

SOCIAL AND ECONOMIC POLICY  
WORKING PAPER

# THE CASE OF MEXICO'S 1995 PESO CRISIS AND ARGENTINA'S 2002 CONVERTIBILITY CRISIS

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Including Children in Policy Responses to  
Previous Economic Crises

**Paola Pereznieto**



Including Children in Policy Responses to Previous Economic Crises: The Case of Mexico's 1995 Peso Crisis and Argentina's 2002 Convertibility Crisis

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## Executive Summary

A series of economic and transformational crises in Latin America during the 1990s and early 2000s pushed many households into poverty. In this paper we look at the two most significant of those crises that took place in Mexico and Argentina and explore the policy measures that were put in place to mitigate their impact on the economy and more importantly, on the population. For this purpose, the analysis looks at a series of transmission channels from economic shocks through the macro to the meso-level, the effects of these impacts on households and their behaviour, and more specifically on children. The paper sheds some light on the different angles through which the current (and future) crisis might affect individuals, particularly children. More importantly, the paper draws out some lessons learned from the effective and ineffective policy responses put in place almost ten years ago, which can be relevant to inform decision makers dealing with policy responses to mitigate the impact of poverty and vulnerability in the wake of the current crisis.

After a period of relative economic stability, the Mexican Peso Crisis (*or Tequila Crisis*) in 1994-1995 caused a collapse in the country's GDP of 6.2 per cent, while the poverty headcount increased by 23.7 per cent. In the case of Argentina, effects of the Convertibility Crisis in 2001-2002, were dramatic. GDP fell by 10.9 per cent during the first year of the crisis and the level of poverty increased by 50.1 per cent.

Although there were many similarities in the way these crises unfolded, there were important underlying differences in the countries' economic fundamentals that impacted how the crises affected their economies and capacity to respond. In the case of Mexico, macro-economic fundamentals were strong but a series of political shocks undermined the value of the peso so that foreign reserves had nearly run out by the end of 1994, leading to a floating exchange rate that triggered the crisis. Argentina had already been through two years of recession, mounting debt and fiscal deficits when the situation became unsustainable and a crisis in confidence forced the government to drop the currency convertibility plan, leading to the economic and financial crisis.

Economic and political stability took longer to return to Argentina than Mexico. This was partly because the crisis in Argentina was accompanied by significant political turmoil and social unrest. This in turn meant that the policy responses (both economic and social) were less coordinated, and therefore had lower efficacy. On the other hand, the Mexican economy was particularly favoured by the external context as it took great advantage of its proximity to the United States and the inception of the North American Free Trade Agreement (NAFTA) to increase exports, while the relative political stability accompanying the new government allowed authorities more capacity to act effectively.

After the crises, despite relatively rapid economic recovery in both countries, the effect on poverty was long lasting. In Mexico, extreme poverty increased from 21 per cent in 1994 to 37 per cent in 1996; the poverty level did not return to pre-crisis level until after 2002. There is no evidence however, that in Mexico the poverty impact of the crisis on children was proportionally more than on adults. In Argentina, 45 per cent of urban households (equivalent to 58 per cent of the population) were living under the national poverty line after the crisis. Analysis has shown that children and youth were particularly impacted by the Argentinean crisis, with 75 per cent of those aged 18 and under living under the poverty line in 2003.

Amongst the meso and micro level impacts of the crises were the reduction of government revenues, which impacted negatively on public spending, including in the social sectors. Although in both countries

social sector spending fell less proportionally to spending in other areas of the economy - mainly as a result of higher funding for targeted social protection programmes - there is evidence that investment in education and health was reduced as a result of the overall contraction in spending. Inflation soared in both countries and the collapse of the economy triggered significant levels of unemployment. Empirical evidence in both countries has shown that as a result of the nature of these crises the negative effects were stronger on the urban lower and middle classes than the rural poor as the latter were better able to hedge the impact of rapidly rising inflation by relying more on subsistence farming and were not as affected by unemployment. Importantly, both crises took place in a context of relative global economic stability which helped both countries better hedge their exposure to the economic downturn, particularly as they could increase trade after local currencies lost their value.

There were also multiple effects on households and various household members, particularly on children. The analysis in this paper takes a multidimensional approach to child poverty, and looks at the indirect (through the household) and direct effects of the crises on children's wellbeing and rights across three key dimensions: survival, development and protection. Some of the most relevant findings are:

- The loss in real household income as a result of unemployment, underemployment and high inflation resulted changed the composition of consumption in both countries, resulting in the purchase of lower quality and less nutritious food, with a particularly adverse effect of the nutritional status of children in both countries. Malnutrition resulted in the deaths of children in Northern Argentina.
- Both countries saw a reduction in health consultations, with empirical evidence showing that in Mexico of this led to a small increase in child mortality.
- Given the lower opportunity cost of school as a result of unemployment, there was not a general reduction in schooling, except in Argentina where there was a drop in attendance resulting from children and young people not having money to purchase necessary school supplies.
- The economic situation triggered violence (including domestic) and social unrest in Argentina, with no measures in place to reduce its incidence or provide attention to victims.
- There was a reduction in the levels of nurture and care as a result of both parents participating more actively in the workforce with no provision to provide childcare services for working parents. In Argentina in particular there was a rise in women's participation in the workforce.
- Evidence of children's participation in the workforce is mixed, although it indicates that some of the poorest households did draw on children as a means to generate additional income.

The Governments in these two countries introduced a mix of policy responses to mitigate the effects of the crises. In both countries the main thrust of the response was through targeted social protection programmes, though the design and operating mechanisms of the flagship programmes in Argentina and Mexico were clearly distinct.

In the case of Mexico, the immediate response to the crisis focused on strengthening some of the existing social protection mechanisms, mainly geared at promoting employment and capacity building, while the government took two years to develop a more comprehensive and evidenced based social protection programme, *Progres-a-Oportunidades*. It was introduced in 1997 as a medium to long-term strategy to reduce poverty and build human capital with a focus on children. Although it proved to have positive impacts on poverty reduction, its delayed implementation might partly explain why the level of poverty in Mexico took a few years to come down to pre-crisis levels. In the case of Argentina, the main

response was a public employment programme, *Programa para Jefes y Jefas de Hogar Desocupados* (PJJJ). This programme was successful at curbing unemployment immediately after the onset of the crisis and during the following two years, but had lower impacts on poverty reduction, partly as a result narrow targeting.

In addition to these social protection interventions - implemented with varying degrees of success - there was an effort to strengthen access to social services in the context of the crisis; those with a greater impact on children included scholarship distribution and school supplies in Argentina as incentives for children to remain in school and the *Programme of Essential Social Services (PROSSE)* in Mexico which included components to strengthen the provision basic education and health services in the context of the crisis, as well as an integrated nutrition programme for vulnerable groups, which include children.

Important lessons can be learned from the policy responses to these crises that can be applied to countries' responses to the current economic crisis. Some of these lessons include the following:

*i) Children should be considered a specific focus of targeted programmes:* children are subject to particular social, economic and developmental vulnerabilities that need to be addressed specifically to ensure they benefit. Typical responses focus only on the household, assuming benefits will trickle down to children, despite evidence that this is not always the case.

*ii) The importance of social budgeting:* despite pro-cyclical social spending, there were efforts to protect social sector spending relative to spending in other areas; this was crucial as it strengthened social protection response mechanisms and curbed reductions in spending on basic social services.

*iii) The timing of responses:* Argentina's flagship crisis response programme, the PJJJ, was rolled out almost immediately after the crisis hit and played a key role in mitigating unemployment during the first year. However, this quick response resulted in reduced effectiveness. Mexico's short-term response focused on channelling additional support through existing programmes, not necessarily tackling the underlying causes of poverty. Its flagship policy response, *Progres-Oportunidades*, was not introduced until two years after the low point of the crisis. Though effective, this slower response contributed to the slow reduction in poverty rates after the crisis. This suggests that it is critical to strike a balance between having time to develop strong, evidence-based responses and introducing them quickly enough to mitigate the impacts of the crisis. The development of better social protection systems in countries can help achieve this balance in this and future crises. For example, during the current crisis in Mexico, quick responses have been effectively channelled through existing social protection mechanisms.

*iv) The need for social policy responses that work at different levels:* Targeted social protection that address the vulnerabilities of specific population groups, particularly children, as well as support for basic services given their complementarity are crucial. At the same time, specific social protection interventions should tackle different areas of risk in concert in order to maximize effectiveness.

*v) Programmes focused on reducing structural poverty through investment in human capital have proven effective:* This is the case of conditional cash transfers such as those introduced in Mexico and Argentina. They have served as models for other countries, including during the current crisis.

*vi) Moving towards evidence-based programmes that respond to identified problems:* The success of *Progres-Oportunidades* and some of the failings of the PJJJ are related to the extent that they were

developed based on strong evidence. Such development of evidence includes introducing mechanisms that are able to identify the 'new poor' during the crisis, whose needs might differ from those of the chronically poor.

## Introduction

A series of economic and transformational crises in Latin America during the 1990s and early 2000s, the most significant occurring in Mexico and Argentina, pushed a large portion of the population into poverty. Though economic recovery was rapid, the effects on poverty and the wellbeing of the population, in particular children, were longer lasting. The governments of both countries introduced a series of measures to reduce the effects of the crises on increasing poverty and deterioration of wellbeing – not all of these measures were successful. In the wake of the current crisis, lessons learnt from responses ten years ago, some of which are still in place today, enable governments to better reflect on the course to take to minimize the negative impact on peoples' welfare.

This report, therefore, investigates how previous economic shocks affected children in two Latin American countries in order to develop a typology of policy responses for protecting children during crises. This typology will support sharing of good practices and advocacy for policy changes to better protect children in current and future economic crises.

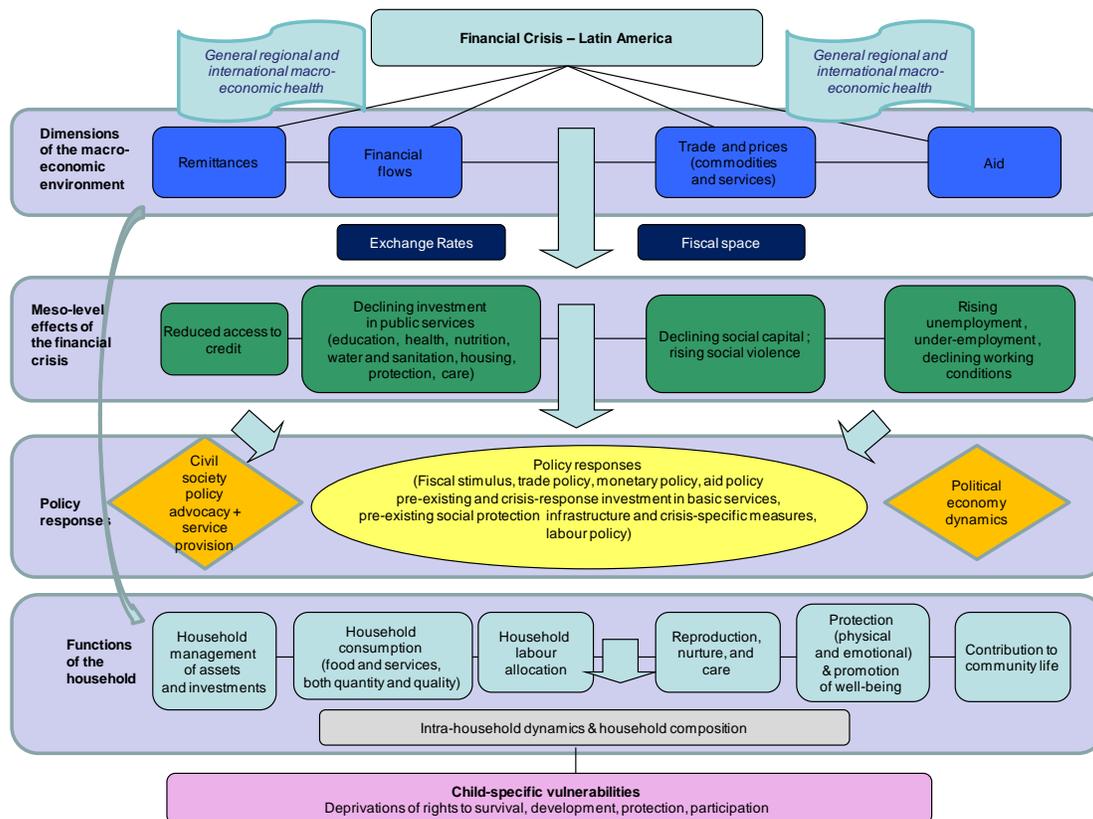
The focus of this paper is on the 1994-1995 Mexican Peso Crisis (*or Tequila Crisis*) and the 2001-2002 Argentina Convertibility Crisis, both of which had drastic impacts on the respective country's economies. In the first year of the crisis, gross domestic product (GDP) for Mexico decreased by 6.2 per cent and 10.9 per cent in the case of Argentina. Levels of poverty rose significantly, in Mexico by 23.7 and in Argentina by 50.1 per cent. Despite relatively rapid economic recovery in both countries, the effect on poverty was long lasting; for example, poverty in Mexico did not fall to its pre-crisis level until seven years after the onset of the crisis.

