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Is *Jefes de Hogar* an Employer of Last Resort program?

An assessment of Argentina's ability to deliver the promise of full employment and price stability

by
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ABSTRACT

In this paper we will describe what has been called the "employer of last resort" (ELR) proposal as a policy to achieve true full employment without inflation. We will answer three main concerns about the program: 1) How can the government afford to hire all those who might want to work?, 2) Won't full employment cause inflation?, and 3) What will all those workers do?

In building the case for ELR we show that the purpose of the program is to *supplement* but not to replace alternative employment, such as that provided by private firms or other government programs. By design, ELR offers employment to those who are "ready, willing, and able" to work, but who have not been able to find jobs. Our claim is that any country that operates with its own currency, and which adopts a floating exchange rate, can implement an ELR program, but each nation might formulate the specifics of its program in accordance with its own political and economic situation.

Argentina is one such nation. We therefore consider its experience with Plan *Jefes de Hogar*. We examine the institutional design of the program and its impact on the Argentinean economy and draw parallels between the theoretical proposals for ELR and the practical experience with *Jefes*. Argentina's case allows us to assess the viability of ELR programs and to respond to critics. It also demonstrates possible ways in which ELR can advance a sense

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of civic duty, citizenship, social cohesion, reciprocity, and community involvement. Furthermore, ELR can contribute to the redefinition of the meaning of work by commanding recognition that certain forms of labor, such as caring and community involvement, are socially useful. Finally, we uncover some deficiencies of the *Jefes* program and assess its ability to ensure true full employment and price stability.

Sovereign Currencies and the Possibility for Eliminating Unemployment

A principal ambition of economic policy is to secure high (or full) employment at low (or zero) inflation. Paradoxically, neither accepted economic theory nor practical experience, appear to indicate that full employment is even possible with stable prices. As a result, monetary policy around the world has been geared toward raising the unemployment rate as a means to achieving stable prices; unemployment is almost universally perceived as the inevitable cost of price stability.

But when crises hit and the cost of unemployment becomes too high, governments such as in Argentina are no longer willing to sit idly by and watch unemployment rise. In this paper, we argue that there need not be a trade-off between inflation and unemployment and that stable prices and true full employment are indeed possible. We advance a proposal of the government as an Employer of Last Resort (ELR), which guarantees a zero unemployment rate by offering a job to all who are ready, willing, and able to work at the going wage. Such policy, if properly designed, does not introduce inflationary pressures and, in fact, helps stabilize prices throughout the economy. We do not claim that the program will eliminate changes in any given price index. The ELR program would still allow market (and other) forces to impact both nominal and relative prices. However, the point is that the proposed full employment policy would not generate the sort of inflationary pressures that many economists believe must result from policies that generate high employment.

We will argue that ELR is only possible when the government enjoys a truly sovereign control over its national currency, i.e. it is not subject to a monetary regime such as fixed exchange rates, currency boards or monetary unions. Governments as in the U.S., Canada, Japan and many others, which have flexible exchange rates and full control over their tax and spending policies, are capable of implementing ELR.

Argentina joined the ranks of true sovereign-currency-nations after it abandoned its currency board in January 2002. To tackle its severe economic crisis, it implemented a government employment program called *Plan Jefes de Hogar* (*Jefes*, hereafter), which in many ways resembles our ELR proposal.

In this paper we build the case for ELR and later compare it with *Jefes*. The goal is to assess Argentina's ability to secure true full employment without generating inflationary pressures.

We argue that while Argentina's *Jefes* plan has considerable potential for eliminating unemployment and inflation, its design and implementation are still deficient in many ways to make it a true Employer of Last Resort. Nonetheless, the program has been successful in achieving a number of goals. We outline where we see the benefits and flaws of this program and we offer recommendations for making *Jefes* a true ELR program, which can eliminate unemployment and enhance price stability.

What is the Employer of Last Resort Program?

For the past eight years, a number of researchers (many of whom are now associated with the University of Missouri-Kansas City) have been advocating a job creation program that has been variously called the employer of last resort, job guarantee, public service employment, or buffer stock employment program. These proposals were based on earlier work by Hyman Minsky, Abba Lerner, Phillip Harvey, Wendell Gordon, and Charles Killingsworth and recalled the U.S. New Deal experience with job creation programs. Most of the work so far has been at the theoretical level (Harvey 1989 and Ginsburg 1983 are important exceptions).

