

## **Productivity, Competitiveness and Enterprises in Argentina: The Convertibility Period**

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### **Abstract**

This study develops a comprehensive analysis of the Argentine case in regards to the determination of growth sources, the characterization of growth at both the aggregate and business levels and the identification of obstacles and distortions in the business environment that affected the growth process in Argentina during Convertibility (1991/99). In the first part, economic growth of Argentina in the 90's is framed with reference to the peculiar stance of TFP reached during the convertibility period. We demonstrate that high rates of factor productivity were accomplished between 1991 and 1998, while the recent figures exhibit a decline which is akin to pre-convertibility figures. In the second part, which includes the project main contribution, analysis and quantification of the growth process for the "business economy" is developed using information on the 300 largest companies of Argentina. Small and Medium companies and their growth pattern are also evaluated.

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Ideas on productivity and competitiveness are strongly linked and receive the constant attention of producers, policymakers, investors and business analysts. Those concepts reflect different consequences to each of them and therefore give support to different preferred actions (investment and cost reductions for the first ones, a wide range of policies for the latter, indicators of present and future performance of prospect activities and countries for the rest). Economic literature has reflected this interest through outstanding contributions in the fields of growth accountancy and Total Factor Productivity analysis since mid-50s. In spite of all this attention developing countries have very often faced growth slowdown and competitiveness problems. Available appraisals on the determinants and consequences of such problems in the 90s for Latin-American countries point at the diversity of cases and the specificity of possible corrective actions.

### **The aggregate economy and the business economy**

By 1998 the Argentine GDP was about 56% higher than the 1990 figure and 40% higher than the 1980 GDP. As is well known, GDP receded in the eighties amid inflationary pressures that ended in 1989 in hyperinflation and a sharp drop of national income. But in April 1991 the Government introduced the so-called convertibility plan, which broke the dependency of Central Bank from the Government and stipulated that monetary expansion should follow increasing external reserves at the Central Bank, putting an end to widespread financing of the Treasury. Inflationary pressure diminished abruptly and remained at low records. Privatization of public firms proceeded as from 1991 with telephone companies, the national airline, the energy sector, and many others, while some deregulation of markets was also implemented. As a consequence the role of the public sector in the economy became lesser than before, and markets reacted with a positive mood to the changing structure of the economy. By 1999 it became clear that the increasing external debt of the economy was to mean a heavy burden for the future; at last, convertibility was ended at the beginning of 2002, accompanied by an increase of the exchange rate.

What is the balance of this behavior, in terms of the capacity of the economy to generate a sustained output flow? What is the general picture which can be extracted through the years? The answer of this article is obtained through the analysis of the total factor productivity of the economy.

As is known, gains of total factor productivity measure the extent to which the growth of GDP exceeds the growth of inputs – capital and labor – over a period. It can be estimated both through use of national income identities or through econometric production functions. In the case of the former, an estimate of growth of inputs – using factor income shares – is subtracted from the growth of GDP in order to construct the TFP measure:

$$[1] \quad TFP = y' - s_k k' - s_l l'$$

where  $y'$  stands for GDP growth,  $k'$  for the growth of capital input and  $l'$  for the growth of labor. Shares of capital and labor in national income,  $s_k$  and  $s_l$ , are usually derived from national averages. TFP improvements (or “Solow’s residuals”) are expected to reflect real cost reductions for the whole economy.

In the second case, one can derive an estimate of productivity gains through estimation of a production function. In the following specification:

$$[2] \quad d\ln (y/l) = \alpha + \beta d\ln (k/l)$$

the production function is assumed to be a Cobb-Douglas function with constant returns to scale (so that  $\beta$  is the elasticity of GDP with respect to capital and  $1 - \beta$  is the elasticity with respect to labor), and  $\alpha$  is TFP growth. Stability of the last parameter over the sample conveys useful information about breaks of the production function.

