory status of foreigners. It is this department’s objective to set forth rules, affix rates and fees, arrange and simplify procedures for immigrations as well as develop and implement programs in areas of the country that require special licenses. Article 17 demonstrates why Patria Grande is a national program under full force of the law. Article 23 moves outside national boundaries to extend certain citizenship possibilities for the rest of MERCOSUR; under this article, immigrants from other MERCOSUR countries have the right to obtain a permanent residence in Argentina.

For all the declared rights and benefits therein, Law 25.871 does not imply legal indifference toward porous borders or related infractions. In fact, Article 29 and 61 together cast an inimical glance toward entrants involved in arms trafficking, human

*Full text available online: http://www.infojus.gov.ar/index.php?kk_seccion=documento &registro=LEYNAC&docid=LEY%2520C%2520025871%25202003%252012%252017
trafficking, financial fraud, and other illicit activities. Article 29 places this discretion with the immigration authorities.

**Decree 836:** On July 7, 2004, an Administrative Emergency of the National Immigrations Office of the Ministry of the Interior is declared for a period of 180 days. Article 10 of Decree 836 in conjunction with Decree 1169 of September 2004 initiate the creation of a National Program for Normalizing Migration Documents (Programa Nacional de Normalización Documentaria Migratoria), a.k.a. **Patria Grande**, for residents of MERCOSUR and associated localities.

**Decree 578:** This 2005 decree prolongs the administrative emergency of the National Immigrations Office, responsible for issuing Patria Grande. At this time, procedures for regularization are uncertain. Patria Grande is directed toward non-regularized immigrants who entered before April 17, 2006, as well as those who declare themselves before May 31, 2008. President Néstor Kirchner publicly introduces Patria Grande in December 2005. He states its intention to strengthen regional integration between Argentina and fellow MERCOSUR members, and to ensure the human and citizenship rights of an estimated 750,000 illegal immigrant residents in Argentina from: Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela (Source: Nicolao, 2008 & InfoJus, 2012).

**Social Context**

The social context of Patria Grande holds important implications for state action and policy design. The living and working conditions of the informal workers caught in the 2006 Caballito fire broke multiple laws, ignored basic constitutional rights, and hinted at the *social configuration* underlying informal textile industry. This part is key to designing targeted policy.
The Catalytic Fire of 2006

In 2006, the implementation of Patria Grande goes into overdrive. In March, a fire breaks out in a clandestine textile shop of Caballito, Buenos Aires, and kills six illegal immigrant Bolivians, which were found to be working in slave-like conditions—working 16-18 hours a day, locked inside without rest, breathing dust, and receiving a pittance to sell a $.80/piece clothing to a major brand. Suddenly, all eyes are on the immigrant condition. News of the fire and the workers’ conditions continues to spread, inciting a national discussion over worker exploitation, immigrant rights, and other informal shops. Public pressure builds upon politicians to close down shops and accelerate a legalization program to prevent the victimization of migrant workers. The law Patria Grande, which took two years to draft, is officially produced April 17 2006, only two weeks after the fire.

The Law

Patria Grande has three main steps: initial registration (which allows legal study, work, and legal border passage), a two-year temporary residence, and permanent residence. Patria Grande no longer required health certificates, removed prohibitive procedural costs, and simplified some steps. Despite difficulties still embedded in the immigrations program, scholars note that Patria Grande offered a significant improvement from past immigrations laws (Latucca, 2006).

Social Configuration Underlying the Informal Textile Industry

The trapped informal workers were mostly young, poor, Bolivian immigrants. As discussed in Chapter II, these characteristics are not unusual for an informal business. As De Ferranti notes, “the concept of social class…is mostly ignored in modern economics,” despite many overlapping characteristics, as a social class is “the discrete and durable
categories of the population characterized by differential access to power-conferring resources and related life-chances” (Portes and Hoffman, 2003). This definition illuminates the significance of the social characteristics engulfed in the Caballito fire. Additionally, the tendency for social categories to endure reveals an interesting power conflict between state and society. If the rule of law is weak, inconsistent, or unreliable, then the societal structures that remain are influenced less by law than by social categories and economic incentives.

De Ferranti proposes intriguing analysis on the inequality of resources within organizations; specifically, the exploitation conducted in informal firms and/or those dependent on categorical exclusion mechanisms. For instance, he suggests that organizations find adaptive qualities in pairing categorical exterior qualities (like gender, race, age, or ethnicity distinctions) with interior qualities (like “staff versus line work, enlisted versus officers, management versus workers and so on”) (De Ferranti, 2002). Matching exterior and interior categories justifies and “reinforces inequality inside the organization that does the matching” and ensures a “lower cost of maintaining the boundary” due to the highly visible nature of the division and the ease of replicating rather than transforming the relationship made possible within this structure (De Ferranti, 2002). Changing organizational designs costs “a great deal to conceive, test, modify, install, teach, and enforce. The more unfamiliar the design, in general, the greater these costs” (De Ferranti, 2002). It is much easier and cheaper to simply adopt an existing, socially understood manner of interaction, like gender hierarchy or racial or ethnic networks; adopting prevailing categorical boundaries increases stability. In fact, what De Ferranti is reproducing in an organizational discussion is a re-statement of North’s
understanding of institutional durability and Pierson’s explanation of “stickiness.” When applied to a firm setting, it is easy to see why informal businesses may replicate in similar manners, across urban landscapes and throughout different industry sectors. It is also explanatory as to why similar exterior-interior categorical pairings persist; some of these relate to shared characteristics of informal workers between various countries: young to middle age adults, mostly women, immigrants, and lower-skilled.

Part of the exterior-interior matchmaking is driven by individuals themselves, not their managers or firm owners. For decades, immigrants have swarmed to Argentina in search of prosperity or simply a better life. When immigrants settle at their destination, they build upon existing social networks—often living and working in the same or connected neighborhoods and industries. Many economic models (Heckscher-Ohlin and Stolper-Samuleson model among them) assume that factors of production, like capital, move costlessly between industries. This is fairly unrealistic. In real life, social networks grease the wheels of change. Immigrants bring or have children, thereby building on the social and economic resources that they and their “in-group” have accumulated. It follows that this social development may either further expand their wealth, or deepen their categorical exploitation.

The categorical similarities across different informal manifestations offer an opportunity for policy makers. De Ferranti notes that in “highly competitive, labor-intensive industries such as garment manufacturing, pressure to keep wages low pushes owners toward maintaining a high proportion of turnover jobs” (De Ferranti, 2002). This explains the highly indifferent labor conditions of in the informal textile industry, while demonstrating how the institutionalized, exterior categories such as race, gender, and
ethnicity become interior (De Ferranti, 2002). These economic and social linkages form a class subset within the complex matrix of social hierarchy of Argentina. While these stubborn categorical boundaries explain, in part, the persistence of informal activities, they also offer a target area for policy makers. President Néstor Kirchner, in his December 2005 preview of Patria Grande, focused not on the economic problems of informal activities, but the “human and citizenship rights of an estimated 750,000 illegal immigrant residents.” In short: by addressing the exterior categories of citizenship and race, he hoped to address the interior qualities of labor positions and pay.

Public Response and Renewed Discussion of Informality

Public reaction is an important indicator of democratic involvement, free press, and the rule of law. The priority of policy production in 2006, after the Caballito fire, acknowledges the state’s attention to public opinion and its efforts to display control. Furthermore, the continual documentation by the press, domestic and abroad, is part and parcel to legislative creations and executive enforcement that attempt to address informality. The gradual unveiling of informal conditions in Argentina reflected the public’s continued consumption for such information, and the maintained pressure applied to political leaders.

- **21 July 2006:** The BBC Mundo emphasizes the immigrant labor condition in Argentina, primarily of Bolivians, and mentions the attempt of the government to respond with a free pathway toward legality (Gabino, 2006).

- **27 Aug 2006:** Five months after the fire, the international news outlet of Mercosur remarks that slave-like conditions for informal workers of Sao Paulo and in Buenos Aires continues unabated. Official estimates state that 15,000 Bolivians work illegally,
while independent sources multiply that number many times. Fabian Pico, speaking for the government, claims that: since the March fire, the number of investigating authorities were doubled, 1500 workshops were addressed, hundreds of workers relocated, and 973 places were reviewed, of which 502 were closed (Mercosul, 2006).