Governments in both countries responded with a range of policy measures to reduce some of the most severe consequences, including loss of household income, unemployment and decreasing consumption capacity, whilst also stabilizing macroeconomic fundamentals. However, there were other dimensions of the crises' impacts that did not garner such policy attention, such as higher levels of social tension and a growing risk of mental health problems in Argentina.

Social protection interventions were of particular relevance amongst the mix of policy responses to mitigate the effects of the crises. For example, Mexico's *Progres-Oportunidades* conditional cash transfer programme, designed to minimize children's vulnerability and experiences of poverty, showed important achievements and has served as the cornerstone for the government's poverty reduction strategy. The *Progres-Oportunidades* programme has been replicated in several countries and will be explored in more detail in this paper. There are important lessons that can be learnt from the accomplishments and shortcomings of previous interventions and applied to policy responses in current and future crises.

For this purpose, the conceptual framework applied looks at the transmission of economic shocks from the macro to the meso level, and the effects of these impacts on households, and more specifically on children. These effects can be felt through a series of transmission channels (Harper et al, 2009), as illustrated by the framework below.

Figure 1: Framework to understand the effects of crisis on child vulnerabilities



Source: Harper et al (2009)

Through a review of the literature and relevant data, this paper highlights some of the main macroeconomic impacts of the crisis, the meso impacts on policy and government action, and the transmission to Mexican and Argentinean households. Differential impacts are considered according to gender, urban and rural locality, levels of income and family composition. Particular attention is paid to specific impacts on children, and throughout the review potential links between child development and changes in the macroeconomic context and household responses will be highlighted. The final section looks at the policy responses implemented by the Mexican and Argentinean governments, some of their short and mid-term impacts and the extent to which these responses focused on mitigating the impact on children.

## 1. Overview of the economic crises in Mexico and Argentina

In order to understand the impacts of these crises from the macro to the micro level, it is necessary to consider characteristics that had important implications for their effects on the population. Understanding the context also facilitates drawing conclusions about consequences and potential responses to future crises.

There were important differences in the situation of Mexico and Argentina prior to their respective crises, which resulted in distinct effects on the countries' economic fundamentals. In Argentina, three consecutive years of recession led to a deepening of the economic and financial crisis in 2001. Various attempts were made during that year to restart growth as a prelude to improving public finances and the debt profile, but these were not successful and led to a stronger crisis in 2002. This triggered Argentina's default on public debt repayments, a crisis of confidence and a collapse of the economy. The prospects for Mexico looked relatively good prior to the crisis as a result of increased lending and foreign investment, policies of fiscal prudence, market-oriented reforms and the passage of NAFTA. A number of internal and external variables led to the peso crisis when Mexico finally ran out of international reserves, which triggered a crisis of confidence in the economy.

Table 1: Comparison of effects of Mexico and Argentina crises

Country	Year	GDP growth	Change in exchange rate	Un-employment rate	Growth in mean wages	Poverty rate (after crisis)	Change in poverty rate
Mexico	1995	-6.2	47.4	5.7	-18.5	53.3	23.7
Argentina	2002	-10.9	210	17.8	-21.9	57.5	50.1

Source: Fallon and Lucas, (2002) and World Bank estimates, as cited in World Bank, 2003

Despite these differences, the Mexican and Argentinean crises had several common characteristics, particularly with respect to their impacts on economic activity and poverty. Both crises were also similar in that they were triggered by national currency devaluation resulting from unsustainable pegged exchange rate regimes and loss of investor confidence. Local currencies were rendered weak after internal political, economic and financial shocks caused significant capital flight during the year or two preceding the crises. Additionally, both crises took place in a context of relative global economic stability rather than the current state of worldwide economic recession. As a result of this more favourable economic context, both Mexico and Argentina had opportunities to hedge the impact of the crises through increased engagement with international markets, particularly via increased export. This was particularly instrumental for Mexico to take great advantage of its proximity to the United States and the inception of NAFTA. These factors, along with the countries' policy responses, which will be further analysed in this paper, were critical to making both crises relatively short lived. Both economies slowly recovered within a year of the respective crisis onset. One important point to clarify is that the 1995 economic crisis in Mexico and the 2001 crisis in Argentina were virtually unrelated – one did not happen as a result of economic contagion from the other<sup>1</sup>.

Despite rapid recovery, in both cases the impacts on poverty lasted beyond the initial period of economic recovery. This highlights the complexity of reducing poverty once households have been hit by economic shocks that push them out of the labour market, reducing wages and frequently pushing the poverty-stricken into adverse coping mechanisms. Despite the similarities of these crises, they also differed in many important ways. Some of their specificities are included below.

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<sup>1</sup> Some authors argue that the Argentinean economy was weakened by the Tequila Crisis, however, Argentina experienced relative stability in the proceeding year or two, so the relation between the crises is indirect at best.

## 1.1 Mexico's 1995 peso crisis (Tequila Crisis)

In the early 1990s, Mexico's economy seemed healthy, growing at an average pace of 3.8 per cent annually from 1990 to 1994. The country had reduced its long-term debt, increased lending from a number of multilateral institutions, maintained policies of fiscal prudence, and carried out market-oriented reforms, all of which seemed to suggest macroeconomic stability (Lustig, 2001). Mexico invested significantly in social sectors and social development schemes, resulting in improvements to the population's socio-economic status, including through enhanced access to basic social services. In January 1994, the NAFTA between Mexico, the United States and Canada came into effect, rapidly increasing the pace of trade and foreign investment.

Against this backdrop, the Mexican Peso was pegged to the US dollar in order to minimize inflation. The relative appreciation of the peso as a result of the exchange rate peg and international capital flows during the early nineties was accompanied by significant import demand growth and decline in exports, which contributed to balance of payments deterioration and lower domestic savings. With a fixed exchange rate, the peso could not adjust to these conditions. In 1994, a series of negative political shocks that culminated with a presidential election caused significant capital outflow throughout the year due to lower investor confidence in the country's stability. Foreign reserves accumulated over the previous years were committed to exchange rate stabilization, but proved insufficient due to the government's short-term liabilities. Continued foreign reserve decline in November and December 1994, combined with lack of flexibility in the peso exchange rate, rendered the peg unsustainable (Edwards, 1997). By December 1994, as the new government took power, the decision to abandon the peg triggered significant depreciation of the peso. In addition to the loss of reputation resulting from the mishandling of the devaluation – ranging from the way it was announced to dissatisfaction with accompanying measures and the absence of a solid macroeconomic and debt management programme at that stage – the move stoked uncertainty in the investor community (Lustig, 2001; Edwards, 1997), further weakening the economy. The financial crisis that followed cut the peso's value in half, sent inflation soaring and initiated a severe recession (Whitt, 1996).

Mexico requested support from international financial institutions (IFI), which put together a US\$40 billion bailout package by February 1995. Meanwhile, recently privatized Mexican banks were shown to have made a huge number of bad loans in the period prior to the crisis, and the government was forced to shore up the banking system with loan purchases that would eventually cost nearly 20 per cent of GDP, significantly pressuring public finances. Sharp economic recession during 1995 resulted in Mexico's most severe immediate output contraction since the 1930s (Kose et al, 2004) and drove 6.2 per cent GDP decline, was followed by economic rebound by mid-1996 on the back of an export boom initiated by peso depreciation (Pastor and Wise, 2004). Although economic growth recovered rapidly, the effects of the crisis on poverty were long lasting; the level of poverty returned to pre-crisis levels in 2002.

NAFTA was in place for only a year when the crisis hit, making it hard to identify the agreement's short-term impact on the Mexican economy and households due to the larger impact of the crisis (Lederman et al, 2003), which, as explained above, was linked to other economic and political factors. NAFTA's adverse impacts over time have been related mainly to losses in the rural sector, particularly producers

of grains, including maize<sup>2</sup>, and to low manufacturing sector wages. However, these impacts were not significant at the time of the crisis. In fact, in the period immediately following the crisis (1995-1997), some strategic economic sectors were protected by agreed gradual liberalization and continued to receive subsidies and government compensation. In fact in the short term, some analyses have linked NAFTA to Mexico's economic recovery, which was largely driven by exports and inflows of foreign direct investment (e.g., Lederman et al, 2003: 141).

## 1.2 Argentina's 2001 convertibility crisis

Argentina was hit by its most severe economic crisis in decades at the end of 2001, with GDP proceeding to fall 10.9 per cent during 2002. Public debt was already high as a result of lax fiscal policy during times of economic growth, and economic conditions were deteriorating, typified by 12.5 per cent rise in unemployment in 2000 (World Bank, 2003: 10). By 2000, one quarter of households (equivalent to one third of the population) had incomes below the national poverty line and inequality was rapidly rising alongside increased segmentation of the population, with the least educated living without social security coverage and experiencing the highest wage losses (UNICEF-CEPAL, 2006). After three consecutive years of recession, the nation's economic and financial crisis deepened during 2001 (Fiszbein et al, 2003).

Various attempts were made to restart growth during 2001, including strengthening public finances and improving the country's debt profile, but these did not work. For example, the government tried to boost confidence and restore growth through fiscal adjustment, implementing a new tax scheme in January 2001 that imposed higher taxes on consumer goods, extended VAT to health insurance and transportation, and expanded the income tax base. Rather than restarting growth, this fiscal adjustment deepened the recession and raised doubt about debt load sustainability. Early 2001 saw efforts to refinance debt with money from an IFI-funded support package, but this operation failed due to generally poor levels of confidence. A 'zero deficit' policy was approved in an attempt to regain investor confidence, but this initiative also failed as the central government was unable to reach a tax revenue sharing deal with the provinces. By November 2001, the International Monetary Fund (IMF) refused any additional financial support until Argentina met certain conditions (including zero deficit)<sup>3</sup>, causing investor confidence to collapse and triggering a run on the banks. To contain this, the '*corralito*', a measure to limit deposit withdrawals from banks, was introduced amid severe opposition from citizens, who took to the streets in protest. Throughout this period, political instability that included rapid turnover in presidents and government ministers did little to strengthen confidence in the country's performance. A temporary moratorium on debt payments was announced at end-December 2001, and the 'convertibility plan' was scrapped in January 2002, allowing the Argentinean Peso to float (Perry and Serven, 2003).