The essence of the proposal is relatively simple: the government acts as the employer of last resort, hiring all the labor that cannot find private sector employment. As Minsky put it:

> The policy problem is to develop a strategy for full employment that does not lead to instability, inflation, and unemployment. The main instrument of such a policy is the creation of an infinitely elastic demand for labor at a floor or minimum wage that

> does not depend upon long- and short-run profit expectations of business. Since only government can divorce the offering of employment from the profitability of hiring workers, the infinitely elastic demand for labor must be created by government. (Minsky 1986, p. 308)

National governments with sovereign control over their currencies can provide funding for a program that guarantees a job to anyone who is ready, willing and able to work. For reasons discussed later, we propose a fixed and uniform wage-benefit package for all workers in the program. The program should be as decentralized as possible, with program workers primarily performing tasks that are not currently done—or at least, are in short supply. However, each individual country needs to come up with a program that suits its own economic and political situation, as it was done in Argentina in 2002.

At a minimum, ELR will have the following six characteristics:

1. *ELR Offers an Infinitely Elastic Demand for Labor*

ELR should offer a job to anyone who is ready, willing and able to work, regardless of race, gender, education, work experience, or immigration status, and regardless of the performance of the economy. ELR will have no means tests and no term limits. Just listing those conditions makes it clear why private firms cannot possibly offer an infinitely elastic demand for labor. The government must play a role. At a minimum, the national government must provide the wages and benefits for the program, although this does not mean that ELR must be a government-run program.

2. *ELR Hires off the Bottom*

ELR is an employment safety net. It should not compete with the private sector or with non-ELR employment in the public sector. It is not a program that operates by "priming the pump," i.e. by raising aggregate demand. Trying to get to full employment simply by priming the pump with, for example, military spending could generate inflation. That is because military Keynesianism hires off the top. By definition, ELR hires off the bottom; it is a buffer-stock program and as such, it will stabilize the price of the bufferstock – in this case, wages at the bottom.

3. *ELR Operates with Loose Labor Markets and Creates an Employable Pool of Labor*

The goal is full employment, but with loose labor markets. This is virtually guaranteed if ELR hires off the bottom. With ELR, labor markets are loose because there is always a pool of labor available to be hired out of ELR and into private firms. Right now, loose labor markets can only be maintained by keeping people out of work—the old reserve army of the unemployed approach.

4. *ELR Pays a Fixed Living Wage*

The ELR compensation package should provide a decent standard of living even as it helps to maintain wage and price stability. The size of the living wage will depend on each individual country. A package of benefits could include healthcare, childcare, sick leave, vacation, and contributions to Social Security, so that years spent in ELR would count toward retirement.

5. *ELR Maintains and Enhances Human Capital*

ELR experience prepares workers for post-ELR work–whether in the private sector or in government. Thus, ELR workers should learn useful work habits and skills. Training and retraining should be an important component of every ELR job.

6. *ELR Employees Perform Valuable Work*

Finally, ELR workers are engaged in useful activities. In advanced nations for example, they can focus on the provision of public services, such as environmental clean-up. However, developing nations like Argentina may have much greater need for public infrastructure—for roads, public utilities, health services, and education.

These six features determine what an ELR program ought to look like. This still leaves a lot of issues to be examined. Who should administer the program? Who should do the hiring and supervision of workers? Who should decide exactly what workers will do? There are different models consistent with this general framework, and different nations might take different approaches. In later sections we examine how Argentina has answered these questions.

Can We Afford ELR?

Before proceeding, it is necessary to admit that our proposed policy could lead to an increase of government spending; indeed, a persistent government deficit could result. We take the position that there is nothing inherently wrong with big deficits; these do not necessarily cause "crowding out", do not "burden" future generations, and cannot lead to "financial ruin" of the government. This is because all government spending for nations with sovereign control over their currency is, in the first instance, financed by crediting a member bank's account at the central bank, that is, government spending is "financed" by money creation. Taxes are required only to generate a demand for this money; they are never required to "finance" the government spending (which has already occurred). Bond sales are then required to "drain" reserves (that is, bonds are sold as an alternative to non-interest-bearing excess reserves) in order to hit interest rate targets.