The alternative is to work on the *dual* TFP. This price-based procedure measures the outward shift of the factor-price frontier of the economy which corresponds to the representation of declines in “real” cost of production. Movements along the frontier reflect substitution between capital and labor, whereas shifts of the frontier reflect changes of the underlying technology, permitting higher or lower factor rewards for both factors. This approach based on market prices can be applied to test the national statistics estimates which are often inaccurate.

As basic national income accounting states that output should be equal to payments to the factors of production,

$$[3] \quad y = r k + w l$$

after differentiation and division by  $y$  we get:

$$[4] \quad y' = s_k (r' + k') + s_l (w' + l')$$

so:

$$[5] \quad y' - s_k k' - s_l l' = s_k r' + s_l w' = TFP$$

The first member of [5] is defined as the TFP primal estimate, so the second member is to be interpreted as a dual estimate. However the two procedures could give different, and even contradicting, answers if factor prices implicit in national accounts diverge from market prices<sup>1</sup>.

We define the test-period as the lapse between 1991 until 1998. We prefer to use the approach in first differences for estimating purposes and a traditional approach to structural change based on dummies for the test-period because it permits greater flexibility and statistical testing. We provide an accounting exercise consistent with the estimated coefficients of the production function. We have selected the year 1991 instead of 1990 as the first ‘reform year’ because the main macroeconomic variables began to stabilize only after the convertibility plan (some sensibility analysis provides a statistical check for this option).

Data on GDP and real investment according to national accounts, having the year 1993 as a base, have been combined with data on wage employment to generate the basic information set. The data encompass the period 1980 to 1999. Data on capacity utilization are from FIEL. Total capital was

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<sup>1</sup> See Chan-Tai Hsieh, 1999.

estimated using the simple ‘perennial inventory’ approach, splitting investment in four categories: residential construction, business construction, equipment and infrastructure, each with its own depreciation rate. No correction has been introduced in terms of quality of capital or labor because of lack of reliable data.

To account for short term fluctuations we used FIEL’s data on capacity utilization in the industry as a proxy of total use of capital in the economy. As for labor, we used an estimate of total hours worked provided by INDEC<sup>2</sup>. So the index of capital is a product of the form  $u.K$  where  $u$  is the capacity utilization rate and  $K$  is the stock of physical capital at the end of the previous year. It is termed ‘effective capital’ to distinguish it from  $K$ , ‘installed capital’. The index of ‘effective labor’ is also a product of the form  $h.L$  where  $h$  is the coefficient of hours worked per employee and  $L$  is ‘employment’.  $L$  reflects both wage employment and non-wage labor. Both coefficients  $u$  and  $h$  are derived from the manufacturing sector.

When tested by the usual procedures, all series present an integrated behavior – both employment and capital are defined as multiplying the original series by the coefficients of hours employed by person and use of capacity respectively. A co-integration test suggests that there could be one cointegrating equation, under the hypothesis of a deterministic trend, at 5 % of significance.

We proceeded to estimate a production function, pertaining to the Cobb-Douglas family, after having discarded a previous specification in absolute levels because of intractable collinearity between arguments. This specification obeys to:

$$\Delta \log Y_t = c + \mu_N \Delta \log(h_t \cdot N_t) + \mu_K \Delta \log(u_t \cdot K_{t-1}) + \theta S_{91}$$

where in each year  $t$  the variable  $Y_t$  represents total product,  $N_t$  is employment,  $h_t$  is working hours per employee,  $K_{t-1}$  is the capital stock at the end of  $t-1$  and  $u_t$  is the coefficient of capital utilization. The constant  $c$  is to be interpreted as an autonomous shift of productivity and the parameter  $\theta$  as a shift of productivity when  $S_{91}$  is one (along 1991 to 1998, 0 elsewhere).

The statistics are in Table 1. The first equation is for the total economy, while the second is for the business economy, which is obtained after excluding from GDP the agriculture, housing and public administration. This version reflects a reversal technical progress in 1982 to 1990 and in 1999. Between 1991 and 1998 the expansion rate is 2.4% (i.e. the difference between the coefficient of the  $\theta$ -variable and the constant) in the total economy and 3% in the business economy.