- **7 September 2006**: The Argentine national newspaper, Clarín, reveals that illegal shops are found to be manufacturing clothes for the brand “Kosiuko,” which subsequently became subject to investigation and potential lawsuit(s) (Novillo, 2006).

- **16 Jan 2007**: Clarín reports that the Undersecretary of Labor cracks down on four illegal textile shops that locked undocumented workers, some pregnant and some underage, inside workshops of deplorable hygiene and safety conditions, demanding 20-hour workdays in exchange for 10-35 centavos per article of clothing. Upon investigation, it was revealed that the clothes were made for the “Cheeky” brand of the business Cheek S.A. (Sociedad Anónima). As multiple workshops suffered these conditions, the Undersecretary of Labor officially denounced the Cheeky brand by saying, “they have the legal obligation of knowing in what conditions the workshop employees perform their tasks. And that [the business] may be an indirect beneficiary of the detected exploitation.” This is the second time a brand is openly linked and verbally held accountable to informal worker conditions (Clarín, 2006.)

- **Jan 2007**: The company Cheek, S.A., on behalf of its Cheeky brand, issues a press release giving their version of the facts, stating “the Company contracts independent providers that complete part of the productive process. While whatever irregularity of these providers is apart from Cheeky, the Company assumes a public commitment to immediately cease all commercial relations with whatever provider does not strictly
comply with regulations in force in the country.” Through this press release, the company Cheek acknowledges the legal linchpins in the textile industry: the severed accountability of final brands, the role of independent contractors, and the strict adherence to regulation. Additionally, these features silently dispute the company’s responsibility, and put the burden of reforming the law fully upon legislators.

- **March 2007:** Clarín bemoans a sluggish judicial response. After a full year since the deadly Caballito fire, only two suspects have been detained and no arrests made. Instead, the 700 million dollar clothing brand industry appears strong (Novillo, 2007).

- **July 2007:** Clarín reports a total of six denounced clothing brands: Puma (Unisol S.A), Bensimon (Royal Denim, S.A.), Topper (Alpargatas Calzados S.A.), Le Coq Sportif, Textil Delos S.A., Kosiuko, Cheeky, and Soho. (Clarín, 2007).

- **2008:** News & investigations begin connecting individual occurrences of slave labor to the broader, globally pervasive informal economy. Reports start approximating its scope, as well as highlighting particular sectors. The NGO La Alameda Cooperative estimates there are some 30,000 informal workers in Buenos Aires and about 10,000 illegal workshops (Alameda, 2012). The leader of the Bolivian community, Felix Zapata, suggests the city contains at least 200 informal textile shops imposing slave-like conditions. The Executive Director of the Argentine Chamber of Textile Industry, proposes that “half of the 165,000 workers employed in the textile (value) chain” are informal (MTEySS, 2010). The magazine below demonstrates the progress in the public’s understanding of informality and its wider effects.

- **1 April 2008:** The magazine Revista Zoom publishes a recollection of the 2006 fire and Bolivian workers’ mistreatment. The magazine describes a larger undercurrent of
informality, comparing the situation to Mexican “maquilas,” Columbian “pimpollos,” and Italian scandals involving undocumented Poles picking tomatoes in “inhumane conditions.” The article mentions various sectors engaging in informality—food production, textile manufacturing, and transportation. It also warns that illegal working conditions can be deadly; overcrowding, poor diet, and poor work environments increase the risk of illness. The article remembers Diego Aruquia, Bolivian textile worker, who died at 19 from a bout of tuberculosis complicated by pneumonia. He worked for an illegal firm in Chivilcoy, which accepted no liability (Revista Zoom, 2008.) The emotive appeal of the article, in conjunction with its mentions of international incidents of informality, illustrate the breadth and depth now present in the discussion of informality. No longer is informality seen as a solitary spark in 2006, but rather a wider phenomenon that has smoldered in Argentina for years.

Government Response: Executive, Legislative, Judicial Branches

Introduction

Spurned on by public pressure from the Caballito fire and the introduction of Patria Grande, the executive, legislative, and judicial branches took different approaches to informality. In this case, executive function is primarily carried out by the Department of Labor, while the legislative function stems from the National Congress, composed of a Senate and Chamber of Deputies. Though the judicial branch is divided into jurisdictional judges, federal judges, and a Supreme Court, the members displaying a particular influence on informality will represent this branch’s function.
Executive Branch

The Ministry of Labor is responsible for conducting both research and investigations into labor infractions. Since the inception of Patria Grande, the Ministry of Labor has undergone restructuring with a renewed attention upon informality. The team of inspectors was expanded,† and arrangements toward control and auditing were strengthened under a new methodology.‡ The information regarding regularization is now of public domain, and a magazine documenting this evolution is available.‡ Both the restructuring and heighted public attention have improved the Ministry’s recognition and response to informality (Rodríguez Nardelli, 2012).

In an interview, a Ministry official recognized Patria Grande as a “huge step” toward facilitating entrance into the formal economy (Rodríguez Nardelli, 2012). Though the rate of regularization has perhaps met greater resistance the past few years, the past decade has seen a continued extension of formalization. Part of this is due to the improving economy itself, as it not only impacts personal decisions affecting informality, but also necessitates the empowerment of the Ministry (Rodríguez Nardelli, 2012). New tools like tax incentives have emerged to encourage formal employment. In the eyes of some Ministry officials, the issue contains two dimensions: the informality that persists inside the big companies, like those dedicated to agriculture, (the Ministry views further formalization is possible here) and the informality that exists in smaller, heterogeneous places. The second part has proved much more challenging, particularly as it “appears to involve social and cultural factors;” this persistence has made informality a “long-term subject of policy and inquiry for” (Rodriguez Nardelli, 2012).

*See: http://www.trabajo.gob.ar/inspeccion/inspectores/
†See: http://www.trabajo.gob.ar/inspeccion/metodologia/
‡See: http://www.trabajo.gob.ar/publicaciones/revista/
The heterogeneity of informality may be evidenced by the incidence of informality according to sector. The Ministry classifies data into one of ten different sectors. As it may be seen, the most populous sectors are: commerce and real estate (with almost 1 million employees), services (with 288,618 employees), and the manufacturing industry (with 276,587 employees). The largest sectors assumedly hold the most variance. Additionally, while sectors like agriculture, extraction, and construction may be operated by large companies (i.e. visible targets for inspection), the sectors of commerce, manufacturing, and teaching are dominated by small companies, at times composed of one to five individuals. The Ministry likely appreciates that the variance within each sector and the size of the company directly impact the persistence of informality.

Figure 27: Total Number of Unregistered Employees upon Inspection, 2005-2010
(Self-produced graph based on data provided by the Argentine Ministry of Labor)
In the following graph, it is also clear why the Ministry has made a point to target agriculture. As a percentage of total employees, the sector has the highest incidence of unregistered (or “No Registrado”) workers. Construction and transport could be the next two sectors under investigative glare.

Figure 28: Unregistered Percentage of Total Workers upon Inspection, 2005-2010
(Self-produced graph based on data provided by the Argentine Ministry of Labor)

Judicial Branch

Despite the wealth of law forbidding informal manifestations, judicial enforcement remains spotty. In April, in the midst of public uproar over the Caballito fire, federal police cracked down on shops employing Bolivians and Paraguayans, shutting down more than one hundred (Ligona 2007). However, when the Bolivian consulate Gonzalez Quint decried discrimination, inspections were temporarily halted. In 2006, the Seamstress Union reported more than 800 cases of labor abuses within 400 different
textile-manufacturing workshops throughout the city (Ligona, 2007). Both the protest of officials like Quint, and the massive number of reports of labor abuses (running in the thousands, since 2003) in various sectors* have weighed upon the judicial system, clogging its instruments. When a legal case does reach a judge, a few rulings have provided notoriously poor examples to the rest of the branch.