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<sup>2</sup> According to Levy and Van Wijnbergen, 1995, until the start of NAFTA, maize was Mexico's key crop and main rural employer, occupying the largest acreage, the most costly in terms of fiscal subsidies and the most protected crop. However, Mexico did not have a competitive advantage in maize production.

<sup>3</sup> Since the Argentinean crisis, the IMF has been severely criticized by many analysts and Argentinean policy makers for not having adopted a more flexible position by giving the government a lifeline despite them not having met the 'zero deficit' target. This is particularly important in light of today's global crisis, where fiscal stimulus, rather than extreme fiscal restraint, has been heralded as a way to speed recovery, even by the IMF (see [www.imf.org/external/pubs/ft/spn/2009/spn0903.pdf](http://www.imf.org/external/pubs/ft/spn/2009/spn0903.pdf)).

Social and political instability before and after the crisis resulted in a fragmented policy response and led to lingering consequences in terms of poverty and peoples' economic wellbeing (Pastor and Wise, 2004). Despite rapid economic recovery in 2003, the increase in poverty as a result of the crisis was significant, with the poverty headcount estimated to have reached 58 per cent in 2002 (UNICEF-CEPAL, 2006).

## 2. Macro-meso impacts

The effects of the crises were multiple and widespread in both countries. In addition to severely reduced GDP growth, inflation soared. As mentioned above, the crisis caused the household poverty rates in both countries to rise significantly. In Mexico, extreme poverty<sup>4</sup> increased from 21 per cent in 1994 to 37 per cent in 1996. The poverty level took a longer time to decrease: between 1996 and 2002, extreme poverty decreased from 17 per cent to 20 per cent, falling to one per cent below pre-crisis levels (World Bank, 2004). In the case of Mexico, there is no evidence that the poverty impact of the crisis proportionally impacted children more than adults (Cunningham and Maloney, 2000). This is partly because the greatest impact of the crisis was not on the poorest households or rural areas, where families typically have more children (although Mexico's urban population outnumbered the rural population, meaning there were more children living in urban areas facing the consequences of the crisis). In addition, child poverty had not been comprehensively measured prior to the crisis, making it difficult to measure the change. However, as analysis below indicates, the crisis had a significant impact on children in Mexico.

As a result of the crisis in Argentina, 45 per cent of urban households (equivalent to 58 per cent of the population) were living under the national poverty line by 2002, and overall, one in four households had incomes below the value of the basic food basket (that is, they were considered extremely poor). Analysis has shown that children and youth were particularly impacted by the Argentinean crisis, with 75 per cent of those aged 18 and under living under the poverty line in 2003. This figure increases to 80 per cent when considering children living in households where the household heads had low levels of education (UNICEF-CEPAL, 2006).

### 2.1 Macro-meso impacts in Mexico

In Mexico, the increase in poverty caused by the 1994-1995 crisis erased the positive poverty reduction achievements of the previous decade, with poverty rates not returning to pre-crisis levels until 2001-2002 (World Bank, 2005). The resulting economic collapse had significant social consequences: in 1995 alone, prices rose 35 per cent and output fell 6.2 per cent. As wages remained fixed in nominal terms, real wages declined by 25-35 per cent, and unemployment, while low by global standards, almost doubled from 3.9 to 7.4 per cent (Maloney et al, 2003). Welfare outcomes were bleak: household incomes declined by roughly 30 per cent; extreme poverty more than doubled between 1994 and 1996 (climbing from 10.1 to 26.5 per cent), while moderate poverty increased from 43 to 62 per cent (World Bank, 2005).

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<sup>4</sup> In Mexico, the extreme poor are those under the nationally defined poverty line.

Both rural and urban poverty increased dramatically as a result of the 1994-1995 macroeconomic crisis, but the effect was particularly strong in urban areas (World Bank, 2005). This is partly because Mexico's urban population was particularly vulnerable to macroeconomic instability and labour market adjustments, as most of their income arose from labour and their risk coping strategies depended heavily on the labour market – high consumer goods inflation and limited credit access also contributed to the impact on the urban poor. Rural households, on the other hand, were better able to hedge the impact of rapidly rising inflation by relying more on subsistence farming. In addition, most public transfers to rural areas were sustained throughout the crisis.

Mexico's per capita GDP fell by 5 per cent during the 1995 crisis. Although unemployment rose, labour markets generally adjusted through wage cuts rather than redundancies. This spread losses relatively evenly across the urban population rather than concentrating the losses on a particular group (Maloney et al, 2003). During 1995 alone, more than one million jobs were lost in the formal sector and average real wages declined by 13.5 per cent (Lustig, 2001). This reduction in household income resulted in a range of coping mechanisms, some of which had adverse impacts on children's wellbeing, as will be discussed in the following subsection.

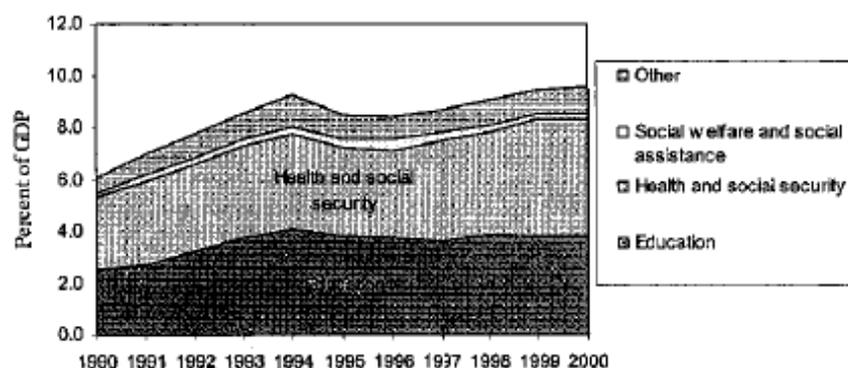
Interestingly, there is evidence to suggest that despite the overall rise in poverty, income inequality fell slightly given the greater impact of the crisis on the labour earnings of workers in non-tradable sectors (such as financial services) and those in the top income bracket, rather than on the urban poor (Lopez Acevedo and Salinas, 2000). This trend in inequality was short lived, however, with inequality slowly starting to increase in 2002.

A significant macro-level effect of the crisis that translates into micro-level impacts is public spending. It is particularly important to look at the behaviour of social sector spending with respect to the impact of the crisis on poverty reduction and human development. Social sector expenditure (including health, nutrition, sanitation, housing, social assistance and pensions) increased sharply during 1990-2000, but was weighted towards the first half of the nineties. Total social expenditure amounted to about 9.5 per cent of GDP in 2000 compared to 6.1 per cent in 1990, suggesting an 83 per cent increase in real terms during the decade. Looking at the trend in more detail, however, social expenditures increased in real terms and relative to GDP during 1990-1994, contracted sharply in 1995-1996 following the onset of the crisis in December 1994, and increased again relative to GDP during 1997-2000 (Corbacho and Schwarz, 2004). Although this is not surprising given the collapse of economic activity, and, consequently, fiscal revenues alongside government spending to bail out the banking system, the implication is that social spending was pro-cyclical during this period, precisely when social programmes and services addressing the needs of the poorest and most vulnerable required more support.

Despite this trend, the composition of social sector expenditures reveals government efforts to support the population rendered vulnerable by the crisis: 89 per cent of all social expenditures in 1995 were for health, education and social security (mainly pensions), a proportion that remained relatively stable throughout the 1990s. As illustrated in figure 2, although overall government spending on social welfare and social assistance remained fairly small, it was the only expenditure item that was not reduced relative to GDP in the years immediately following the crisis, mainly to maintain social safety nets for the most vulnerable segments of society. A very important factor regarding spending decisions is the composition of spending cuts: given the large share of wages in social spending, the contraction of social expenditures in 1995 was partially due to restrictive government wage policies rather than solely to a

reduction in services rendered, which is important as it illustrates government's efforts to maintain the level of provision of social services during the crisis as a way to mitigate social impacts. In addition, despite the crisis, the government extended the duration of health benefits for the unemployed from three to six months, broadened some education scholarship programmes for the needy (including PROBECAT (*Programa de Becas de Capacitación para Desempleados*)), and expanded some other social protection schemes. With the rapid increase of the poverty headcount and GDP reduction – some estimates suggest a 4.9 per cent fall in GDP per capita during 1994-1996 – targeted spending<sup>5</sup> per poor person declined by 23.7 per cent (World Bank, 2009) – given the rise in inflation resulting from the crisis, the real value of this spending was further eroded. To maintain the level of social sector spending per poor person, it would have been necessary to increase levels of expenditure in response to the greater number of poor.

Figure 2: Mexico's social expenditure as a per cent of GDP



Source: Corbacho and Schwarz, 2004

Mexico's recovery was significantly leveraged by overseas development assistance (ODA). Immediately after the onset of the crisis, Mexico requested and obtained a significant financial aid package from the IMF and the United States Government, which were instrumental to injecting liquidity, returning confidence to Mexican markets and stabilizing the economy. Mexico sought loans from the World Bank and the InterAmerican Development Bank (IADB) to contribute to financing policy interventions in response to the crisis. For example, in the the social sector, a loan was secured to finance the Programme for Essential Social Services (PROSSE) in 1995 and in 1997, the *Progres*a programme (which will be explored in more detail below).

## 2.2 Macro-meso impacts in Argentina

Argentina's economy declined by 10.9 per cent in 2002, contributing to an accumulated 20 per cent decline in economic growth over the four years since its 1998 peak. With the float of the peso, the country experienced significant inflation. After a period of stability and growth in the early 1990s,

<sup>5</sup> Targeted social spending includes government spending aimed at establishing or strengthening systems of social protection that mitigate the potential impact of crises before they occur and assist the poor cope with the shocks after they have happened.

poverty and unemployment rates started to rise between 1995 and 1998. The 2002 crisis hit on the heels of an extended period of economic deterioration. The increase in poverty as a result of the crisis can be tightly linked to higher prices, particularly for food, as a result of currency devaluation. Unlike other countries where basic foods are not traded commodities, in Argentina basic foods are traded so the devaluation drove prices up significantly, greatly impacting living costs. The impact was particularly acute for the poor, as food makes up a higher proportion of their consumption basket. As a consequence, the number of people living under the poverty line for Buenos Aires increased by 26 per cent between April 2001 and April 2002, while the purely food poverty line (indigence line) climbed by 29 per cent (World Bank, 2003).

The crisis caused significant overall fiscal contraction, but there was a pro-poor shift in the composition of public spending, as an important share of government resources was reallocated towards social sectors, in particular to targeted social protection programmes. This slight fiscal flexibility in terms of reallocating funds in 2002 was partly a result of Argentina's default on external debt.<sup>6</sup> While total spending in constant prices fell by 37.8 per cent between 2001 and 2002, social spending fell proportionally less, decreasing 31.7 per cent. Nevertheless, social protection-related spending (targeted social assistance) increased significantly, growing 77 per cent during the same period, suggesting an attempt to prioritize social spending during the crisis. However, as was the case with Mexico, the significant increase in the number of poor people during the crisis meant that real spending per poor person actually declined by 16 per cent (World Bank, 2003). During the two to three years following the crisis, lower real public sector wages and pension obligations resulting from inflation and increased nominal fiscal revenues as a result of taxes on exports resulted in important reductions in the fiscal deficit.

Table 2: Composition of government spending in Argentina, 2001-2002

<b>National Government Social Spending, 2001-2002</b>			
	<b>2001</b>	<b>2002</b>	<b>% change</b>
Total spending			
Millions of 2003 pesos	48,935	46,091	-5.8
<b>Millions of 1993 pesos</b>	<b>46,640</b>	<b>28,988</b>	<b>-37.8</b>
<b>Social spending</b>			
Millions of 2003 pesos	28,651	29,587	3.3
<b>Millions of 1993 pesos</b>	<b>27,308</b>	<b>18,646</b>	<b>-31.7</b>
<b>% of total spending</b>	<b>59</b>	<b>64.19</b>	
<b>Targeted social spending</b>			
Millions of 2003 pesos	3,308	6,056	83.1
<b>Millions of 1993 pesos</b>	<b>3,153</b>	<b>3,816</b>	<b>21.0</b>
<b>% Social spending</b>	<b>12</b>	<b>20.47</b>	<b>77.2</b>
% GDP	1	1.70	38.2
<b>Per poor person</b>	<b>240</b>	<b>202</b>	<b>-15.8</b>

Source: Ministry of Economy data, from World Bank (2003)

<sup>6</sup> Argentina resumed the payment of external debt in 2003, and significantly restructured its debt by 2005.