Table 1 Equations [1]-[2]  
Estimation without constraints: The Total economy and the Business economy

<i>Period</i>	<i>N</i>	$\mu_N$	$\mu_K$	<i>c</i>	$\theta$	$R^2$	<i>Adj R</i> <sup>2</sup>	<i>F</i>	<i>DW</i>
1982-1999	18	0.55 (3.3)	0.34 (3.3)	-0.018 (-2.4)	0.042 (3.8)	0.869	0.841	30.9	2.15
1982-1999	18	0.73 (5.6)	0.29 (3.0)	-0.023 (-3.2)	0.052 (4.8)	0.910	0.90	50.8	2.14

<sup>2</sup> INDEC is the National Institute for Statistics and Census.

A Ramsey test, however, doesn't discard the possibility of constant returns to scale. Under this hypothesis, the estimated version is included in Table 2. The main effect of introducing the new specification is a sharp increase of the marginal productivity of labour. TFP expands at 2.1% during convertibility (3% in the business economy).

Table 2  
Equation [3] Constrained parameters: The Total economy and the Business economy

<i>Period</i>	<i>N</i>	$\mu_N$	$\mu_K$	<i>c</i>	$\theta$	$R^2$	<i>Adj R<sup>2</sup></i>	<i>F</i>	<i>DW</i>
1982-1999	18	0.65 (6.3)	0.35	-0.019 (-2.6)	0.04 (3.7)	0.863	0.845	47.4	2.36
1982-1999	18	0.71 (7.8)	0.29	-0.023 (-3.3)	0.053 (5.3)	0.91	0.90	81.3	2.07

At the aggregated level, results of the project confirm that in the 90s Argentine growth has been mainly determined by investment in capital. Along with the importance of physical capital investment, it is found that productivity due to factors different from capital and labor, such as technology adoption and management re-organization, explains more than one third of the rate of growth in the period. This growth component is identified as the “total factor productivity” (TFP); from the point of view of entrepreneurs and managers it is the result of a process of real cost reduction.

The technique employed allows to discriminate in the period 1980/99 the “change of regime” introduced by the Convertibility Plan with a qualitative effect in the behavior of investment. The results are forceful in several aspects:

- 1) Argentina underwent an increase of real costs in the 80s that undermined its long run competitiveness;
- 2) The 90s were characterized by a qualitative change and resuming productivity growth;
- 3) The “business economy” led this change. Over half of the rate of growth is explained by the increase in TFP in the 90s, i.e., by a wide set of actions that range from technology adoption to management and re-organization and that translated into a real cost reduction.

These aggregate estimates are compatible with previous studies<sup>3</sup>. As for the calculations for the business economy they are made available for the first time in Argentina. The comparison of the rates of growth between global and business economy shows that the latter was the one sector to lead growth of the aggregate. Considering that separate estimates for agriculture and housing indicate high TFP growth for these sectors as well, our analysis suggests that public administration TFP has exhibited a poor performance during the period.

Alternatively, we have estimated an annual TFP indicator to show its behavior for relevant periods of the analysis.

<sup>3</sup> See Víctor Elías, 1992; Osvaldo Meloni; Pablo Fajnzylber and Daniel Lederman, 1996; Finn Kydland and Carlos Zarazaga, 2001.

Business Economy	1982-90	1991-98	1999
Value Added	-1.4%	5.5%	-4.6%
Capital	-1.2%	3.6%	-1.7%
Labor	1.5%	3.3%	0%
TFP	-3.6%	10.0%	-6.8%

Starting in 1982, the Total Factor Productivity Index shows two years with significant reductions of about 10% per year: 1985 (monetary reform corresponding to the Austral Plan) and 1989 (hyperinflation episode). In the nineties, 1991 shows a most noticeable productivity expansion, 16.3% followed by 1992 (14.1%) and 1997 (13.1%). Year 1998 shows a productivity growth of 58% when compared to 1982, but of 113% when compared to the year with the lowest productivity of the period, 1990. Finally, 1999 is a turning point with a fall in product, investment and productivity. This performance persisted in 2000 and 2001 as productivity of the economy has been strongly affected.