In October 2005, the first criminal complaints were made by the Argentine Human Rights League Foundation (AHRLF) through the Department of the Public Advocate in Buenos Aires (Yanzon, 2008). The head of the Department, Alicia Pierini, denounced the acts based on Article 14 of the Penal Code, made to protect against slavery “or any other analogous act,” and the labor laws 12.713 and 25.871, which are direct ancestors of Patria Grande. The resulting lawsuit only investigated the fire, not the illegal working conditions (Yanzon, 2008). Since then, a number of hurdles have arisen. When the AHRLF attempted to investigate the role of police and members of the National Ministry of Migrations, Federal Court Justice Noberto Oyarbide, who has overseen lawsuits covering 100+ workshops at a time, threw out anonymous statements of abuse, misconduct, and illegality. The statements belonged to parties allegedly injured at the hands of the police and Ministry. By doing so, Justice Oyarbide attempted to “fragment” the investigation (Yanzon, 2008). The AHRLF’s appeal succeeded before the Judges Eduardo Freiler, Eduardo Farah, and Gabriel Cavallo, who instructed Justice Oyarbide to not only investigate the police and Ministry, but the Bolivian consulate Quint as well for his alleged accomplice. Justice Oyarbide proceeded to prosecute the textile workshop owners, but failed to involve the companies who requested the products (Yanzon, 2008).

*The AHRLF has received reports of abuse from positions as diverse as agricultural laborers, brick oven workers, and builders, among others.
In 2007, the AHRLF brought charges against more than 80 clothing brands* (Yanzon, 2008). Both the Secretary of Labor for the Buenos Aires city government and the public prosecutor supported this action, on account of evidence they had personally overseen. Eventually, Judge Oyarbide held the brands guilty for the crimes, but he directed them to be acquitted on a cultural basis.† This attempted argument proposed: “there was no exploitation of the illegal migrant situation of the people who worked in the workshops, [since they are] the cultural customs and norms of behavior of the people originating from the Bolivian Altiplano, form where most of the people come” (Judges Cattani and Irurzun). In short: because the abused workers were Bolivian, they are “culturally accustomed” to what in Argentina is abuse. This says nothing of Argentina’s adoption of the Universal Human Rights Doctrine, or the slew of aforementioned laws forbidding the mistreatment of Bolivian workers and those of other nationalities.

In February 2008, the Employment Minister of the National Government and the textile business chambers revisited the industry laws, yet stopped short of establishing accountability for brand owners; in fact, the collaboration seemed to modify the existing structure to maintain the legal separation (Yanzon, 2008). It is worth noting that the Seamstress Union, which led many of the informal abuse charges, was initially composed as an assembly of informal textile workers, since the official textile union would not accept them (Trigona, 2007).

The judicial response to informality, as exemplified above, appears to be overwhelmed, lacking in effectiveness, and marred with alleged corruption. Though many government officials work hard to investigate abuse, often concurring with

*Among them: Kosiuko, Montagne, Lacar, Portsaid, Akiabara, Topper, Duffour, 47 Street, Cheeky, Bensimon, Le Cog Sportif. These names are included in a public perception survey, later.
†This argument was also used by Judges Horacio Cattani and Martin Irurzun
occurrences and its unacceptability, a few judicial standouts, like Oyarbide, Cattani, and Irurzun, proceed to disfigure any real results.

**Legislative Branch**

In April 2008, the legislative branch produced Law 26.364, which restated the prohibition of human trade and offered assistance to victims (Yanzon, 2008). In July of the same year, the legislature also passed a law that established assistance for escaped victims of work or sex exploitation (Yanzon, 2008). It would seem that these laws were not needed since the Constitution and many labor laws afterwards have condemned exploitation such as this; fulfilling the spirit of the law should have, in theory, met these issues and provided for victims. Yet this appeared not to be the case. When these issues re-surfaced, the legislature acted the only way possible.

While the legislative branch has crafted a number of laws to protect those vulnerable to informality’s abuses, it seems that laws patch over each other to fix prior issues. In other words, the design of some laws is less than optimal, often failing to extinguish hurdles, and later laws re-emphasize the issue because it was either inadequately addressed or poorly enforced. Since Argentine laws are numerous and complex, the details of the Patria Grande dominate discussion here. Further research on other Argentine legislation is encouraged for other academic endeavors.

Patria Grande, though a feat, does not eliminate informality and its challenges. The second step in legalization, the temporary residence, requires a fee of $200 pesos and two documents that might pose a difficulty for the most vulnerable of immigrants (Renacer, 2011). It requires the presentation of a national identification document corresponding to the migrant’s source country. If an immigrant were subject to human
trafficking, slave labor, or other manners of victimization, it is conceivable that they would not have this documentation or would have it held by another individual as collateral or threat. If no person possessed evidence of their national identification, the immigrant could get a new one at their respective Consulate. However, these exist mainly in the city and could be out of reach for immigrants living far within or outside the city, or in other provinces, with limited transportation and access to their Consulate. Secondly, the temporary residence requires a certificate guaranteeing the lack of past criminal acts in their country of origin, stamped and certified by the Argentine or origin country’s Consulate (Renacer, 2011). These certifications take time and money to produce. Oftentimes, this certificate is produced by the local police and delivered to the permanent home address. If an individual lacks a permanent residence or fears making themselves known to the authorities—because of distrust in the police or concern from their illegal status—then this certificate could be difficult to produce.

Despite challenges embedded in the immigrations program, scholars note that Patria Grande offered a significant improvement from past immigrations laws. According to officials, public pressure and the legal changes made Patria Grande responsible for nearly 200,000 new documentations of immigrants from April 17 to August 7, 2006 (Latucca, 2011).

Conclusion

What does Patria Grande tell us of Argentina’s informal economy? It tells us that while Argentine lawmaking moves slowly, the government prioritizes its response to informal activity, particularly after public outrage and international exposure. This implies a level of free speech and press, democratic participation, and a sensitivity of the
state to its reputation and the perceived rule of law. However, once the attention wanes, as it did a year after the fire, judicial follow-through remains spotty. The discrepancy between labor officials publically condemning companies* and the lack of legislative response to make real labor reforms demonstrates the complexity of regulation and the difficulty in changing it. It also suggests the strength of interest groups to uphold the status quo. Underlying informality is an economic structure, more detailed than the labor market trends previously discussed, dotted with agents who seem to face impunity within the supply chain. Company brands may reap the fruits of informal “slave-like” work, but they remain legally protected from accepting responsibility. Researching the profit margins within the textile industry’s supply chain can indicate the levels of competition, and the strength of actors (brands) to pressure their suppliers and indirectly influence law to maintain legal impunity from suppliers’ activities.

VI. STRUCTURE OF THE INFORMAL TEXTILE INDUSTRY

Industry Analysis

Definition and Value Chain

The textile industry spans from the obtainment of natural fibers, the weaving into thread, fabric, and synthetic fibers, and the production and tailoring of clothes until their commercialization. The chain of production, explained in terms of sectors, stage of production or activity, and number of businesses involved is demonstrated below. The manufacturing stage, highlighted in red, is the crucial link to understanding the informal textile industry. This stage is operated by a large number of small “independent shops,” which rely on a relatively low level of investment per employee.