Thus, government deficits are not "financed" by bond sales, deficits do not raise interest rates and "crowd out" private investment (since the government need only sell so many bonds as necessary to achieve its interest rate target—and can set that target more-or-less anywhere it likes), and deficits do not automatically set up a stream of interest payments (since bond sales are discretionary) and even when they do, these are always met through crediting bank reserves; thus, there is no "burden" of servicing government debt. There are necessary caveats to these conclusions for the case where the government has issued debt denominated in foreign currencies—but this action is almost never required.

In our view, fear of deficit spending is irrational and should never be allowed to stand in the way of the spending that may be required to generate full employment. This is not to say that deficits cannot be too large. Once an economy is operating beyond full employment, any increase of aggregate demand (whether by government or by the private sector) might be inflationary.

Most importantly, the universal abandonment of the gold standard by all of the large economies has virtually eliminated all rational barriers to deficit spending as a means to hire all of the unemployed.

Even If We Can Afford ELR, Wouldn't Such a Policy be Inflationary?

As we explained in the previous section governments buy what they need by crediting bank accounts (i.e., by money creation); they tax to generate a demand for that money and then accept the same money in payment of taxes. Any resulting deficits allow the population to hoard some of the money. It could be said that deficits "finance" savings of the private sector. The deficit is of no consequence to the government. If the government wants to, it can let the population trade the money for interest earning bonds, but the government never needs to borrow its own money from the public.

This does not mean that the deficit cannot be too big and hence, inflationary, but it can also be too small and deflationary. When the deficit is too small (that is, when the government has restricted the monetary issue and does not accommodate the private sector's desire to net save), unemployment results. The fear, of course, is that government deficits might generate inflation before full employment can be reached.

There are two institutional characteristics, which ensure that ELR is not inflationary in and of itself. Furthermore, there are other reasons why ELR can help stabilize prices in the economy.

1. *The operation of the ELR program ensures that budget deficits will never be too large or too small.*

Budget deficit are a normal condition and budget surpluses should be generated only in unusually strong expansions. Inflation can occur when aggregate demand is too large relative to aggregate production or productive capacity, and deflation may occur when aggregate demand is too low relative to total production or productive capacity. If there is unemployment in the economy, this is evidence that aggregate demand is too low. Under

ELR, the unemployed will be hired at the basic ELR wage, increasing the budget deficit. Income and spending will rise, increasing aggregate demand. When aggregate demand has risen to just that level sufficient to purchase the entirety of the full employment level of output, there will be no more unemployment, and the budget deficit will cease expanding. Thus ELR serves as a powerful automatic stabilizer, increasing the budget deficit and thus aggregate output, income and expenditure, and employment when these are too small, providing a built-in guard against deflation. Once unemployment drops to zero, there will be no additional hiring into ELR, so the budget deficit will cease to expand, ensuring that aggregate demand will not grow beyond the full employment level of output (at current prices). If the budget deficit were to increase beyond that point, this could push up prices, but the automatic stabilizing feature of the ELR program ensures that this will not happen. Note that ELR serves these important functions without any need to estimate or predict national income data: spending automatically increases when it is too low, and automatically stops when it reaches the appropriate level. Note also that, under ELR, traditional fiscal and monetary policies remain available to 'fine-tune' aggregate demand, as well as the size of ELR relative to private sector activity.

2. *The basic ELR wage is set exogenously by the government and is therefore a perfectly stable benchmark price for labor—it is effectively a minimum wage.*

Under ELR, government is willing to hire as few or as many people who want to work at the basic ELR wage. It is therefore free to set the ELR wage exogenously, rather than paying a market-determined wage. Being fixed, the program's wage is perfectly stable and sets a benchmark price for labor. Thus, it is unlikely that inflation will be due to wage-related factors under such a system. In fact, the exogenous pricing component of the ELR approach may be seen as a means of defining the national currency in terms of fairly homogeneous, low- or semi-skilled labor. The program wage thus serves as an anchor to which the currency is tied. Because labor is a basic commodity, employed directly and indirectly in the production of every other commodity, ELR offers a mechanism for regulating the value of the currency, and thus controlling the price level. In this sense, the

ELR approach resembles a commodity bufferstock scheme—only here it is labor that is being used as the bufferstock to stabilize the currency.

These two institutional features—1) deficit spending always at the right level and 2) the exogenously fixed ELR wage—are enough to ensure that ELR will not introduce inflationary pressures. There are other reasons, however, to believe that ELR will enhance price stability.