### **Growth syndrome**

TFP calculations assume that there is a causal link that goes from the increase of total factor productivity to the increase of the GDP. It is worthwhile exploring whether there is evidence of an inverse causal relation, i.e., if GDP growth has any influence over TFP. This possibility is important since it allows to identify a dynamic behavior that reinforces itself, creating a "virtuous circle".

For this purpose, consider the F-test of the null hypothesis that investment is the cause (in Granger terms) of TFP growth and that TFP growth is the cause (in Granger terms) of investment, as well that GDP of the business economy is the cause (in Granger terms) of the TFP growth and that TFP growth is the cause (in Granger terms) of GDP of the business economy. These statistics are 1.96, 3.87\*, 8.43\*\* and 9.96\*\* (\* meaning significance at 95%, \*\* significance at 99%) for the period 1980/99, using a two-year lag.

These data are consistent with a view that the TFP growth (real cost savings) promotes investment, which accelerates the GDP growth, which, in turn, increases TFP again, closing down the feedback. This mechanism of growth is known as the "growth syndrome" in the literature and our estimates have identified it as an important force behind the growth process in Argentina.

### **Productivity at the enterprise level**

One of the most promising ways to shed new light on the study of the growth process is to analyze the sources of growth at the level of the firm. Technological improvements and organizational changes systematically occur at this level. Search for greater benefits encourages managers to look for cost reductions through productivity improvement. The aggregation of these efforts taking place in an adequate business environment generally leads to a path of per capita GDP growth. The study of the sources of growth within enterprises and the measurement of their productivity establish an important step ahead in the economic growth research agenda.

This project developed estimates following the “two deflator method” due to Arnold Harberger. It is characterized by the use of a single numeraire-deflator (say, the GDP deflator), by the treatment of the quantum of output as value added divided by the numeraire-deflator, and by the use of a standard wage  $w^*$  and a quantum of labor  $L^*$  equal to the wages bill divided by  $w^*$ .

We present a set of three different and comparable calculations: 1. Estimates for the 300 largest enterprises from the National Survey of Large Firms performed by INDEC; 2. Estimates for firms quoted at the Stock Market of Buenos Aires and 3. Estimates for Small and Medium size manufacturing companies provided by the SME Observatory of the Argentine Manufacturers Association. This information although limited and not representative of the whole universe generates new insight and useful results for the discussion of the economic growth process in Argentina. The results show a significant increase of value added generated by companies in the 90s. This increase was based on the three traditional sources: labor, capital and total factor productivity (reduction of real costs). However the contribution to growth from each source varies among the three surveys and between companies within each of them.

Samples	Value	Labor	Capital	TFP
Large enterprises 1993-98	100	24	48	28
Small and Medium enterprises 1996-98	100	53	19	28
Stock Exchange Enterprises (balance sheet information) 1994-98	100	57	35	8

Even though employment did not grow in Argentina during the period, labor qualification increased perceptibly. Greater productivity associated with a higher qualification level resulted in a greater production of goods and services. Labor contribution to growth was lower when compared to the two remaining sources for the case of large companies, but very relevant in the case of SMEs.

Economic reform launched in early 90s led to a clear change in terms of productive investment at the microeconomic level. For several years the economy experienced higher capital accumulation in contrast to the poor performance in previous decades. According to our estimates, capital accumulation turned to be the main engine of growth for large companies and a very important factor for SMEs. Economic growth is not only the result of capital investment and new jobs. The analysis shows that in the 90s Argentine companies achieved a significant reduction in real costs, which, even in the absence of human, financial or physical capital investments, would have implied an important increase in value added. The overall average increase of factor productivity is not the result of improvements generalized for all companies: on the contrary, the study reveals the co-existence of successful business that experienced strong increases in their factor productivity together with firms that suffered falls in productivity and increases in costs.