Figure 29: Textile Industry Chain of Production
(Source: Foro Federal de la Industria, 2003)

Independent Shops (highlighted in red, above). Unlike the rest of the value chain, which can be identified by the Argentine Industrial Union as belonging to a specific company and/or brand, this is the only section with a hidden identity and ownership. Figuratively, it is a black hole in the value chain where products disappear and reappear on the other side. Part of this reflects the large number and small size of these firms; they are difficult to identify, and may or may not be unionized. Although store branches,
“Sucursales,” are also left unidentified in the Commercialization part of value chain, it is visibly apparent by the sign above the door which company and/or brand they represent. Compared to other stages in the textile production chain, these independent shops also contain a very low level of investment* per employee, demonstrated below:

**Figure 30: Required Investment per Employee in Each Textile Activity (in USD, 000s)**

(Source: Foro Federal de la Industria, 2003)

![Diagram showing investment per employee in different textile activities]

This low investment indicates qualities inherent to most informal business: a relatively small firm, in terms of value produced and employees contained, and a lack of investment in human and physical resource. The low investment in human resources indicates a possible dependence on low-tech, labor-intensive work, often at low cost if performed by informal employees. If it were not low-tech or labor intensive by relatively cheap labor, then the work would require that the firm invest in training and education for its employees. The low level of investment indirectly suggests the profit position of a small, independent shop in the manufacturing stage. It is likely that these shops would

*Calculated invested by the Foro Federal de la Industria: Spinning Mill investment at U$S 8-10,000 for a plant of 15K spindles; Plain weave investment at U$S 3,500 for 24 textile Mills/looms with scheme & glue; Knitted fabric at U$S 2,500 for 24 machines; Manufacturing U$S 350,000 for a plant of 80 operators
invest more if they could afford it; instead, facing razor-thin profit margins, they would operate from month to month, without luxury of higher spending in the short-term for a longer-term gain. This profit position is discussed further in the next section. Overall, the amount of shops and investment found in the textile industry reflects widespread characteristics of informal business. Recognizing these qualities are necessary for policy makers to identify the areas of likely informal activities, and then produce policy to combat them.

Regarding the textile industry, the proliferation of small shops and their current business model is a result of historical restructuring within the industry. Understanding long-term, industry-wide trends will assist policy makers in foreseeing the development of future areas of vulnerability for informal activities.

**Historical Evolution**

The past two decades have witnessed changes in the textile sector reminiscent of Argentina’s overall economic climate. When the peso-dollar parity was first established, the industry expanded as hyperinflation was restrained. However, the exchange rate eventually suffocated exporters, increased national debt, evaporated credit, and increased business risk. By 1993, the textile industry was contracting—at a rate unseen in half a century—and from 1994 to 1997, the industry shrank faster than the economy as a whole (Salgado, 2012). The industry contraction radically restructured the chain of production: prior verticalization was splintered, a number of businesses and establishments were closed, and a greater emphasis was placed on the higher value-added activities, such as design and commercialization (see above “Chain of Production” graphic) (Salgado, 2012).
Following the 2001 crisis, consumer demand crept back, breathing life into the pro-cyclical textile industry. Between 2002 and 2004, productive capacity mirrored levels before the crisis. However, inflation ensured that the price of capital consumption was constant and growing (Salgado, 2012). In order to maintain price stability, businesses began to depend more on high-volume product outputs and a steady rise in sales. Wages and margins were squeezed while the value chain was de-verticalized. Manufacturing underwent a “tercerization” as activities were subcontracted to small, disjointed shops (CAIBYN, 2010). This small-shop proliferation occurred mainly in Buenos Aires province, and particularly the Capital Federal. About 53.7% of small manufacturing shops stand in the Capital, and another 21.6% in the surrounding Buenos Aires province, representing a total of 75.3% of all clothing manufacturing shops (Foro Federal de la Industria, 2003).

Figure 31: Location of Textile Manufacturing Shops (Containing more than 5 employees) 
(Source: Foro Federal de la Industria, 2003)
Alongside domestic conditions, international competition also added pressure on the industry. In 1990, 27-36% of Argentina imports came from Asia; a decade later, this rose to 39-42% (Foro Federal de la Industria, 2003). Of this amount, China has steadily dominated in export shares—providing an estimated 6% of Argentine textile imports in 2003 and 57% of textile imports in 2008, surpassing both Brazil and the EU (Foro Federal de la Industria, 2003). Fostering the swelling import market was a concurrent reduction of trade restrictions from GATT, MERCOSUR and other bilateral agreements (Foro Federal de la Industria, 2003).

Figure 32: Integration of Products into GATT
(Source: Foro Federal de la Industria, 2003)

Low-skill markets abroad provide cheap products that challenge domestic textile actors. It seems no coincidence that, in 2008, the largest Argentine import of Chinese goods corresponded with the greatest increases in domestic textile prices (Salgado, 2012). Various strategies, like value chain de-verticalization and tercerization, alongside price increases, unionization, and political lobbying, all became tools of business survival.
Internal Analysis

Michael Porter’s Five Forces

Porter’s “Five Forces” is valuable way to understand the internal structure of Argentina’s textile industry and the reasons behind informal activities therein. The struggle for profits, and thus survival, goes beyond established competitors and includes factors such as: buyers, suppliers, potential entrants, and substitute products. The extended rivalry shaped by these forces “defines an industry’s structure” (Porter, 2008). The textile industry, on account of its historical background and current international trade, is a pressure-cooker of competition. Here, the “supplier” is the resource provider or import distributor while the “buyer” is the storefront or end-consumer shop—whether in a high-end Alto Palermo shopping mall or a low-scale feria.

Figure 33: Porter’s Five Forces
(Source: Michael Porter, 1979/2008)

Considering the surplus and inexpensiveness of basic textile materials, the low technological investment of manufacturers, and the low-skill labor involved, the threat of new entrants within the industry appears to be high. A small firm may employ 2-7 people,
each with a sewing machine, and work them around the clock to churn out clothing items. A business manager may or may not own the establishment, but she or the owner chooses one of the following selling destinations: to a buyer within a feria, a buyer representing a clothing brand, or an intermediary distributor. The distributor moves between multiple small manufacturers—assembling their products, arranging the sale to a clothing brand, and oftentimes deciding whether additional labeling or “mark-ups” are needed to justify the purchase. Since it may only take a label to brand an article of clothing, the threat of substitute products or services is very high.

The bargaining power of buyers is also significant; a few, well-known and recognizable brands are able to purchase textile products from a multitude of disjointed producers or distributors. Since Argentines, particularly Bonaerenses (Buenos Aires residents) appear acutely class conscious, price differentials seem to have positive effect on purchasing decisions. Businesses in upper-scale areas of the city seem to incorporate a “price signaling” effect, in which higher prices signal to the customer a higher quality or value. In other words, a more expensive product is assumed to be more worth the cost, regardless if it is or not, while being able to afford the added cost makes the purchase more of a luxury. The steepest price hike, and therefore profit margin, appears to be on the buyer end. Here, the “added value” lies in the label attached to an article of clothing, namely the design and meaning it represents, and the environment, inside and outside the store, in which the item is sold.

Cost and Profit Margins

One way to numerically gauge the power of value chain actors is through wage pressure and profit margins. It can be assumed that high competition, for instance
between various textile manufacturers, imposes a downward pressure on textile worker wages. On the other hand, strong buyer power translates into the ability to negotiate favorable terms of purchases and therefore generous profit margins. Two researchers within the INSSJP (National Institute of Social Services for Retirees and Pensioners) have performed interviews with industrial participants and union representatives to trace the money behind an article of clothing. After researching the data and conducting an interview, information on the interior cost distribution was documented:

*Interview took place May 2012 in the Ministry office*
For example, if someone bought a $100 peso shirt at the Alto Palermo mall, 22% of the cost would consist of taxes, 39 pesos would belong to the retailer, and a fifth would go to the clothing brand. Surprisingly, only 11% of the final cost stems from the inputs needed to make the shirt. About three percent falls into the hands that touched the materials; a sewing worker or “costurero” costs 1.8 pesos. Only 1.3 pesos cover the work of a hidden independent shop or “taller clandestino.” To illustrate that amount: 1.3 pesos is less than a public bus fare. Since it appears legally impossible to produce a shirt for 1.3 pesos, it must be done informally.

By way of comparison, the NGO La Alameda directed their own investigation of interior allocated costs. They combined the cost of inputs with the total costs of the workshop, thereby determining that “the workshop receives $3.12, of which $1.87 goes to the worker, $0.30 is profit for the workshop owner and $0.95 covers the workshop’s [operating] costs” (Holloway, 2009). An estimated $10 covers the shop’s expenses, which includes inputs and possibly previous sewing work. While the National Institute and La Alameda studies differ methodologically, the results are remarkably similar. La Alameda agrees on the 22% tax rate, and insists that the clothing brand (Retailer + Brand, above) took a profit of $64.88. An initial cost estimate was not given. Most importantly, the NGO mirrored the Institute researchers’ estimated $1.8 peso wage for each employee (Holloway, 2009).