Although there was a shift towards more targeted social spending programmes as a result of the crisis, assessments of Argentina's social spending have questioned the extent to which it benefited the poor due to its universal nature prior to the crisis. The increase in social spending was the result of the implementation of the Social Emergency Programme, particularly the introduction of a large cash-for-work programme targeted at unemployed household heads. *Plan Jefes y Jefas de Hogar Desocupados* (Programme for Male and Female Unemployed Households), the government's main social protection programme, was introduced at the outset of the crisis in January 2002. Supported by a World Bank loan and budget commitments from the government, this programme expanded rapidly to cover about two million households by late 2002 (Galasso and Ravallion, 2003). Further details of the programme will be discussed below.

A joint analysis by the Economic Commission for Latin America and the Caribbean (ECLAC) and the United Nations Children's Fund (UNICEF) in Argentina pointed out that there was a 30 per cent decrease in child-sensitive spending during 2001-2002. Given that child-sensitive spending consists primarily of education- and health-related expenditures, which are decentralized to provincial governments in Argentina, this reduction was largely the result of lower real wages for provincial public sector employees. Thus, the restriction of provincial government budgets had impacted the quality and availability of basic services during the crisis (UNICEF-CEPAL, 2006).

Unlike Mexico, income distribution in Argentina worsened as a result of the crisis, with the Gini Coefficient rising from 0.504 to 0.532. Although virtually all incomes fell, the poorest groups saw sharper declines than richer groups. Unemployment rose from 13 per cent in 1998 to 22 per cent in May 2002 in urban areas (World Bank, 2003). In addition, 22 per cent of the Argentinean population was underemployed, with many employed part-time but seeking further work (Rock, 2002).

Overall budget cuts had serious consequences for the social sectors. In education, the main impact of the crisis was the drastic reduction of federal aid to provinces for compensatory education programmes and federal transfers to provinces to complete the process of extending the compulsory schooling period. Planned spending on investments in improved services was diverted to shorter-term safety net programmes, such as school feeding and other small cash transfer programmes. Additionally, shortages of funds triggered teacher strikes, interrupting learning. In the health sector, health providers were unable to provide mandatory health benefits as the health insurance system, which depends on wage contributions from formal sector workers, saw major revenue decline. As a result, there was an increase in demand for public health services, which were typically only provided to those without insurance coverage (mainly workers in the informal economy). Public hospitals faced funding reductions, and were thus unable to respond adequately to the increased demand. The deterioration of social and economic conditions for a large part of the population compounded the weakened national and provincial basic public health system, resulting in an increase in morbidity and mortality among the population – the impact on mother and child health was particularly severe. The National Programme for Maternal and Child Care (PROMIN) information system reported that between July 2000 and September 2001 there was a fall in the coverage and quality of mother-infant services in a group of health centres located in poor urban areas (Schwab and Uribe, 2002).

As explained above, real wages absorbed most of the rise in inflation, helping to curb the impact of the crisis on unemployment. While output is estimated to have fallen 11 per cent in 2002, employment fell just 1.1 per cent. This small drop in employment may be partly attributed to the PJJD, which employed

close to two million people by 2003. It is estimated that without the plan, employment would have fallen by 3.6 per cent, which is still relatively little when compared to the decline in output growth. Nevertheless, some evidence suggests that as many as 40 per cent of PJD participants were not in the labour force or were unemployed before the crisis, so the programme's real impact on reducing unemployment cannot be precisely estimated (World Bank, 2003).

A significant social effect of the crisis, as revealed by several civil society organizations working in Argentina and through survey data, was the increase in community violence ranging from robberies and insecurity to police abuse and civil rights violations, and social conflicts via new forms of protest and demand such as pickets (road blockades), taking businesses and buildings, and preventing access to factories and public businesses, among others. Consequently, there was a rise in fear of criminality, particularly by the new poor. On the other hand, there was a rise in Civil Society Organisation (CSO) participation by both men and women (World Bank, 2003)

### **3. Household impacts**

Both crises had multiple impacts on households. This section looks at the effects of the crises on households as well as the intra-household responses to these impacts, including the differentiated effects on household members. Throughout this section some links are made to the impacts of household level responses to the crisis on children. However, to provide more details about the direct and indirect impacts on children, section four will focus specifically on this.

#### **3.1 Household impacts in Mexico**

Although the peso crisis hit all groups of the population, it had differential impacts on income and consumption across groups, with the education of the household head and the rural/urban location of household residence being the main determinants of how severely a given household was affected. More highly educated heads and those living in metropolitan areas experienced much larger declines in income than unschooled heads and rural households. Income per capita is estimated to have fallen by 17 per cent in agriculture, compared to 35 per cent in construction and in commerce, and 48 per cent in financial services. Similarly, income per capita of rural labourers fell by less than that of non-agricultural workers (McKenzie, 2003). Nevertheless, because most poverty is concentrated in rural areas, despite fall in income not being as harsh, the effects of poverty were very visible. Children in both rural and urban contexts were affected by the outcomes of the crisis. Household structure was not found to change greatly over the crisis period. Households were no more likely to break apart, but also no more likely to enlarge themselves during the crisis than in prior periods (Ibid: 1197).

##### **Household expenditure and consumption**

On average, household expenditures fell by 15 per cent during 1995-1996, with most households unable to smooth total consumption, necessitating adjustment by changing the composition of consumption by reducing expenditures on non-essentials and durable goods. In particular, household survey data found that households reduced their consumption of public transport, educational materials, leisure activities, clothing, primary health care, and donations or transfers in order to allocate a relatively higher share of their budget to food, particularly to continue buying tortillas, beans, rice, onions and pasta; quantities of

milk, meat, and fresh fruit fell (McKenzie, 2006). Thus, poorer families were unable to continue consuming a balanced diet, which could have had important implications for the nutritional status of children and pregnant or lactating women.<sup>7</sup>

Along with reduced savings rates, a lower share of resources was spent on primary health care (McKenzie, 2001). Analysis of the impact of the crisis on health outcomes in Mexico (Cutler et al, 2002) yields evidence that the economic crisis was associated with higher mortality among vulnerable populations, specifically children and the elderly, which has been linked to falling household incomes and thus lower demand for health services. Evidence also suggests that reductions in public sector medical services as a result of lower public spending on the sector might have adversely affected mortality, at least for some groups.

### **Employment and unemployment**

The coping strategy of adding more household members to the labour force and increasing the labour hours of members already working was not widespread in Mexico. On the contrary, the crisis served to reduce the growth in labour force participation. While increasing labour supply in response to idiosyncratic shocks (i.e., one that affects that household only) is a viable coping mechanism, an aggregate shock can lead to weak labour demand, making this less of an option for all population groups during aggregate crises. Despite the nature of the aggregate shock in Mexico, only those with some economic 'cushion' could afford to be unemployed as the country has no unemployment compensation programme. Findings indicate that the informal sector grew during the crisis period, indicating that the composition of employment changed. During the crisis there was an increase in the proportion of workers in enterprises with five or fewer employees not receiving any benefits such as paid vacations, social security plans or medical coverage (Martin, 2000). Mexico's large informal sector acted as a safety net, helping to explain the lack of a change in official household labour hours during the crisis period despite the collapse in formal employment.

Another interesting finding in urban areas, where effects of the crisis were stronger, is that the burden of adjusting to the shock of a male household head losing his job fell primarily to wives rather than children. Evidence indicates that there was a significant added-worker effect in the labour force participation of wives, but no higher labour force participation of teenagers (12 to 14 year olds). Furthermore, the transition from employment to unemployment of a male household head seemed to have little negative effect on school attendance and grade advancement of teenage sons, who stayed in school (Skoufias and Parker, 2006). This is partly because reduced formal labour market opportunities and lower average wages reduced the opportunity cost of schooling, with evidence of school attendance rates actually rising among 15 to 18 year olds during the crisis (Martin, 2000). For teenage daughters, on the other hand, the father's unemployment had a significantly negative effect on school attendance, but no effect on grade advancement for those girls who stayed in school. This means teenage girls tended to progress to higher grades despite their fathers' employment status leading to reduced attendance. This is probably a consequence of their increased involvement in domestic activities substituting for their mothers' time. Although idiosyncratic labour market shocks appear to reinforce gender-based

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<sup>7</sup> There were no specific surveys looking at the nutritional status of the population as a result of the crisis, so this is difficult to assert; however, the 1999 *National Nutritional Survey* found evidence of children's malnutrition, including, for example, a lack of iron and zinc in urban children (INSP, 2001)

preferences and inequalities within households, some teenage girls seemed able to overcome these additional demands on their time well enough to maintain their school performance and progress through school grades (Skoufias and Parker, 2006).

### **Informal social protection mechanisms**

Given the nature of the aggregate shock, inter-household transfers did not work as a form of informal social protection, with donations and transfers to non-household members falling by 25 percent during the crisis period. In contrast, inter-country solidarity through migration and the support of family and friends abroad helped many households mitigate household income shocks: remittances increased significantly, with mean transfers from abroad per household nearly doubling between 1994 and 1996. In fact, there is evidence that after 1995, migration to the United States increased and rural incomes became more diversified including through the support of informal social protection mechanisms. In both rural and urban areas, poorer households generally lacked savings and other means to smooth consumption, resulting in higher consumption shocks than those suffered by better-off households (World Bank, 2005).

### **Social impacts**

There is limited evidence of the impact of the 1994 Mexican crisis on domestic violence. Olivera (2006) suggests that the crisis triggered an increase in inter-household violence, but national data has not clearly supported this trend – partly due to under-reporting. This could have been aggravated by the reduction of public funds for children's and women's protection programmes, although budget data has not been identified to support this hypothesis.

## **3.2 Household impacts in Argentina**

### **Effects on household employment status and income**

Over 40 per cent of households reported no change in income, while almost 50 per cent reported a reduction in nominal income as a result of the crisis – about 8 per cent of households reported higher incomes. The highest incidence of income loss was in households headed by individuals with secondary education, a group that tends to be located in the middle of the income distribution, while the lowest incidence was in households headed by individuals with incomplete primary education, a group that tends to be at the bottom of the income distribution scale (Fiszbein et al, 2003). As in the case of Mexico, the impact of the crisis was felt more strongly in urban than in rural areas. The Standing Household Survey (EPH) carried out to assess the impact of the crisis in 2002 found an important increase in the unemployment rate (from 18.3 to 21.5 per cent) in 28 urban centres.

According to a panel data study of the effect of the crisis on urban households, change in employment status was a significant source of vulnerability. Although there were no major aggregate changes in permanent labour force participation, with 92 per cent of those with permanent employment prior to the crisis maintaining it, 17 per cent of those with temporary jobs became unemployment (Fiszbein et al, 2003). Informal sector employment deterioration suggests a corresponding deterioration in the quality of jobs, which was confirmed by the type of employment reported both by those who obtained new jobs and those who changed jobs – new jobs tended to be temporary and were unlikely to have formal-sector benefits (Ibid). For example, according to EPH data, the proportion of wage earners without

benefits increased from 33 to 35 per cent between October 2001 and May 2002.