Samples	Value	Labor	Capital	TFP
Large enterprises 93-98	66%	65%	77%	47%
Small and Medium enterprises 96-98	73%	65%	79%	49%
Stock exchange Enterprises (balances) 94-98	52%	72%	58%	48%

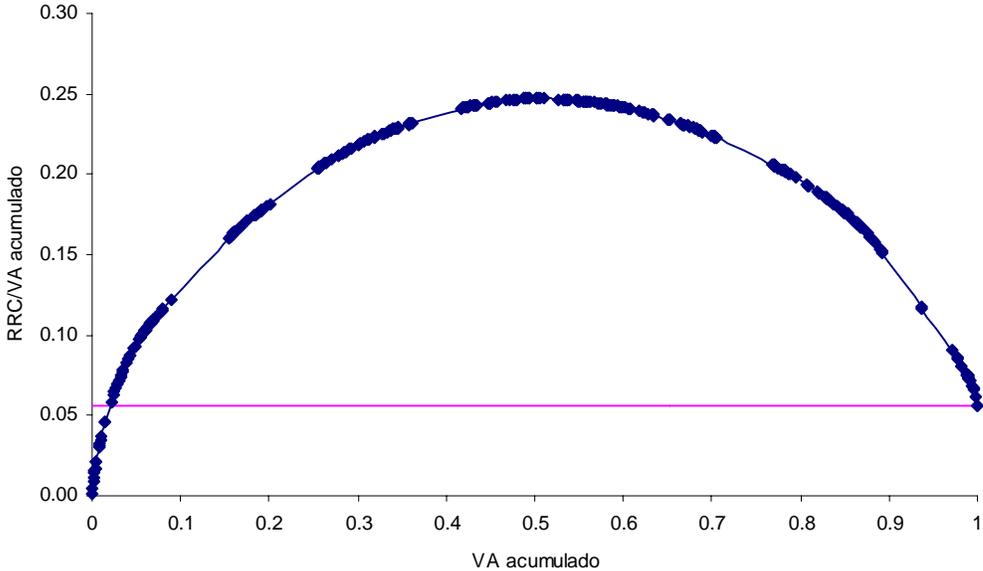
This result makes apparent the importance of studying growth and productivity performance at the company's level. The analysis of aggregate statistics does not unfold the importance of changes in the factorial productivity at the business level. To most companies in the three surveys of the study, positive or negative changes in the total factor productivity turned out to be the main "explanation" of changes in value added. Thus, the global performance of a company is strongly linked to its capacity to generate real cost savings through technological or organizational innovations. In the case of large companies, 56% exhibit TFP increases that are larger than investment and labor contributions to their value added growth.

It is natural to associate the average increase of business productivity to the enhanced business environment that prevailed in Argentina throughout the 90s. The economic reform that took place encouraged productivity in various ways. First, macroeconomic stability played a major role. Macroeconomic uncertainty discourages entrepreneurs from undertaking technological or organizational changes. Beyond macro stability, market oriented reforms such as privatizations, external trade and financial opening, and broad economic deregulation introduced an effective "change of regime". In this scenario under the pressure of internal and external competition it was natural for investors and entrepreneurs to exhibit a more proactive behavior in search for real cost savings in order to make sure their survival in the new environment.

Notice that in spite of the inception of the reform and consolidation of the new scenario in early 90s, about half of the analyzed companies shows TFP declines. This phenomenon, however, is not strange to a dynamic scenario such as the one prevailing in Argentina in the 90s. Faced with new rules some investors and entrepreneurs may not react quickly enough or may even undertake wrong decisions. Growth periods are usually periods of Schumpeterian "creative destruction" where some economic agents adjust correctly to the new context and some turn more inefficient and eventually go bankrupt. The international experience shows that during the growth process a bunch of companies are able to "explain" most of the TFP growth. Following these leaders there are many companies with intermediate and low TFP growth that compensate for those diminishing their efficiency (TFP decreases). The pattern for the largest 300 companies of Argentina is showed in the following chart, following the Harberger procedure, which requires ordering the firms according to their productivity (measured as the ratio real cost reduction/value added) and obtaining the graph against the cumulative added value in the horizontal axis. The curve stops at the value of 0.06 (100%) which indicates that costs were reduced by 6% in the period 1993-98. Firms representing only 2% of added value, the first intersection of the curve with the 0.06 line) "explain" total growth of productivity,