These cost breakdowns signify more than dollars and cents; they reveal the negotiating power, through profit margins and wages, of informality itself. From the above analysis, it is obvious who calls the shots in a textile value chain. The retailer and the brand, or company that owns it, consume almost 60% of the final cost of clothing.
and perhaps claim 64.88% of the profit, although they arguably do not make the physical piece. Their value added is found in particular labeling and styling, and designing the environment in which customers buy. It is also apparent where the tightest wage constriction lies. When the textile industry re-structured, it cut the brand and retailers from the physical production of clothing pieces; this atomized the process, particularly manufacturing. When negotiating power on the brand and retailer side intimidates the production side, employee wages shrink from little to less. This is why many press releases referred to informal labor as “slave labor.” Costs were avoided by allowing unsafe working and living conditions for employees, refusing breaks, demanding long hours, exploiting underage work (especially from younger family members), and in the case of the 2006 Caballito fire, by imprisoning employees into a workroom so they could not leave. These types of conditions are found in small, often hidden, manufacturing workshops. They are “independent” because the legal responsibility, and therefore personal accountability, is severed from the final buyers, the brand retailer.

Employment

If we re-interpret the textile chain of production in terms of employment, an interesting feature emerges. By combining response data from an EPH sample with INDEC statistics, and breaking down employment into a Productive Input Matrix, the largest swath of employment appears in the clothing manufacturing section. More strikingly, it holds, by far, the highest incidence of informality, at 73% (Ludmer, 2012). The least employed activity is textile “finishing,” which presumably is only needed for a

*Ludmer, 2012. EPH data covers years 2003-2006; Productive Input Matrix from year 1997; interviewee also verbally confirmed that he conducted interviews with sector specialists.
small, 8.9% portion of all products; likewise, the lowest incidence of informality exists in this section, at 16% (Ludmer, 2012).

**Figure 35: Employment Composition (in thousands) per Industrial Branch, Year 2008**
*(Source: self-produced graph, data provided by Ludmer, 2012)*

<table>
<thead>
<tr>
<th>Industrial Activity</th>
<th>Total Employment</th>
<th>Formal</th>
<th>Informal</th>
<th>Level of Informality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibers, Thread, &amp; Textile Fabric</td>
<td>27.7</td>
<td>22.5</td>
<td>5.2</td>
<td>19%</td>
</tr>
<tr>
<td>Textile Finishing</td>
<td>8.9</td>
<td>7.5</td>
<td>1.4</td>
<td>16%</td>
</tr>
<tr>
<td>Textile Products</td>
<td>34.1</td>
<td>21</td>
<td>13.1</td>
<td>38%</td>
</tr>
<tr>
<td>Weaving</td>
<td>22.1</td>
<td>11.9</td>
<td>10.1</td>
<td>46%</td>
</tr>
<tr>
<td>Clothing Garment</td>
<td>184.5</td>
<td>50</td>
<td>134.4</td>
<td>73%</td>
</tr>
</tbody>
</table>

These data demonstrate that along with negotiating power, the number of employees present in each activity may signal the degree of wage pressure and resulting likelihood of informality. One reason that clothing manufacturing consumes such a large percentage of the overall workforce is that this activity is performed by small, independent workshops that cannot take advantage of scale production or overhead cost savings; the majority of these workshops contain less than ten employees. Additionally, the shops use low-skilled labor and low technological investment; the workshops basically run on human sweat. Combined, these characteristics imply a low level of productivity. In order to increase production, an extra high number of workers are needed, relative to other industrial chain activities.

**Consumer Impact: Societal Biases Against Direct Action**

Societal biases are important in emphasizing the state’s role in combating informality. The following discussion is a proactive defense against the argument of “let the market decide,” or “let the consumers punish informal activities.” Though there is a
clear but perverse incentive to allowing informality like slave labor, as it translates into lower-cost goods, the real situation is more complex. The previous catalogue of news outlets reporting on slave labor indicates a heavily concerned populace. However, while readers lap up news of slave labor, their role as consumers is beset by psychological laws of large numbers: rational ignorance, free-riding, and tragedy of the commons.

Ignorance, and its sibling “indifference,” is rational if the cost of learning about an issue exceeds the potential benefit from the knowledge. Since a whole consumer base props up an industry, like the textile market, it is irrational to assume that if one person takes the pain of learning the path of every article of clothing, that they can actually influence the industry. Even if the individual decided to boycott a brand, he or she is irrationally making a decision to forgo 100% of a purchase for 1.8% of the cost—the proportion of informal labor. In fact, the consumer is so physically and economically detached from the decision to employ an informal worker that it likens pushing a mile-long lever—too far away to make a noticeable impact. Now if an individual, or even a group of individuals like those in La Alameda, do decide to learn about the input of informal labor and take greater measures to impact change, then the rest of the population will likely “free-ride” off their hard work. Though a law may or may not change on account of their lobbying, the majority of voters did nothing to produce this result. Lastly, a ‘tragedy of the commons’ problem is a collective vulnerability to individually mistreat a shared good, thereby costing the group the invaluable resource. If every individually selfishly neglects the collective good of the rule of law and basic rights, by indifferently purchasing a product that has been publicly associated with slave labor, then that individual is guilty of polluting the commons. A safe environment, respectful of the law,
is an invaluable resource shared by all. If individuals refuse to care about the rule of law, or the neglect of basic human and employment rights, then the undercurrent of informality remains unaffected. These societal biases against direct action, or psychological “laws of large numbers,” can be indicated in two ways: through the actions of clothing brands, and through the responses of consumers.

To date, no clothing brand has undertaken a large-scale publicity campaign to combat the negative press they received in connection with slave labor. The clothing brands receiving the brunt of the criticism are highlighted in the press excerpts, above. While the internal revenue numbers remain private, the denounced brands have appeared to maintain a “business as usual” stance in their normal operating locations. Presumably, the negative press did not significantly damage their sales, and a publicity campaign in response, or a visible change in the value chain, has not proved necessary or financially beneficial.

The second indicator that demonstrates societal bias is a brand perception survey, distributed online to Facebook members in spring 2013. Since a huge swatch of Argentine Internet users are on Facebook, and the majority are age 18-44 (the prime range of shoppers with discretionary income and target for clothing brands), Facebook is a convenient medium through which to survey Argentines.¹ All Argentine survey participants lived in the Metropolitan Area of Buenos Aires, which hosts the location of the 2006 fire, the brand stores, and headquarters of reporting press outlets. The province also contains 75.3% of all textile-manufacturing workshops, of which over 70% are

¹In Argentina, 73.59% of online users have Facebook, of which 28% are 18-24, 26% are 25-34, and 15% are 35-44. Usage is almost evenly divided between women (52%) & men (48%), (SocialBakers, 2012)

The survey may be found online at: https://www.surveymonkey.com/s/MarcasPreferidas
estimated to be informal (Foro Federal de la Industria 2003, Ludmer 2012). All survey participants had the ability to keep up with news, since all were literate, though whether they read the same press articles documented above is unknown.

The survey contained 31 questions. The first 30 questions asked a participant to rate their perception of a brand on a 1-5 Likert Scale (1: I hate it, 2: I don’t like it, 3: neutral, 4: I like it, 5: I love it). The brand names, listed alphabetically in the survey, represented a collection of different styles, age groups, and price levels. About half (14) were brand names that were publically denounced in press outlets ranging from nationwide Clarín to the locally-based Alameda for the connection to informal, even “slave-like,” labor conditions. The survey sought to see whether a sample of Bonaerenses was emotively affected by the denouncements, and if these admonishments affected their image of the brand; this presumably impacts their likelihood for monetarily supporting it (i.e. purchasing a product there). The 31st question asked whether they would pay extra for a product if it guaranteed to have incorporated legal working conditions. If participants answered in the affirmative, they would be prompted to choose an added cost, ranging from 10% to 40%+, suggesting the added value they perceive from this guarantee.