There is evidence that other household members increased their labour force participation as a response to the economic shock, but as market conditions were not favourable, the proportion of unemployed household members (excluding the household head) also rose (Corbacho et al, 2003). In fact, it was found that in only 13 per cent of households did a new member enter the labour force: in 50 per cent of these cases the new worker was the son or daughter of the household head and in 25 per cent it was their spouse.

Table 3: Transition rates to unemployment (%)

	May 2000 - Oct 2000	Oct 2000 - May 2001	May 2001 - Oct 2001	Oct 2001 - May 2002
Employed heads at t if employed at t-1	93.72	94.79	93.24	90.43
Unemployed heads at t if employed at t-1	6.28	5.21	6.76	9.57
Employed adults at t if employed at t-1	92.3	93.77	91.62	88.6
Unemployed adults at t if employed at t-1	7.7	6.23	8.38	11.4

\*t-1 is the first time period, t is the second time period

Source: Corbacho et al (2003) with data from May 2000 to May 2002 EPH surveys

Table 3 above indicates a fall in the share of household heads employed, with 90.43 per cent of household heads who had been employed in October 2001 still employed in May 2002. During this time period less non-household-head adults were able to keep their job, with 88.6 per cent of those who had been employed in October 2001 still employed in May 2002. Similarly, the number of unemployed non-household-head adults in May 2002 with respect to those employed in October 2001 (11.4 per cent) was higher than the comparable figure for household heads.

In addition to the many poor who fell deeper into poverty, the crisis in Argentina resulted in a significant number of 'new poor', many with higher education levels but diminished wages or no jobs. Impoverished middle-class groups resorted to new forms of income generation like trading products and services, organizing informal markets to sell objects, and starting homemade production and micro-enterprises. Other strategies included cooperating with friends and/or family members to take advantage of sales and/or wholesale prices for products, choosing more economy brands, replacing costly non-essential products with cheaper ones, and increasing dependence on home-made products (World Bank, 2003).

### Changes in gender dynamics

One interesting change brought about by the Argentinean crisis was that it challenged everyday practices and expectations that were often gendered. The situation for poor, working-class, and middle-class women became unbearable and triggered women's activism in a political climate that facilitated their participation (Borland and Sutton, 2007).

Labour market indicators at the height of the crisis deteriorated less drastically for women than for men. By May 2002, unemployment had risen from 16.6 to 20.2 per cent among women but from 16.2 to 22.3 per cent among men. The lower female unemployment rate resulted from a gendered employment dynamic, as employment rates fell by 4 percentage points among men and less than 2 percentage points among women between May 2001 and May 2002. Contrary to arguments that women are the first to be fired during a crisis, the fact that employment rates for women fell less sharply than for men in Argentina was linked to labour market segregation. Indeed, by 2001 female employment was concentrated in relatively more stable occupations such as trade (21.1 per cent), domestic work (17.9 per cent), education (16.1 per cent) and social and health services (16 per cent) – paid housework service and education were typically female activities (INDEC, 2003). However, although stable, many of these jobs were precarious. Some data indicates that 52.6 per cent of female wage workers in the private sector held a precarious job, 20 percentage points greater than for male wage workers (Esquivel, 2006).

When the tendency towards net reduction in employment started reversing from October 2002, female labour force participation rose almost 2 percentage points versus October 2001. There is evidence that this was the result of women's response to the PJJJ (Ibid). Increased women's participation in the workforce transformed their household roles.

Despite their growing empowerment through labour force participation and political activism, there were only minor changes in women's domestic burdens. Analysis of domestic task distribution shows that Argentinean women devoted significantly more time to reproductive unpaid housework and care work than Argentinean men, particularly in households with children under 15 years of age. Women's shift towards paid work did not do much towards freeing them from housework and childcare work, putting them under considerable stress (MacDonald et al, 2005) while negatively impacting their capacity to effectively care for children. The four hours a day that these women had to work to comply with the PJJJ's basic requirement did little to decrease their unpaid workload share as there were no mechanisms introduced to support working women's reproductive responsibilities – in particular their roles as care givers – through the creation of childcare facilities. PJJJ beneficiaries were therefore engaged in the 'double (paid/unpaid work) shift' (Esquivel, 2006). Thus, the crisis put additional burdens on women,

In this context of changing household dynamics, shifts in male and female employment patterns, increased informality, and longer working hours in some cases, there is no evidence of government action to support children, who were now living in households with lower incomes and were facing changes in their nurture and care patterns.

Despite these problems, some gendered assessments of the PJJJ have found that the programme helped women to better cope during the crisis. Qualitative research on beneficiaries highlighted that they felt that working had enriched their social lives, allowing them to become involved in and contribute to their communities. Further, employment in some projects increased access to a range of social services, which seemed to somewhat reduce spousal abuse, school drop-out rates and drug abuse and related crimes. Women, especially those who had not previously participated in formal labour markets, believed they were learning useful skills and improving their chances of obtaining other paid jobs once they left the programme. In this sense, the context of the crisis opened a window for the enhancement of gender equality (Tcherneva and Wray, 2005).

## **Changes in consumption**

Households adapted to the crisis by combining lower consumption with a switch to cheaper essential and non-essential goods. Switching to cheaper goods was a more common strategy than cutting back consumption, although lower income groups were less successful at this. Some of the cuts included utility services and transport. As a result of falling incomes, the poorest households had significant difficulty affording even basic services. The first quintile was estimated to be spending 22 per cent of its income on water, energy and telephone calls, with 20-25 per cent of these households reportedly being disconnected from electricity and telephone due to non-payment.

There is evidence that children (or, at the least, households with children) may have borne a heavy burden in this crisis. These households experienced a larger-than-average decline in income, making them more vulnerable (Corbacho et al, 2003). Households that were unable to perfectly smooth their consumption had to adjust their consumption patterns, including cutting expenditures on basic services, which directly impacted children. There is evidence, for example, that 71.9 per cent of households reduced consumption of school supplies and 37 per cent of households with children under the age of 12 cut the frequency of medical check-ups (Fizbein et al, 2003).

As a result of the crisis a larger proportion of the households used their savings, sold assets, or borrowed (mainly through informal channels given prevailing credit restrictions) as a means of smoothing consumption. Low-income households increased their reliance on informal credit at neighbourhood stores, where payment could be delayed. Another important adjustment mechanism was a rise in households' shopping frequency (McKenzie and Schargrotsky, 2005). Shopping more often is proven to enable households to seek out lower prices and locate substitutes; calculations suggest that on average consumers were able to save 4 per cent of the cost of their food, beauty and cleaning products by increasing shopping frequency, allowing them to mitigate up to 40 per cent of the fall in food expenditure (Ibid). A problematic outcome of the crisis was that households in structurally poor groups, which had histories of unemployment and precarious jobs, resorted to increased participation of women and children in subsistence activities such as cardboard collection. This group also increased home production for self-consumption (preserved fruit, bread, pasta and their self-produced vegetables). However, even with these strategies, they had to reduce their consumption of basic products such as milk and sugar, replacing meat with soy, cereals, noodles or rice, which had an impact on the nutritional status of household members, particularly children.

Data suggests that approximately 12 per cent of individuals experienced some change in health insurance coverage, with more than 60 per cent of these, mainly in the lowest-income groups, losing their coverage altogether. Of those whose health insurance coverage changed, 40 per cent had lower coverage. Similarly, there is evidence that families had to cut back on health services as a result of the economic crisis, with almost 23 per cent of households reporting that at least one member had been unable to gain access to health services at some time – of these households, three quarters cited 'lack of money' to pay for medicines. Very importantly, 37 per cent of households with children under the age of 12 said they were taking their children for medical check-ups less often, with almost 45 per cent of these households belonging to the lowest income distribution quintile. However, this effect was also felt in the second and third quintiles.

Malnutrition increased among children and adults. There was a renewed outbreak of diseases that had

previously been eradicated, including tuberculosis, hepatitis B and dengue. Evidence suggests that children, elderly people and terminal patients were in an extremely precarious situation. Lack of money constrained access to healthcare, and hospitals faced shortages of medicines and equipment needed to meet new demand. Overall, there was a worsening in the quality of health services (World Bank, 2003).

### **Other impacts of the crisis on households**

International migration was not a significant coping strategy for Argentines, with only 4 per cent of households reporting at least one member who had emigrated. There was, however, a rise in migration to cities and rural areas in search of new income sources. Pressures on household income also resulted in regroupings of family members, with the unemployed returning to the family home, worsening overcrowding. The crisis also generated an increase in the use of social networks, with more participation in community activities and an increase in barter as a means of trading (Fiszbein et al, 2003).

There is ample evidence of an increase in violence against individuals and mental health problems as a result of the crisis. Emergency consultations regarding mental illnesses, stress, depression, phobias, suicides and drug and alcohol addictions doubled during the crisis and recovery period. Within families, surveys found increased feelings of fear and impotence, especially over the situation of youth, which deepened despair and pessimism. Child and teenage pregnancies increased, and there was a rise in prostitution. In traditionally poor groups, violence translated into fights, aggression, separations, and battered children: most violence was directed towards women and children (World Bank, 2003).

## **4. Child-specific impacts**

In addition to the household impacts of the crisis, some of which have already been linked to impacts on children, this section highlights some of the direct impacts on children, looking across three of the four key dimensions of children's rights: survival, development and protection.<sup>8</sup>

### **4.1 Mexico**

The increase in household poverty and lower household incomes posed a threat to children's welfare through several transmission channels, discussed below.

#### **Survival**

There is evidence that lower household income led to deterioration in households' demand for health services, with noticeable implications for infant mortality. Research on the health impacts of the Mexican crisis (Cutler et al, 2002) has found a clear link between the crisis and increased child and infant mortality rates. Data shows that infant mortality rates increased during the crisis, climbing from 5 to 7 per cent during 1995-1996, interrupting the decreasing infant mortality trend previous to 1994 and following 1997. This translates into a 0.06 per cent increase in mortality for the very young during 1995 to 1997 alone. Tentative evidence suggests that these effects are directly related to the magnitude of

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<sup>8</sup> This section does not look at the effects on child participation as there is no literature that looks at this dimension of the crises' impacts on children.

the economic shock, possibly as a result of lower healthcare spending: areas where more women went to work, a sign of greater economic need, are areas where mortality rose the most.<sup>9</sup>

## **Development**

Lower household incomes meant lower consumption for all household members, and although there is no evidence of children receiving less food in relation to adults, the quality of food for many children declined due to lower consumption of proteins and vegetables, with possible implications on their nutritional status. However, nutrition data was not officially collected after the crisis, so there is no concrete evidence of this problem. Given that incomes remained low and poverty levels were slow to improve following the crisis, the impact on children's nutritional development could have been significant despite lack of specific adverse nutrition shocks reported during the period.

It is important to point out that evidence from different sources suggests that the crisis had no adverse impact on schooling. Some studies find that school attendance rates for children of both sexes were unchanged for many age groups, and actually increased for some. In particular, male and female children aged 15-18 showed higher school attendance rates in 1996 than in 1994. Indeed, overall school attendance for children aged 5-16 years increased for both rural and urban areas, and for all levels of household head education, continuing the upward trend that began in 1992. After controlling for age and cohort effects, the change in time allocation effects during 1994-1996 is not significantly different from the 1992-1994 change for girls and only marginally higher for boys. The increase in school attendance for males aged 15-20 concurs with the drop in labour force participation for this group, and suggests that the opportunity cost of schooling fell during the crisis due to the decline in available jobs (McKenzie, 2003).

Another impact on children's development includes diminished nurture and care, which could result from parents spending more hours at work without having adequate systems to care for children. Nevertheless, evidence indicates that women's labour force participation did not grow significantly, and, despite the crisis, women continued to shoulder most of the domestic labour and childcare burden. The increase in single-head households as a result of one parent (mainly the father) migrating could have had some impact on children's emotional development, although this is not documented.