while the following 48% exhibits positive TFP, which is just compensated by the remaining 50% (in terms of value added) of firms with negative TFP. This graph reflects more or less the international situation. In Argentina, the degree of concentration at higher-than-average TFP is less, while the portion with negative TFP seems somewhat higher, than in other countries. But the general flavor remains: growth of TFP is highly concentrated in a few firms, and successful enterprises typically pertain to different sectors of the economy, while losing firms (in TFP terms) are an important portion of the whole even with growth at large.

*Chart: sunrise-sunset*  
*Real reduction in costs (or TFP) as a proportion of value added*  
*National Survey of Large Enterprises, 1993-1998*



Another illustration is the pattern of growth by sector (see Table 6). Each sector history differs from the aggregate history. Usually, factors that explain the value-added growth in each sector differ. For instance, Labor has been the main determinant of growth in the Construction sector; Capital investment the main determinant in Electricity, Natural Gas and Water, while various other sectors have experienced real cost savings that enabled the growth of their value added.

Table 6  
Change in Value Added and Labor, Capital and TFP Contribution  
(Millions of \$ 1993)  
National Survey of Large Enterprises, 1993-1998

Sector	Change	Contribution			% of enterprises with positive TFP
	VA	L	K	TFP	
Food, Beverages and Tobacco	-16.3	2.5	4.2	-23.0	35%
Textiles	-12.3	-2.8	2.2	-11.7	13%
Wood	13.1	2.6	-5.5	16.0	55%
Paper	11.9	-0.3	6.3	5.8	55%
Fuels	-16.7	-0.8	5.6	-21.5	46%
Chemicals	10.3	6.0	-0.2	4.6	47%
Non Metallic Minerals	5.3	0.3	-15.9	20.9	75%
Metal Products	26.8	3.1	-0.3	23.9	50%
Machinery and Equipment	2.5	-2.1	-2.6	7.2	46%
Transport Equipment	-40.6	-32.7	2.8	-10.8	38%
Other Manufacturing Industries	-3.3	-3.2	-5.3	5.2	50%
Electricity, gas and water	26.3	-0.3	20.7	5.9	58%
Construction	51.1	24.0	5.4	21.8	70%
Commerce, hotels and restaurants	50.5	24.6	30.4	-4.4	35%
Transport	38.7	-2.1	9.0	31.8	75%
Telecommunications	254.3	-4.1	74.2	184.2	78%
Other Services	1.7	3.8	9.4	-11.5	39%
TOTAL	14.8	3.5	7.1	4.2	47%

Source: FIEL based in NSLE.

Two interesting features of our analysis are the following: first, investment in informatics was identified as a systematic component of technology adoption by firms during the decade. Particularly we have found that those firms exhibiting greater investments in software have achieved higher TFP and value added growth (Table 7).

Table 7  
Growth and new technology adoption

Software Investment	Value Added	TFP (annual %)	Contribution to Growth %	Number of enterprises
Low	1,1	0,7	68	153
Medium	3,0	0,2	6	127
High	10	3,5	35	26

In the second place, growth pattern at the company level –even if negative for the universe, due to a fall of the relative price of tradables as a consequence of the opening of the economy- was positively related to international insertion of firms as measured by their external trade activity.

Table 8 Changes in Value Added and Sources of Growth Enterprises grouped by tradable and non tradable and by export performance National Survey of Large Enterprises, 1993-1998					
	Change VA (%)	Contribution (%)			N° of Enterprises
		L	K	TFP	
<i>1. By product orientation</i>					
Non tradable	5.2	9.4	23.6	22.2	87
Tradable	-1.2	1.2	0.6	-3.0	219
<i>2. By Individual Export Performance</i>					
Non tradable	47.1	6.1	18.6	22.4	92
Little Change in Exports	-13.8	1.7	-1.5	-13.9	93
Moderate growth in X	8.5	2.5	5.2	0.9	89
High growth in Exports	22.9	4.3	4.8	13.9	32
Source: Fiel based in NSLE.					