The survey results displayed an insignificant difference in between the two sample sizes (paired T-test of 0.18984), indicating there is likely no real difference in people’s perceptions of brands, despite one sample’s denounced connection with informal labor. The covariance between the sample groups was 0.0459, illustrating the truly random nature of the brands’ perception values. The response to question 31 supports the finding of limited indifference to a brand’s use of informal labor. The largest portion of respondents (35%) answered that they would not pay anything if a product
guaranteed to incorporate formal working conditions. A fourth of participants said they would pay 10% more, and a surprising thirty percent said they would pay 20% extra. Only five percent of respondents said they would pay 30% more, and a handful would pay 40% more. Overall, the average response indicated a 12% perceived added value from this guarantee. That means if an extra $12 were added to the $100 peso shirt, and the cost distribution remained proportionally the same throughout the value chain, then a sewing worker would receive about 21.6 extra centavos (worth less than a US nickel).

Though this statistical analysis is limited by a 9.85% response rate* and therefore a very small sample size, the information gained can hint at a wider reality: consumers are, and perceive themselves to be, too far detached from the informality incorporated into the textile value chain to make a significant difference. Though the average consumer recognized an added value from guaranteed legality, the interior cost distribution left only 1.8% and sewing and manufacturing workers. If consumers chose to boycott a brand, the retailer would lose the entire sale and 40% of the revenue, while the brand would lose 20% of the revenue. Unfortunately, consumers and general society appear to suffer from laws of large numbers that prevent them from recognizing informality and organizing effectively to affect it.

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*203 people were invited to take the survey
VII. REVIEW, PUBLIC POLICY RECOMMENDATIONS, AND MODEL OF INFORMALITY

Introduction

Whatever sketch policy-makers can draw from the informal economy, it is central to the purpose of a state. Informality is a backward mirror into the successes, failures, and resulting strength of government. After a short review of the findings, and a few public policy recommendations, authors Levi, Whitson, and Foucault help defend why the Argentine state has the deepest obligation to address its informal economy.

Review

Upon analysis, Argentina seems to display the same indicators, or “driver variables,” present in international and regional empirical analyses of informality: the tax burden, the intensity of state intervention into markets, and GDP growth (rate and per capita) all appear to correspond negatively with the presence and activity of the informal economy. However, the second largest nation in South America holds a unique landscape for informality to take root, based on its own historical experience.

Had the seventies and eighties not experienced an influx of immigration, the nineties’ the dismantlement of the state, erosion of the rule of law, and a culmination into economic and social crisis, then the informal manifestations today would not spread as far into sectorial branches and sink as deep into the Argentine psyche. A whole generation of the nineties grew up believing the state would not be there—neither to regulate nor equally distribute resources. Informal methods of housing, business, and other activities replaced the real and perceived absence of formal methods. After the crisis, when growth and restructuring attempts did arise, the past two administrations worked overtime to renationalize resources and companies, establish a complex system of
laws, and demand contributions from businesses in the form of taxes and compliance.
Unfortunately, an excessively heavy and complex tax burden may encourage informality; a windier process delays registration of a business or person. But no matter what regulations fill the books, it takes sagacious judges to enforce them in the spirit of the law.

The textile industry and the Migratory Regularization Program known as Patria Grande serve as a case in point. Patria Grande evolved from a rich heritage of law, designed to preserve and protect the dignity of not only Argentines, but of all inhabitants. The Argentine Constitution and a number of labor laws attest to this. However, when a 2006 fire exposed labor abuses in the textile industry, and public outcry ensued, the three government branches shuffled to respond. The executive wing, particularly the Ministry of Labor, cracked down on offenses and produced invaluable data; still, its power and resources remained concentrated in the federal capital and the Buenos Aires province. The legislative body passed yet another law, then another, re-emphasizing the intention of original laws to protect workers and migrants; but they failed to establish legal responsibility for clothing brands, and give deference to the industry’s economic structure. The judicial branch heard case after case, but became overwhelmed with reports and weakened by venality.

Judicial deficiencies cannot overcome holes in the law itself. A historical restructuring of the textile value chain levied heavy wage pressure on the manufacturing sector and granted retailers and clothing brand companies with the most negotiating power. The law failed to recognize this power imbalance. Independent manufacturing shops became dissociated, numerous, often “hidden,” while brands and retailers remained legally protected and isolated from their supply chain’s dark secrets. By nature of the
industry, consumers also remain detached. From far-flung places like Asia, where textile imports often originate, to storefronts in Buenos Aires, the production chain remains invisible. Alongside physical detachment, societal biases like rational ignorance, free riding, and a ‘tragedy of the commons’ tendency prevent consumers from feeling emotively connected as well. If customers were willing to pay an extra $12 on a $100 shirt for guaranteed legality, then the interior cost distribution determined by the textile market assures that only 21.6 more centavos would go to an informal worker. This hardly seems worth it. Considering the empirical and historical background of Argentine informality, illustrated through the present-day case study of Patria Grande and the textile industry, a few proposals for public policy arise.

Public Policy Recommendations and “Lessons Learned”

1. Produce Further Research of Patria Grande—to better understand weaknesses/limits

   Though scholars tend to support Patria Grande as a step in the right direction, a number of challenges remain imbedded within the migrations process, thereby prolonging a foreigner’s illegality and making them susceptible to exploitation. For example, in late 2010 and early 2011, many migrants who initiated their legalization through the framework of Patria Grande were notified of incompletion or even expulsion as a consequence of the difficulty to complete the paperwork (CELS, 2011). As of August 2010, over 44% of those registered in Patria Grande had not completed their paperwork, and another 30% (29.83%) were in danger of illegality, since they were granted only temporary stays (CELS, 2011). Research into Patria Grande’s direct effects, exemplified above, remains scarce. It is impossible to improve and build upon existing laws without fully understanding the consequences of past attempts, including conducting
surveys as to why steps were left uncompleted. Stauncher analytics and supporting resources are needed to explain the causes and reasons behind the drop-off of Patria Grande’s effects—the near 200,000 migrants who were unable to complete the documentation and requirements necessary to establish legal status. After understanding more fully the results of Patria Grande, the migrations process may be revisited and improved.

2. Strategically Place Resources—for registration, incentives, and growth

Similar to individual registration, business registration also faces hurdles, not unlike the ones mentioned by De Soto with respect to housing. Since many informal firms are small, disjointed, and within the poorer neighborhoods of Buenos Aires, simple logistics might prevent registration. The Ministry of Labor could focus its attention here. By staking a Registration office in each locale, for starters in Flores and the city slums, officials could personally provide legalization assistance to entrepreneurs or workers, and perhaps act as a resource for labor abuse victims. Along with the tax incentives for formalization, mentioned as in effect by the Ministry of Labor representative, the government might also consider “regularization loans” for small businesses. New and/or small businesses are primarily concerned with accessing credit for growth. While lessened taxes theoretically releases capital for reinvestment, it is likely that within the first few years, the business operates at such a loss or negligible profit that they would not benefit much from receiving tax breaks. Instead, a regularization loan could take the form of offering reduced credit by proving 100% formal workforce and a health & safety inspection. There is no way around these requirements. From the years 2005-2010, the Ministry of Labor regularized over 846,155 businesses and 2,685,000 employees; 45%
and 41% respectively were located in Buenos Aires. The Ministry is clearly adept at using their resources effectively to this end, provided they are armed with tools to do so.

3. Support Legislative and Communal Efforts—to support and educate victims of abuse

Although 2008 saw two renewed attempts at establishing victim assistance, financial resources could be strengthened and vulnerable neighborhoods could be better educated as to what resources are available to them. Perhaps stronger legal protection for victims of slave labor and immigrants with delayed registration would help. For some victims, an ease or lack of punishment could encourage assistance in prosecuting perpetrators of labor abuses. If an individual agrees to be involved in legal case, it is important that anonymity be protected with the Public Prosecutor and that judges (unlike Noberto Oyarbide) recognize their voice in the trial.