## **Protection**

There is some evidence – though not robustly documented – of the crisis having caused an increase in domestic violence, with an impact on children's wellbeing (Olivera, 2006).

There is mixed evidence of children's increased participation in the workforce, but it is clear that those that did join – mainly teenagers – did so in the informal sector, with lower wages and poor working conditions. This, however, did not seem to impact schooling, which actually increased during the crisis.

Evidence of child labour during the crisis period is mixed. Some data shows a 4.2 per cent increase in labour force participation by 12 to 14 year olds in households in the bottom quintile, reaching 19.8 per cent during 1994-1996 – the participation rate of children in non-poor households remained constant

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<sup>9</sup> The analysis ruled out the contribution of the 'care' effect of women leaving the house to join the workforce, with stronger evidence of the income effect.

for the same period at around 6 per cent (Lustig, 2000). This indicates that some poor households used children as means to generate additional income. This finding is at odds with McKenzie (2003), who finds that the incidence of unemployed household heads had little effect on the labour participation of teenage boys and girls, with mothers generally bearing the burden. This might be the result of analysis of different data sets and different segments of the population, which suggests that teenagers in the poorest households did increase their labour force participation, even in cases where their fathers continued to work, possibly in the informal sector.

## **4.2 Argentina**

The crisis in Argentina had a significant impact on child poverty. The increase in the overall poverty rate climbed from 29 to 53 per cent during 1998-2002 (an 82 per cent increase), while the poverty rate for children aged 0 to 14 years rose from 45 to 70 per cent (a 55 per cent increase). However, the higher base means that the child poverty headcount after the crisis was enormous. This is partly due to the large size of Argentinean families and their high dependency rates – the average family size for the indigent poor was 4.9, compared with 4.0 for the moderately poor and 2.7 for the non-poor (World Bank, 2003).

### **Survival**

In addition to higher poverty levels, perhaps the most shocking direct impact of the crisis on children was severe malnutrition and deaths in the country's Northern provinces. In 2002, there were reports of ten chronically malnourished children dying in the province of Tucuman and 49 in the province of Misiones. In addition, the Buenos Aires Centre for Studies on Infant Nutrition warned of over two million Argentinean children suffering from malnutrition during the crisis (Arie, 2002). In fact, the Argentinean Association of Paediatricians (AAP) asserts that although undernourishment has been a perennial problem among the poor, this was the first time in the country's recent history that the lives of perhaps 2 per cent of Argentinean children could be at risk. Risks of permanent harm were especially high due to malnutrition during pregnancy (Iglesias-Rogers, 2002).

While 38 per cent of households on average reported taking their children for preventive medical care less frequently during the crises years, this change was more severe in the poorer quintile, with 57 per cent of the households reporting a decrease. Vaccination programmes also suffered from irregular supply, and the Ministry of Health estimated that in 2001, 30 per cent of the infant population did not have access to vaccines provided by the Public Immunization Programme (PAI) and effective coverage dropped in the national aggregate (Schwab and Uribe, 2002).

### **Development**

There is no evidence of increased school dropout rates for children in the 6-12 and 13-15 year old brackets. For the 16-18 year old bracket, the estimated dropout rate was about 2 per cent; over half (54 per cent) of this latter group were found to come from the poorest quintile. However, a large portion of households (71.9 per cent) reduced expenditures on school supplies (Fiszbein et al, 2003). Structurally poor groups reported lower school attendance due to lack of adequate school equipment, including supplies, shoes, clothes and transport. Additionally, poor school children suffered the discontinuation or complete lack of scholarship programme coverage. The limited evidence of children dropping out of

school as a result of the crisis could indicate that families tried to protect what they considered the most important investment they could make for their children even under difficult circumstances. In addition, with reduced opportunities in the labour market, the opportunity cost of leaving children in school decreased significantly. An additional incentive was that the school meal programme was strengthened throughout the crisis, meaning that children going to school had at least one meal a day (World Bank, 2003).

### **Protection**

The impacts of the crisis on the level of nurture and care of children are not well documented. However, given the lack of childcare support programmes for women who previously dedicated their time to domestic and care responsibilities, it is likely that children had to adapt to a change in nurture and care conditions over time.

## **5. Policy responses**

A range of policy responses to the crises were implemented in Mexico and Argentina, including economic and social sector actions; this section will focus on policies that had specific implications for the wellbeing of children and their households. In both country cases, social sector spending was procyclical, meaning that it declined parallel to falling economic growth, when social investment was most needed to stimulate human development and mitigate the impact of increasing poverty. However, in both countries the share of social sector spending in the budget was maintained, with a significant amount of resources allocated towards targeted programmes, implying that social spending was prioritized to a degree – this spending was focused more directly on poverty reduction.

In both cases, poverty reduction policy responses focused on social protection and the creation or strengthening of safety nets. These schemes generally curbed some of the impacts of the crises on vulnerable population groups, but not all of them were effective or efficient. In Mexico, for example, the weakness of mechanisms for coping with the crisis at its outset led to the creation of *Progresa*, a broader poverty reduction programme, but this programme was launched two years after the onset of the crisis. It was designed to offset the negative impacts that were still affecting the population, particularly the poorest (Levy, 2006). Similarly, the fragmented success of social protection programmes implemented in Argentina during the crisis have been the subject of recent discussion about the best way to develop an integrated and sustainable social protection system that incorporates these programmes into existing social security networks (Cruces et al, 2008).

While it is argued that Mexico implemented a more efficient and targeted social policy in the wake of the tequila crisis, Argentina has been criticized for not learning from Mexico's experience, making it harder to respond effectively to its 2002 crisis (Pastor and Wise, 2004). The difference in responses is linked to the political economy structures that governed policy making in the two countries, as well as the creative leadership of certain policy makers in Mexico who recognized the connection between equity enhancement and growth, and garnered sufficient political support to implement new strategies. In Argentina, on the other hand, political instability and need for an emergency response to the crisis made it impossible to tackle the underlying causes of poverty and vulnerability. This failing is now being reviewed in hopes of developing a more adequate social protection system going forward.

This section examines Mexico's and Argentina's policy responses in more detail.

## 5.1 Mexico

### Economic policy measures

Given the extent of the crisis, the Mexican Government undertook a series of economic policy measures to counter its effect on different areas of the economy. It negotiated a support package with international financial institutions and the U.S. Government to stabilize the peso. While the exchange rate was allowed to float, it became critical to rein in inflation. Monetary policy was geared to contain the inflationary pressures and reduce exchange rate volatility. The Central Bank implemented a de facto restrictive monetary policy that induced a considerable rise in nominal and real interest rates. Fiscal policy was oriented toward increasing public savings and reducing the deficit, so there was no fiscal stimulus to the economy. The general rate of the Value Added Tax was increased from 10 to 15 per cent; prices and tariffs of goods and services provided by the public sector hiked. Expenditures of the consolidated public sector were cut by about 10 per cent in real terms, with respect to the previous year. To stop and eventually reverse the run on the external liabilities of commercial banks, a Dollar Liquidity Facility was put in place. The Government provided an incentive for banks to remain sound by offering to acquire a fraction of their loan portfolios. Further, to reduce the difficulties faced by debtors due to high interest, rates were addressed by a program that included an interest rate subsidy for one year, the standardization of all restructuring procedures and a temporary halt of foreclosure proceedings against defaulting debtors. All these measures contributed to reverse the initial impact of the crisis on the economy within months of its onset (World Bank, 2001)

### Social policy measures

The capacity for the Mexican government to implement effective social policy responses at the outset of the crisis was limited by the inefficient and fragmented social policy system that consisted of a range of poorly targeted interventions implemented by multiple ministries, adding to administrative complexities (Levy, 2006). Therefore, along with managing the short-term macroeconomic ramifications of the crisis that included modest expansion of some existing programmes, the incoming administration designed a new approach that incorporated research-based evidence, and leveraged the crisis as motivation for change. This resulted in the launch of *Progresa* (later renamed *Oportunidades*) in 1997, two years after the crisis hit. In the meantime, other existing interventions were strengthened to respond to the economic shocks faced by the population.

#### Box 1: Mexico's *Progresa* – *Oportunidades*

Prior to the crisis, during the early 1990s initial discussions regarding more efficient and cost-effective ways to deliver social policies started to take shape within the Mexican government. The policies of the National Solidarity Programme (*Pronasol*) – which consisted of matching grants to communities for the development of education, health, transport and rural development infrastructure – had become highly politicized (World Bank, 2005). In addition to *Pronasol*, Mexico's federal government was running fifteen distinct food subsidy programmes aimed at increasing poor households' food consumption and nutrition. Four were generalized and eleven targeted specific urban and rural populations and were operated by ten distinct ministries or agencies. Research had shown that these programmes were poorly targeted, with a significant portion of the transfers captured by non-poor households. Food subsidies were difficult to deliver to the most isolated populations (who were generally the most

marginalized), and their implementation was administratively expensive, had little impact on nutrition and health outcomes, and had limited focus on the most vulnerable members of the family (generally, children under two and pregnant or nursing women). Those shortcomings reduced their impact on the poor, although they still played an important role in helping poor households that did receive them. The challenge, therefore, was to replace these programmes with an instrument that would be more effective and efficient at transferring income to the poor and would have a greater positive impact on their health and nutritional status, particularly to tackle the consequences of the crisis (Levy, 2006).

When the crisis hit and its potential impact on poverty was clear, some policy-makers argued for strengthening existing programmes, others, particularly in the Ministry of Finance, suggested that existing generalized and targeted food subsidies were not cost effective or adequate to protect the poor during the crisis. Policy makers set out to design a rapid short-term response to the crisis via existing instruments while also laying the foundation for a mid-term strategy that, aside from protecting the poor from the transitory shock, could foster a sustained increase in their standard of living. The resulting programme, called *Progresa (Programa de Educación, Salud y Alimentación*, now called *Oportunidades*), was launched in 1997.

*Oportunidades* is a conditional cash transfer (CCT) programme that provides money to extremely poor families conditional upon investments in human capital such as sending children to school, taking them to health centres on a regular basis and having their level of nutrition monitored. The programme has a multi-sector focus: by design, it intervenes simultaneously in health, education and nutrition. The integrated nature of the programme reflects the belief that addressing different dimensions of human capital simultaneously yields greater social returns than targeting any one in isolation. The conditionality was aimed at making the programme an instrument for longer-term human capital investments rather than a short-term social assistance programme. *Oportunidades* also recognized the importance of buffering the impact of lower household income on children, who face greater short- and long-term consequences from being exposed to malnutrition, inadequate healthcare and lesser opportunities for education (Barrientos and DeJong, 2004).

The average bi-monthly payment to a beneficiary family amounted to 20 per cent of the value of monthly consumption expenditures prior to the initiation of the programme – in addition to supporting household income, the programme aimed to deter child labour and provide a strong incentive for keeping kids in school. Recognizing the potential for mothers to use resources effectively and efficiently in a manner that reflects the immediate needs of the family, *Oportunidades* disburses benefits almost exclusively to mothers (World Bank, 2005). Two crucial innovations were the programme's evidence-based targeting process, which minimized leakages to non-poor households, and their rigorous monitoring and evaluation component, which allowed it to improve its design progressively and provide solid evidence of their impact. The programme has been shown to reduce poverty, promote school attendance and progression to secondary school, and foster better health and nutritional practices for children and their caretakers (Skoufias, 2005). From its outset, *Oportunidades* has been accompanied by complementary efforts and resources directed at strengthening the supply and quality of educational and health capacity constraints that might arise as a result of the more intensive use of existing facilities and resources. All of these factors, and the fact that the programme has continued since 1997 despite changes in administration, shows that it has been an effective and comprehensive social protection response to the crisis. It has since become the government's main poverty reduction programme and the platform to provide additional social protection given their effective targeting of the poor and strong administration. For example, during the current economic crisis, additional supports to households, including enhanced nutritional assistance and energy spending subsidies, were channeled through *Oportunidades*. Bi-yearly revisions of its beneficiary database mean that the programme is able to incorporate the 'new poor' while ceasing assistance to those who have 'graduated' from their poverty status.