Summarizing, according to our data productivity growth is a dominant engine behind growth and it seems to be essentially more the result of individual actions at the company level than the result of “externalities” that operate at macro or sector level. As stated by Harbeger, productivity growth emerges as " mushrooms" in the economy, without a systematic pattern. Consequently, a favorable business environment is essential to promote growth. Also, this analysis provides a rationale for the failure of “strategic” and “picking-up-the-winner” policies.

### **Concluding remarks and policy recommendations**

Firm activities are carried out in markets within the local, national or international framework. There are incentives to each level for coordination and competition generated by the participants themselves. General regulations and institutions affect these frameworks and they change according to the needs of social organization. Market failure and/or discretionary actions by the governments lead to regulations oriented to modify the results that would emerge from the market itself. These aspects modify the “business environment” into a favorable or unfavorable one for economic growth. In particular, regulation may create, potentially, hidden costs (transaction costs) for firms limiting their success.

The design of adequate policies to allow a growth process is one of the most controversial chapters in economic literature. We think that the analysis performed in this study contributes to generate a useful insight for policymakers: the understanding of the forces behind the growth process opens the possibility to generate policy selection criteria on the basis of the probability of success of each instrument in regards to its objective.

Which is the nature of these criteria? The stylized description of the growth mechanisms that are identified by the study is as follows. The growth process is led by real cost savings at the enterprise level as a major force combined with capital investment and new labor. A few companies explain most of the growth rate while the rest exhibits growing or diminishing value added that compensates in the overall. It is not possible to anticipate individual business patterns and there are no sector regularities registered.

Within this framework the emerging criteria for public policies design indicates a low probability of success for “selective” policies attempting to choose winners (either companies or sectors) and, on the opposite side, a stronger probability of success for “horizontal” policies directed to the improvement of the business environment.

This study has completed the appraisal in the aspects referred to the evolution of productivity and competitiveness as sources of economic growth. As the project shows, productivity in Argentina increased in the 90’s, however there were obstacles to reach the potential levels of growth. Among them, we should mention the heavy tax burden on labor, infrastructure deficiency, high financial costs due to country risk related to macroeconomic situation, high tariffs to external trade, transaction costs due to instability of fiscal regulations and judicial failure.

According to our appraisal growth may be described as an *uneven, fragile process whose main roots are at the company level*. This fact reinforces the idea that policies must be directed to leveling the scenario to enable firms, workers and families to lead the growth process combining investment in physical and human capital with all sort of innovations, such as:

- Macroeconomic stability, as an essential condition for investment development;
- Rule of law as the basis for social organization (property rights) and contract feasibility;
- International insertion of the economy to insure the sustainability of the growth pattern in the long run;
- State, administrative and tax law reform that allow for the public sector to improve its productivity at the same pace that the private sector (investment in infrastructure, full use of the market as a tool of resource allocation, efficient regulation principles);
- Educational policy reform aimed at concentrating scarce fiscal resources to promote basic education and to reduce excessive support to the university level, possibly implementing a partial fee system.

Since late 1998, adverse circumstances in the international markets and serious mistakes inherent to the design and set in motion of public policies led the country to stagnation and, between 1999 and 2001, to value added losses. Currently, the deep crisis affecting Argentina has added dramatic components to the previous list. In fact, several policies and institutions developed in the 90’s were seriously hurt and the country is witnessing unfortunate policy reversals. A major problem, essential to the discussion of the growth, is the reliability in domestic saving institutions (financial system and pension funds) that were severely affected by the crisis.

Under these circumstances the country will need several years to recover external credibility in government and foreign investments flows. During that period the financing of investment will

depend on national saving. Uncertainty on contracts which give support to the formation of savings can make the economy go backwards toward the highly unsatisfactory growth pattern prevailing in the 80s. Other recent international experiences show that that costly step back is not a necessary result of the crisis. Growth may be resumed provided that sound market-oriented economic policies be maintained.

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