Communal efforts exist which support victims of informal activities, particularly slave labor. Notable NGOs like La Alameda provide aid and information, spread grass-roots awareness and activities, and pressure political figures to take action. Without muddying the “non-governmental” character, perhaps public officials could lend support by allowing La Alameda, or other like-minded organizations, to stamp their name on products that they verify as “slave-free”. This ‘verification’ is not unlike a “Fair Trade” mark. This option, however, brings two risks. Firstly, and most importantly, the government might expect and thus blame an NGO like la Alameda for any failings to discover informal activities. Adherence to labor laws remains a state responsibility. Secondly, the experience of Fair Trade demonstrates that these sorts of verifications may be accused of being a marketing ploy, designed solely to push up prices and give consumers an unwarranted relief of conscience. La Alameda’s strong brand image gives
it an advantage over other NGOs fighting the same cause, and, should it lose sight of its goals or fail to perform due diligence, then it could cost public trust in the whole process.

4. Close Legal Loopholes, Produce Technological Tools, and Publish Infractions

Most important to addressing informality is to target the underlying economic structures of each industry. For the textile industry, it is recommended that laws remove the impunity for brands and retailers as buyers of informal products. As previously stated, current law fails to account for the historical restructuring of the textile value chain which gave retailers and clothing brands the most negotiating power, and splintered the manufacturing sector into small “hidden” shops. Commercial law philosophically clashes with employment law, which assumes employers maintain the most power and therefore the most responsibility in a workplace relationship. Commercial law should also account for power imbalances between buyers, sellers, and producers—indicated by profit margins and wage pressures. Technological tools and published inspections could support this legal modification.

The Argentine government has shown to be quite skillful in employing technological tools to reach its goals. To enable accountability through the various value chains, a technologically supported program could be established which facilitates due diligence. Value chain actors could enter AFIP’s federally identifying number of manufactures to confirm their formal status and/or see their record of informal abuses. Ideally, this program could allow distributors or storefront purchasers to scan a barcode of clothing and see its distribution pathway, not unlike an ordinary package.

The Ministry of Labor could both publically publish their inspection results, in reference to each brand, but also evaluate which brands host the highest incidences of
informality. In case independent shop managers or owners respond by hiding their brand customers, the Ministry could pressure the Congress to require a High Capacity Color Barcode* on the back of each clothing label, complete with source pathway information. Each source could be accredited through its tax identification number. Both the official textile union and the originally informal Seamstress Union might support these efforts, as tracking products and ensuring their legality directly affects their prices. Perhaps if a product’s original source is unknown, legislation might require that the store give it for free to the consumer. This removes the economic reward of informal labor and incentivizes consumers to police their own shopping centers with their smart-phones. Of course, the weight of inspecting informality lies upon the state. Either Ministry inspectors or local police would be primarily responsible for conducting randomized “shopping surveys.”

One weakness to the above proposal is the influence of lobbying and corruption. Argentine law appears to hold a precedent for placing the burden of proof on the most powerful; employers maintain the bulk of responsibility to protect their employees, due to the power differential between employer and employee. This dynamic, and its legal consequences, should follow in the commercial realm, between obvious imbalances such as company brand and a small, independent manufacturing shop. However, retailers and companies with brand clothing seem to have no desire to accept responsibility for how an

*The HCCB is similar in purpose, but not in appearance, to the traditional barcode. It is a silo for information and tracking; it can contain much more information than a traditional barcode, and may be read by cellphones with picture-taking abilities or smart-phones with the right apps. Smartphone apps are dedicated applications that users install on their phones and provide a rich and in-depth experience. The smartphone barcode reader “RedLaser SDK” is one example (http://redlaser.com). Microsoft has also offered its tag-reader application as a free download for Internet-capable mobile device platforms such as: Android, WebOS, Blackberry, iPhone, Java, Java ME, Symbian S60, and Windows Mobile. (http://www.microsoft.com/tag/)
independent shop makes its products. One challenge is corruption, or rather the lack of blind and equal treatment. If a store discovers ahead of time when or what will be investigated, then it could prepare itself accordingly. If some clothing or patterns are suspected of informal manufacturing, then these products could be preemptively removed from sight. This introduces a level of complicity that would change any criminal charge; stores could no longer deny knowledge of activities and their involvement.

5. Design Industry-Specific Models of Informality—to inspire legal responses, and prioritize sectorial attention

For the informal economy outside the textile industry, it is recommended that policy be designed to mold to each sector’s production chains and pressure points. Research should be invited from the public universities and social organizations, as a wealth of intelligence and creativity lies here. Additionally, the Ministry of Economy and Labor have begun providing a mass of data the past half decade, and the Ministry of Labor at least has begun publishing raw data online. It is important to take advantage of available data by conducting industrial analyses, collectively and individually. Policy makers could explore how commercial law corresponds to each industry in turn, but also investigate why some sectors have more variable and/or slow formalization rates than others.

For example, the Ministry of Labor has calculated the Regularization Rate as the percentage of workers that did not have proper regularization (the Clave de Alta Temprana) at the time of inspection, and were able to be regularized by the inspection itself. Available data span from January 2005 to January 3, 2011, and credits the Hotels and Restaurant sector with the highest average rate of regularization over five years;
43.7% of informal employees were regularized at the time of inspection. In contrast, the Transport sector barely surpassed half that rate, at an average 23.77% average. (The manufacturing sector, which contains the textile industry, displayed middle-of-the-road rate, at 37.01%.) The graph below illustrates these regularization rates, by sector.

![Figure 36: Rate of Regularization by Sector (as Percentage)](image)

What makes some sectors easier to regularize than others? Some suggestions were offered earlier, including firm dispersion (including location of individual shops), human capital density, and financial size. Besides these company characteristics, could government characteristics, human or physical resources, also impact the rate of regularization? These are questions for future research, which are necessary to disseminate best practices, allocate government resources most effectively, and improve sectorial understanding in order to design sharply targeted policy.
Concluding with a Call to Action: Recognizing Responsibilities, Producing Policy

Recognizing the State’s Obligation: Levi & Evans

As was made clear throughout the investigation above, tackling the Argentine informal economy is critical to the Argentine state, businesses and residents, as well as any researcher who aims to understand variations of the informal economy worldwide. However, the obligation of addressing informality primarily belongs to the national government; and as such, it cannot be pushed onto the shoulders of the city or provincial governments. For practical reasons, the federal level holds the most resources to carry out this function. But more importantly, it was President Néstor Kirchner who talked about ensuring dignity for hundreds of thousands of foreign residents—often victims of informality’s worst abuses. It is the national Constitution that enshrines the most basic human and citizenship rights, and the state has the duty to protect them in the face of neglect. Scholars that take a public policy approach to informality serve a dual purpose: underlying different conceptions of the state, as well as highlighting the achievements and failings of policy. To illustrate this connection, contributions from Levi, Evans, Meny and Thoenig, and Villanueva offer a final defense for state action towards informality, and continued research into its existence and ramifications.

Margaret Levi’s “Study of the State” touches on eight characteristics and responsibilities of the state. Not only is the state a concentration and producer of controlled violence or threats, but it also governs, coordinates regulation, produces public goods and infrastructure, enforces contracts, and provides a kind of “social insurance.” Each one of these elements intertwines with the informal economy. For instance, the state is often viewed as a producer of outward violence—to defend, with guns and bullets,
against a foreign army. Yet the state stands also on an invisible arsenal. Its concentration of threats or violence may be directed against its own people—should its laws be broken or ignored; enforcement mechanisms depend on the state’s ability to exact them. As such, the size of the informal economy is an inverse image of perceived and real state strength. Even if the Argentine state maintains a complex machinery of tax and social security regulation in the rulebooks, the presence or lack of inadequate incentives (or punishments) will influence citizen’s obedience. Lack of enforcement directly affects what Foucault refers to as “internalizing coercion,” so that it becomes more than law, but an absorbed social norm that people use to self-police themselves and others. Without this internalization, people are more likely to resist perceived power impositions—be they tax obligations or labor requirements. Risa Whitson’s research in “Hidden Struggles,” supports this Foucaultian view. By conducting nearly 100 in-depth interviews in 2002 with informal workers in Buenos Aires, she was able to conclude that informal work is:

“A ‘hidden’ space of power and resistance [where] multiple actors struggle over meaning and control through the deployment of diverse forms of power… Argentines view informal work as a place of exploitation and subjugation by the state [and as a space] to redefine the norms and rules which govern this space.” (Whitson, 2007)

Alongside the enforcement of laws and norms, or the societal methods of resisting them, another function of the state is coordinating regulation. This includes not only tax and labor laws, as discussed, but economic reform as finely tuned as construction permits and electricity subsidies. Mutually supporting and targeted regulation both impacts the state’s ability to enforce contracts—another essential function—but also society’s expectations regarding government-backed contracts. Viewing the state as an impartial arbitrator between the economy and the people, or more specifically, between individual
parties negotiating an exchange, is one aspect of state strength. Thus, the failure to address negotiating imbalances between clothing companies and independent manufacturers reveals a lost opportunity to curb informal activity. Evans discusses how state action, or inaction, is often a consequence of changing political philosophies.