One such programme was PROBECAT, a scholarship scheme to train the unemployed. The programme was initially launched to mitigate the impact of the 1982 debt crisis on the labour market, but continued throughout the eighties. After a yearly registration of less than 50,000 persons up until 1994, it was

expanded eightfold when the country entered a major recession in 1995. During the last half of the 1990s, PROBECAT became the Mexican government's most important means of improving the productivity and employability of the unemployed. According to programme evaluations, its impact was positive in most cases. For some cases, such as women in the southern states trained in the school-based modality of the programme, the rate of return on earnings remains unambiguously positive. Earnings have also been shown to increase for men trained through the programme, but this was the result of additional days worked during the year rather than of attaining higher wages after completing the programme (Calderon-Madrid and Trejo, 2002).

In 1995, the government introduced *Programa de Empleo Temporal* (PET), a temporary cash for work programme targeting low-skilled workers. While originally focused on high crisis-related unemployment in urban areas, it has since been refocused on rural areas to provide employment during the three-to-four months of the year that rural workers are subject to seasonal employment fluctuations and to address long-term unemployment in these areas. PET pays a sub-minimum wage to programme participants (Corbacho and Schwartz, 2002). *Piloteo*, a programme to train the self-employed, was created as a response to the rising number of unemployed and provided a stipend during the duration of the training. The continuation of PROBECAT and PET even after the introduction of *Progres-Oportunidades* was meant to address the impact of the crisis on the urban poor, comprising part of the government's broader social protection strategy.

Another relevant programme that was part of the government's crisis response package was the *Programa de Apoyos Directos al Campo* (PROCAMPO). PROCAMPO is a large cash transfer programme that was designed and approved prior to the crisis to respond to agriculture income shocks anticipated as a result of NAFTA, but was not implemented until late 1994. Thus, the programme also served as an important social protection mechanism during the crisis and subsequent recovery (Sadoulet et al, 2001). It was considered the government's main agricultural sector income support programme, providing subsidies to agricultural producers on the basis of acreage under production for 12 crops<sup>10</sup> (Corbacho and Schwartz, 2002). One of the main problems with PROCAMPO is that compensatory payments are regressively distributed as they are proportional to the area planted with eligible crops, meaning that larger landowners receive higher compensation than smaller ones; further, transfers are unrelated to yields and to whether or not households were selling basic crops before NAFTA. PROCAMPO's overall contribution has been an 18 per cent increase in income for rural land-owners over the 1994 level. It is estimated that in the absence of the PROCAMPO programme, household income would have declined by an average of 3.9 per cent. The IADB provided some initial financial support for this programme.

In addition to these targeted support programmes, which resulted in a real increase in resources allocated to targeted social spending during the crisis, the Mexican government moved to strengthen basic social services in the wake of the crisis. This partly explains why, despite declining overall, social spending was reduced to a lesser degree than overall spending. In fact, to support social spending, the World Bank and IADB extended a US\$500 million joint loan in 1995 under the rubric *Programme of Essential Social Services* (PROSSE). PROSSE has five components: 1) basic education services; 2) basic health services; 3) retraining and employment generation; 4) an integrated nutrition programme for vulnerable groups; and 5) monitoring and evaluation of social sector programmes. Though this

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<sup>10</sup> These were the 12 crops most likely to be affected by imports with the introduction of NAFTA, including, for example, maize.

programme was not conceived as directly targeting children, it had the aim of improving access to basic services for children and their families in the context of the crisis.

Therefore, it is possible to conclude that in addition to trying to secure basic social services, the Mexican government's main response to the crisis was via targeted social protection programmes. At the outset of the crisis, the bulk of the support was channelled through PROCAMPO (for rural areas) and PROBECAT and PET (primarily urban areas). In addition to these programmes, existing government subsidies – although often inefficient and expensive – received short-term budget increases. This included, for example, Liconsa, the on-going national milk subsidy programme, and the national tortilla subsidy, which has since been phased out.

#### Box 2: Policy responses with direct impact on children in Mexico

None of the social protection programmes or the higher investment in social services during the crisis specifically targeted children. The assumption was that children would benefit from enhanced household income as a result of new employment opportunities or through the provision of food subsidies for poor households – however, this assumes that household resource allocation and decisions are favourable to children.

The introduction of *Progres-Oportunidades* in 1997, two years after the crisis began, was seen as a more robust and comprehensive way to tackle poverty while investing in human capital by directly supporting children's health and educational development, which were conditions of the grant. At the outset, however, *Progres-Oportunidades* was only reaching rural areas where the largest share of poor households were found, but was not reaching the households that were most affected by the crisis, which were primarily urban. Thus, although the programme was conceived as a way of tackling the poverty impact of the crisis, it was not strictly a crisis response measure, but rather a long-term policy mechanism to address structural poverty in Mexico. In 2002, *Progres-Oportunidades* expanded its coverage to urban areas in response to the growing need for support to urban poor.<sup>11</sup>

PROSSE, focusing on strengthening basic social services which was partially financed through World Bank and IADB loans, was also aimed at impacting on the wellbeing of children and their families by strengthening access to basic social services during the crisis.

## 5.2 Argentina

The 2001-2002 crisis took place after the retrenchment of the Welfare State that occurred during the neo-liberal reform period of the 1990s. Analysts have suggested that if the welfare state had continued to solidify during the period of retrenchment, the social outcomes of the crisis may not have been as severe. In terms of social policy, reforms during the 1990s and 2000s were criticized for only targeting groups in extreme poverty while abandoning Argentina's prior commitments to universal coverage, reducing the unpredictability or unreliability of benefits, progressive income distribution and upward social mobility (Barbeito and Goldberg, 2003). Some analysts trace the root cause of poverty and unemployment growth to the problems of weak economic management and consequently slow economic growth. A primary concern at the time was to find policies that would stimulate a rapid and sustained recovery, but in a way that increased employment of the low-skilled poor (World Bank, 2003)

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<sup>11</sup> The expansion of *Progres-Oportunidades* to urban areas seems to have resulted from an identified growth in urban poverty as identified in the numerous household surveys carried out during that time, than an explicit civil society demand for the program to be expended to urban areas.

### **Economic policy measures**

President Kirchner, who came to power in 2002, focused his policies on rebuilding Argentina's industrial base, public works and public services by tasking the state with stimulating economic growth. Despite the economic shock, currency depreciation provided an opportunity for an export driven 'bounce back effect' that stimulated the production of competitive tradable goods that were garnering high prices in international markets – agro-industrial goods, such as soybeans, wheat, and oil, in particular benefited from this trend. The government introduced policy measures such as price controls to encourage consumption and prevent inflation, and levied a 20 per cent tax on export earnings arising from agricultural commodities and hydrocarbons – this tax partially financed the Emergency Social Programme (Gerchunoff and Aguirre, 2004). The *corralito* lasted a year, and was lifted in early December 2002, when people regained access to their savings and credit conditions eased slightly. Inflation was controlled mainly through government-led negotiations with supermarkets and producers that led to 'voluntary' price controls that necessitated constant monitoring, exhortation and warning of the danger of higher prices (Grugel and Riggiozzi, 2007). Therefore, stability and growth in 2003 and beyond can be largely attributed to a combination of judicious policy making and widespread social fear of the consequences of a return to recession. Recovery was also facilitated by a supportive external environment. By early 2003, the government had significantly renegotiated its privately-held debt load, secured a US\$3 billion loan from the IMF, and begun to receive project support loans from the World Bank and the IADB, which helped finance new social programmes introduced in response to the crisis (ibid). By 2005, the administration had resumed debt payments to IFIs.

### **Social policy measures**

The types of social protection responses developed during the crisis were significantly influenced by a series of participatory government-sponsored consultations called *Mesa de Diálogo*, which included a range of society-based actors such as labour, business, NGOs, *piqueteros* (those who actively picketed), social movements, political parties and religious groups (Barnes, 2005). The consultations showed the government's willingness to listen to those who were publicly expressing opposition to the situation, but *Mesa* did not succeed in putting an end to civil unrest and protests. *Mesa* ultimately recommended three specific areas where urgent action was required: food, medicine and income subsidies for the poorest.

These recommendations led into the creation of the PJJ, a cash-for-work programme. . The PJJ has been implemented by the Ministry of Labour, Employment and Social Security via a mixture of centralized and decentralized initiatives. The Ministry is responsible for direct payments to participants, while projects and beneficiaries defined at the local level (Alperin, 2009). By 2002, the programme had approximately two million beneficiaries, and has been cited as one of the reasons why unemployment declined from 21.5 per cent in May to 17.8 per cent in October 2002 (World Bank, 2003). The programme reduced aggregate unemployment, though it attracted as many people into the workforce from inactivity as it did people who had been otherwise unemployed. While there was substantial leakage to formally ineligible families and incomplete coverage of those eligible, the programme did partially compensate many who were impacted by the crisis and reduced to extreme poverty (Jalan and Ravallion, 2003). Funding for the PJJ programme increased over the years and included a World Bank loan (Grugel and Riggiozzi, 2007). In addition to public funding, the government also encouraged private businesses to offer six-month employment to PJJ participants under a scheme by which the

company only paid the employee the difference between the value of the programme transfer and the standard salary level for the position (World Bank, 2003)

*Box 3: Argentina's Programa para Jefes y Jefas de Hogar Desocupados*

Introduced in 2002 directly in response to the crisis, the PJD disbursed 150 Argentinean Pesos per month – three-quarters of the minimum wage at the time and equivalent to the cost of the basic basket for an adult as of end-2002 – to unemployed household heads with dependents under the age of 18 or with disabled individuals of any age. The programme is still on-going. To be eligible for the programme, recipients must be engaged in one of the following activities: a training programme (the types included were not clearly established), work for the community for up to 20 hours per week (defined and verified locally through a political mechanism) or work for a private company that receives employment subsidies. In order to enrol, potential participants must apply through their local municipality or the local Ministry of Labour office.

The PJD replaced a smaller-scale workfare programme, *Trabajar*, which strictly enforced a minimum work requirement of 30-40 hours and ensured that the projects undertaken were of value to residents of poor communities. *Trabajar* effectively targeted the nation's poorest demographic, with 80 per cent of participants coming from the poorest 20 per cent of the population (Jalan and Ravallion, 2003). Although modelled on *Trabajar*, the PJD modified some of its operational characteristics, including its targeting criteria, to facilitate rapid expansion to serve as an emergency response to the crisis.

According to some assessments, the most positive aspect of the PJD was its expanded scale of operation and the intention of implementing compensatory measures in a context of grave social crisis. However, its identified weaknesses as an income-maintenance scheme and as an employment programme include its nature as an emergency response measure rather than a vehicle for addressing structural, long-term problems. The programme offers ex-post compensations rather than implementing preventive policies or encouraging changes to family arrangements that promote employment in the most vulnerable segments of the economy, particularly for women. Overall, the PJD has been shown to have little effect on poverty as it provides fixed benefits regardless of the number of children in a household (poor households generally have more children) and it fails to address the situation of low-wage workers, which was identified as a primary cause of poverty (Barbeito and Goldberg, 2003). In fact, some evidence shows that despite the monetary transfer, the final income level of beneficiaries is not high enough to allow them to exit poverty. Still, over time the programme has been shown to play an important role in improving quality of life for the socially excluded.

Whether assistance programmes like the PJD help to solve the problem of intergenerational transmission of structural poverty remains an open question in Argentina (Alperin, 2009). More problematic still is the fact that this programme has been found to foster problems such as favours-for-vote and lack of autonomy (Galasso and Ravallion, 2003) and that a significant amount of the aid provided does not reach those most in need. At the heart of this concern is the fact that verification of 'unemployment' is problematic in Argentina, where over half of employment is in the informal sector.