Evans distinguishes three views of the state that are historically relevant to Argentina: the savior state, the predatory state, and the state that acts as an agent of development. In the first view, the state acts as “the solution,” launching wide scale projects of industrialization and production in its mission for structural progress. Argentina’s Peronist era of the 1950’s illustrates this; Perón nationalized the central bank, public transport, the railways, public utilities, and made university access, healthcare, and social security guaranteed to all by the state. In Evan’s second view, the state acts as “the problem,” burdening rather than progressing society. Efforts are taken to trim back the state’s reaches to merely “the establishment and maintenance of private property relations” (Evans, 1992). President Menem demonstrated this minimalist conception in the nineties. He oversaw wide scale privatization of public utilities and resources: water, electricity, gas, the national oil company YPF, pension funds, and more. Menem devolved federal education to the provinces, slashed the military budget, and in a way, cut judicial responsibility from the weight of Argentina’s tortured history; he granted pardons to previous dictators (Videla, Massera) and notorious guerilla leaders. Evan’s third view overlaps contributions from Weber, Gershenkron, and Hirschman. As an agent for development, the state displays a ‘rooted autonomy’ in which a connected but separate body organizes and allocates elements of society, like resources, into a more positive trajectory of growth and wellbeing (Evans, 1992). A developmental state relies on
characteristics like meritorious recruitment, corporal coherence, and an overlapped autonomy. The view of the Argentine state as an agent for development seems pertinent for a contemporary environment that values intangibles, such as: security, respect for the rule of law, civil society participation, civic duty, and citizenship wellbeing. This outlook seems to permeate the current Kirchner era. Each of Evan’s views represents different evaluations of state capacity. State capacity is central for the production of public policy as it underscores not only what policy the state should enact but also what policy the state can enforce. While Levi and Evans emphasize the responsibilities of the federal government toward informality, Villanueva outlines the manner in which the previous recommendations can be carried out.

**Converting Recommendations into Policy: Villanueva**

Villanueva’s three stages of policy production—Implementation, Evaluation, and Termination—bring clarity and direction to enacting or reforming law concerning informality. The above recommendations may be converted into policy, as Villanueva proposes that public policy is but “a collection of structural actions in an intentional and causal sense that orients itself to fulfill certain objectives of value for the society, or to resolve problems [like informal manifestations] whose solution is considered of interest or benefit to the public” (Villanueva, 1993). Implementation is the imposition and enforcement of a certain policy, which includes the development of norms, procedures, and boundaries for related decisions, as well as the modification of related decisions, including incentives and resources (Villanueva, 1993). Implementation must address “certain program objectives and standards, including the calendar of operations”
(Villanueva, 1993). However, a policy’s intentions are not always realized; an evaluation stage is necessary to examine policy’s effect.

The evaluation stage compares the desired levels of policy influence with the actual achieved levels, and assigns responsibilities for steps left uncompleted (Villanueva, 1993). Logically, policies that lack resources, government commitment, or consistency with other policies will motivate firms to ignore or bypass them. It is generally believed that having consistent tax regulations will support future investment in Argentina, however the lack of significant tax change from the nineties questions the political will to deviate from the markedly different economic reality that the nineties represented.

According to Villanueva, the “Termination” stage contains the final phase of the policy process. It seems to be a misnomer. It includes: “a determination of costs, consequences, benefits” and a logical response (Villanueva, 1993). In the author’s opinion, these steps should occur in preceding evaluation stage in order to measure policy efficacy. Additionally, there are hidden costs of policy evaluation and termination that are economic and social in nature that must be acknowledged. The cost of a policy change, or expectation of change, should incorporate the increased likelihood of a business delaying spending, investing, and hiring as uncertainty mounts. The cost of policy continuation might include necessary enforcement, as well as the benefit or loss of a business changing their formality status in direct response; businesses that are unable or unwilling to comply may become informal, costing the previous tax contributions. The cost of

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1Prima facie, written consistency does not seem to be Argentina’s biggest issue. Argentina’s tax policy did not change significantly from the nineties until around 2007, where the corporate tax rate held around 35%, no tax withholding applied to dividends, and the personal asset tax upon shares of Argentine companies remained intact (International Tax Review, 2007). Indirect taxation included the value-added (VAT) tax, which also continued unchanged, at 21% (International Tax Review, 2007).
policy closure stems from switching off now-institutionalized procedures and the potential loss of employment from those previously charged with implementing or enforcing the previous law’s commands. These examples are not exclusive; they merely serve to illustrate Villanueva’s public policy stages within the informal context. The evaluation and termination stages of a policy should go hand-in-hand, especially if consequences appear unmanageable or one policy should be replaced with another. A termination stage should, in effect, take action on the results and knowledge acquired from the preceding evaluation stage, and perhaps offer a time-line for measures or policy. For instance, after learning of a policy’s effectiveness, costs, and benefits, a termination stage might recommend the cessation of certain activities, or set an open expiration date contingent on a specific fulfillment of objectives. This time-line is crucial to ensuring that those laws that continue in the institutional framework really are needed and effective. Applying the aforementioned scholarly contributions, such as those by Levi, Evans, and Villanueva, is instrumental to constructing effective policy in general, and those laws that target informality specifically.

Policy often inspires unintended effects; or, fails to have the intended effect. Public policy makers should think proactively about the informal economy during the initial design of all regulation, instead of behaving retroactively against consequences of laws long passed. It is difficult to produce a policy directed toward legalizing informal businesses or their employees without first understanding the theoretical relationship between informality and policy, the efficacy (or lack thereof) of certain laws like Patria Grande, and the economic structure that upholds the industry in question. This study finds that the historically created economic and social patterns underlying informality are
key to crafting targeted policy—to both address informal manifestations, and reduce the overall size of the informal economy. These conclusions apply primarily to Argentina, but expectantly to other nations as well.
Appendix

Online Survey
(Translation of original Spanish version, https://www.surveymonkey.com/s/MarcasPreferidas)

What do you think about the clothing brand "47 Street" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Akiabara" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Awada" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Bensimon" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Bowen" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Caro Cuore" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Casa Lopez" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Cheeky" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Chocolate" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Cora Groppo" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Duffour" ? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it
What do you think about the clothing brand "Etiqueta Negra"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Felix"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Fila"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Grisino"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Juana de Arco"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Kosiuko"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "La Martina"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Le Coq Sportif"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Maria Vazquez"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Mimo"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Montagne"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Ona Saez"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it
What do you think about the clothing brand "Ossira"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "PortSaid"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Rapsodia"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Topper"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Uma"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Vicki Otero"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

What do you think about the clothing brand "Wanama"? *
1: I hate it  2: I dislike it  3: Neutral  4: I like it  5: I love it

Finally, would you pay extra to know that the brand you’re buying has guaranteed legal working conditions in the manufacturing of its products? If yes, how much extra would you pay?
1: No, I would not pay extra  2: Yes, I would pay 10% extra
3: Yes, I would pay 20% extra  4: Yes, I would pay 30% extra
5: Yes, I would pay more than 40% extra
Bibliography


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*As of August 2012, online magazine decided to halt publication. Recommend using WayBack Machine to access site, at: http://archive.org/web/web.php*