Despite its shortcomings, the PJD helped participants who would have suffered substantially larger income declines without the programme, and proved more effective for reaching the poor during the crisis than is typical of social programmes in Argentina. About half of PJD participants came from the poorest fifth of the population, and all but 10 per cent fell below the official poverty line, which is better than average performance for social spending. Overall, the PJD appears to have contributed to social protection during the crisis even though its actual implementation differed from its original design. Tighter enforcement of the work requirement and eligibility criteria would significantly improve its efficacy in terms of reaching the poor (Galasso and Ravallion, 2003).

In practice, the PJJJ has had a strong gender bias, with 71 per cent of the beneficiaries being women and 60 per cent of those households being single-headed (McKenzie, 2004). This has been generally positive, with women beneficiaries stating their support for the programme (see section three, above). However, analysis indicates that gender-aware social policy responses more broadly should seek to:

- 1) provide women with formal and stable jobs, avoiding their tendency to cluster in the most vulnerable labour market segments; to enhance social infrastructure (particularly childcare facilities);
- 2) Equalize care opportunities; and
- 3) Contribute to gender equality in reproductive work by avoiding embedded gender stereotypes in social policy design (Esquivel, 2006). These have all been shortcomings in the implementation of PJJJ.

*Program de Emergencia Laboral* (PEL), a similar employment programme, was created to reach those unemployed individuals who did not meet the eligibility criteria for the PJJJ. As of 2003 it had enrolled about 300,000 people, targeting adults that did not have children (primarily single individuals) or whose children were older than 18.

Several other programmes and interventions were launched as part of the government's Social Emergency Programme, although PJJJ was the largest. There was a significant increase in funds allocated to social assistance, particularly for food support and conditional cash transfers. The bulk of the food assistance was channeled through the *Programa de Emergencia Alimentaria* (272 million pesos) and the *Programa Fondo Participativo de Inversion Social* (FOPAR), which saw substantial funding increases (from 8.5 to 16.5 million pesos) to finance community kitchens. These programmes provided daily food rations for poor families, particularly the most vulnerable (that is, pregnant women, children and the elderly). A significant portion of food assistance was channelled through existing programmes in order to facilitate quick and effective delivery to the poor and vulnerable. Because of the administrative and logistical problems associated with in-kind transfers, the federal government stopped providing food directly to poor people. Instead, it provided cash assistance to poor families or channelled financial resources to support on-going nutritional programmes run by provincial and municipal governments. One problem with these support programmes was that they became de facto block transfers with little or no impact on malnutrition (World Bank, 2003).

Much like the case of Mexico prior to the launch of *Progres-Oportunidades*, most interventions targeted household under the assumption that that benefits would reach children. However, this is often not the case (Jones et al, 2007), particularly in the context of a crisis when consumption patterns are altered and food intake and access to services are curtailed. In this context, intra-household decision-making may not necessarily be beneficial for children, as indicated by the growth in child under-nutrition in the north of Argentina or the rise in infant mortality in Mexico due to lower uptake of health services for children. The implications of this assumption were particularly problematic. In Argentina, where there was evidence of the crisis having a particularly strong impact on children, as interventions that specifically targeted children during 2002 were generally small in scale. By the end of 2002, implementation of the *Ingreso para el Desarrollo Humano* (IDH) had begun. The IDH, Argentina's largest conditional cash transfer programme (69.8 million pesos), was aimed at promoting the development, health and schooling of children through cash transfers to poor families that were tied to school attendance and health controls. The value of the transfer depended on the number of children per household (with a maximum of 150 pesos per family per month). The design and implementation of

this programme was modeled on the success of *Progres-a-Oportunidades* in terms of targeting school and health outcomes of children. However, the IDH suffered significant implementation delays resulting in lower disbursements and coverage than were planned in 2002, when the impact of the crisis was most severe (World Bank, 2003).

In addition to targeted programmes, the government's Social Emergency Programme sought to maintain the provision of education services and to facilitate access for vulnerable groups through *Acciones Compensatorias en Educacion*, a programme that encouraged school attendance. It consisted of three main mechanisms:

- 1) providing basic learning materials, which would otherwise have been unaffordable for poor families, through the *Utiles Escolares* programme (30.8 million pesos);
- 2) Offering school attendance incentives under the *Becas Estudiantiles* programme (200.1 million pesos in 2002); and
- 3) Providing school meals (70 million pesos).

In the healthcare sector, the Social Emergency Programme aimed to protect the most vulnerable by maintaining essential public health services that support the public hospital network, ensuring the continuation of priority public health measures and providing essential drugs for the most vulnerable. The latter was mainly carried out through the *Remediar* health plan, an Inter-American Development Bank-supported emergency programme that had its origins in the *Mesa de Dialogo* and organized the distribution of basic medicines to the poorest social groups. *Remediar* was small in scale, but played an important role given the evidence that loss of household income had put medication purchases out of reach for many. Additional measures included immunizations, disease control, and ensuring services related to women's reproductive healthcare and prenatal controls, including anaemia prevention, child delivery, new born reception, and postpartum and child health care. These measures were crucial given the decline of health care coverage and deteriorating health status in the wake of the crisis – although health indicators during the crisis and the following year or two suggest that they were insufficient in scale.

#### Box 4: Policy responses with direct impact on children in Argentina

Child-focused social protection responses in Argentina were small in scale. One of them was the nutritional support programme, *Operacion Rescate* (Operation Rescue), launched by the First Lady in 2002 to address increasing malnutrition among children in the northern province of Tucuman.

Most interventions, however, targeted households under the assumption that the benefits would reach children. Some other programmes that targeted children as part of the vulnerable population needing support during the crisis were community kitchens financed through FOPAR.

The IDH, aimed at promoting the development, health and schooling of children through cash transfers to poor families that were tied to school attendance and health controls was the largest child-focused intervention, introduced toward the end of 2002. However, delays in its implementation reduced its potential impact during the crisis. Particularly important for the support of schooling for primary aged children was *Acciones Compensatorias en Educacion*, a programme that encouraged school attendance, mainly for the poorest children, through incentives including scholarships and school supplies.

There were no significant programmes to address issues of violence through, for example, the introduction of strong protection systems, meaning that addressing the surge in domestic and public manifestations of violence was left up to the police.

## 6. Conclusions

The case studies presented in this paper demonstrate that despite the similarities between the two crises in terms of causes and impact pathways, varying underlying macroeconomic and political contexts result in diverse effects – such as the severity of economic collapse - and facilitated different policy responses. Mexico arguably weathered its crisis better than Argentina due to its stronger macroeconomic and fiscal position at the outset, which facilitated rapid economic recovery and ensured political stability. However, Mexico is still struggling with the issue of poverty, which did not return to the pre-crisis level until 2002, six years after the crisis onset. Argentina, on the other hand, was helped by positive external conditions and managed to stabilize the economy through its use of economic policy. The relative successes of the strategies used by each country are the result of the two countries' specific political economies. However, it is particularly important to reassert the fact that these crises occurred in a context of relative international economic stability, a factor that played an important role in fostering recovery.

With regard to social policy responses, some of the lessons to be learned include the importance of social budgeting and the timing of responses. In both cases, despite social spending being pro-cyclical – i.e., total spending per poor person decreasing as the poverty headcount increased and economic growth fell – there were efforts to protect social sector spending relative to spending in other areas, as evidenced by the relatively small change as a share of the total budget. This was crucial in facilitating these two countries' social policy responses in that it strengthened social protection mechanisms and curbed reductions in spending on basic social services. With regard to timing, Argentina's flagship crisis response programme, the PJJJ, was rolled out almost immediately after the crisis hit and played a key role in mitigating unemployment during the first year. However, as explained above, this quick response resulted in concern about the effectiveness of its design and implementation. Mexico's short-term response, on the other hand, focused on channelling additional support through existing programmes

and expanding them to meet some of the additional demands, though not necessarily tackling the underlying causes of poverty.

The flagship policy response, *Progres-a-Oportunidades*, was not introduced until two years after the low point of the crisis. Though effective, this slower response could help explain why poverty rates in Mexico remained above pre-crisis levels for seven years after the onset. The lesson could be that Governments need to strike a balance between having time to develop strong, evidence-based responses and introducing them quickly to mitigate the impacts. The existence of better social protection systems in countries can, in this and future crises, help achieve this balance, as we have seen in Mexico, quick responses can be effectively channelled through existing social service mechanisms.

Another important conclusion is the need for social policy responses that work at different levels, targeted social protection and support for basic services while also addressing the vulnerabilities of specific population groups to reduce poverty. It is particularly important to note that children should be considered a specific focus of targeted programmes, as they are subject to particular social, economic and developmental vulnerabilities, among others. It is not enough to assume that programmes targeting household income will automatically trickle down to children without understanding household dynamics both prior to and during the crisis, as the needs and demands of household members are often altered in challenging times. Specific social protection interventions should tackle different areas of risk in concert in order to maximize effectiveness. Despite some shortcomings, Argentina's Emergency Social Programme is a good example of this, as it included actions focused on health, education, employment and urban development, among others.

Programmes focused on reducing structural poverty through investment in human capital, such as the conditional cash transfers that were introduced in Mexico in response to the 1997 crisis, have proven effective. These programmes have served as models for other countries, including Argentina in 2002. Some lessons learned from the success of Mexico's *Progres-a-Oportunidades* programme, which are well documented in multiple evaluations of the programme, include the need for an appropriate level of transfers (this was seen as a limitation of Argentina's PJJ) that can have a real impact on household poverty while not serving as a disincentive to seeking employment; credible targeting to minimize leakage; cost effectiveness, which increases legitimacy; strong implementation and transparent administration that avoids political capture; and robust and frequent monitoring and evaluation that prompts programme redesign. Not all of these conditions are feasible (or desirable) in all contexts, but in Latin American countries where similar pre-conditions exist, they can help inform useful preventive and corrective social protection interventions that focus on children.

An additional lesson from these two social policy examples is that to effectively identify problems, it is best to move toward evidence-based policy solutions. The success of *Progres-a-Oportunidades* and some of the failing of the PJJ are related to the extent to which they were developed based on strong evidence.

Both countries now have stronger social systems to face the current crisis partly as a result of programmes and policies developed to mitigate the impacts of previous crises. In Mexico, for example, the *Seguro Popular*, a health insurance programme introduced in 2002 for informal sector workers and the poor, is helping to mitigate the risk of households being unable to pay for coverage as a result of falling incomes. Similarly, the comprehensive beneficiary database developed as part of *Progres-a-*

*Oportunidades*, which is frequently revised to add new households that have fallen under the poverty line and remove those 'graduating' from poverty, has served as a platform for rapid and efficient response to the current crisis by ensuring that support is channeled to those facing the worst consequences of the crisis. This includes facilitating a focus on supporting children's development and poverty reduction. In particular, UNICEF Mexico is working closely with the government's Commission for the Evaluation of Social Policy (CONEVAL), which is responsible for evaluating all social programmes and for measuring poverty to ensure the visibility of children in the government's response to the current crisis.<sup>12</sup>

At the macro level, reducing the risk of economic crisis should remain a policy aim to be achieved through strong macroeconomic performance and responsible public finance management. However, the current crisis has made it clear that despite national economic stability, the probability for international contagion increases the risk. Therefore, preventive social policy measures and effective, evidence-based response mechanisms are needed to mitigate the impact of crises on poverty. This includes putting into place mechanisms that are able to identify the 'new poor', whose needs might be different from those of the chronically poor.

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<sup>12</sup> [http://www.unicef.org/mexico/spanish/politicaspUBLICAS\\_15835.htm](http://www.unicef.org/mexico/spanish/politicaspUBLICAS_15835.htm)

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