First, if ELR is directed toward the development and maintenance of infrastructure and other public resources, then it can have a positive impact on private sector productivity. Such productivity enhancement helps ward off inflationary pressures. Second, firms can continue to maintain reserve capacity even while ELR fully employs labor. Firms plan reserve capacity to meet peak demand and unexpected increases in demand for their products. Reserve capacity at the firm level often translates into excess capacity at the industry and economy-wide levels. This excess capacity is normally complemented by a reserve army of unemployed labor that stands ready to enter production lines when demand rises. ELR permits full employment of labor, but without sacrificing the reserve capacity in terms of plant and equipment. By permitting the economy to run at 'normal' rates of capacity utilization, ELR presents the opportunity to have the 'best of both worlds': full employment of labor and non-inflationary reserve capacity.

Third, ELR can be designed in such a way as to avoid inflationary bottlenecks and other rigidities, which are associated with high levels of private sector employment. With ELR, full employment can be attained, but without sacrificing the flexibility usually associated with excess capacity and a pool of unemployed labor. ELR activities are not constrained by private sector efficiency criteria, so methods of production may be selected that do not draw resources from sectors operating at high levels of capacity utilization. Numerical flexibility is retained with ELR, as ELR workers are ready to enter the private sector when the demand for labor rises. ELR may therefore be thought of as 'full employment with loose labor markets.' ELR offers the real possibility of a flexible full employment—a full employment that is not inflationary.

Fourth, public works tend to be less inflationary than the 'dole' because they increase both aggregate supply and aggregate demand. Welfare and other support to the poor and unemployed boost income, spending and demand, but ELR also buoys supply by providing infrastructure and other goods and services. Thus ELR is less likely to contribute to inflation that the 'dole' which only stimulates aggregate demand.

Fifth, unemployment is associated with the depreciation of skills and work habits. By employing those who would otherwise be unemployed and by offering training and education, ELR helps maintain and even appreciate human capital. Inflation can occur when real wages rise faster than labor productivity. By enhancing labor productivity through the maintenance and appreciation of human capital, ELR ensures this sort of inflation will not occur.

Finally, ELR reduces a number of other social and economic costs. By guaranteeing full employment, ELR reduces the costs of unemployment society otherwise has to bear. ELR is thus likely to significantly reduce certain expenditures on prisons and the criminal justice system, health care, social work, and other spending necessitated by the effects of unemployment. ELR reduces other social costs as well. For example, if ELR workers are engaged in environmental protection and clean-up, education, health care, child care, and other social services, this will reduce the direct and indirect costs of pollution, illiteracy, ill health, and other societal problems. Lastly, spending on ELR will reduce the cost of other social programs such as unemployment insurance, welfare and other aid to the poor. ELR is thus associated with reduced spending in a number of areas, ensuring that the nominal cost of ELR would not be inflationary.

Why Full Employment Policy Requires Fiat Money

There is another consideration that is related to the arguments of the previous sections. If the currency issued by the government were "backed by" and made convertible into a precious metal or any other currency that are of relatively fixed supply (dollars, for example, as in the currency board of Argentina), then the ELR proposal becomes impossible to implement during times of crisis. The government would fear that if it were to hire all those unemployed and allow its deficit to float, then there could always be a run on its currency as the public attempted to convert government money to, say, dollars. The latest crisis in Argentina demonstrated that such a scenario is a realistic possibility even without an ELR program; government spending for any other policy is restricted by the currency regime.

Even though the government could try to supplement its gold or dollar reserves (for example, by raising interest rates in an attempt to cause a positive flow of gold from foreign sources), any level of backing less than 100% would still expose it to the danger of a run. Alternatively, the government might devalue the currency by reducing the conversion rate; however, this would be more likely to generate a run due to expectations of further devaluation than it would be likely to prevent a run. Thus, a gold standard (or any other standard which involves a promise to convert money on demand to a relatively scarce reserve) is not compatible with an ELR. Indeed, ELR would expose the government to the greatest risk precisely when it was most needed, that is, during a collapse of the private sector of the economy.

This was the experience during the Great Depression in the United States. The low level of aggregate demand and high level of desired net saving resulted in a peak unemployment rate of 25% in 1933, and that remained high for the whole decade (unemployment was still 15% as late as 1941). Many New Deal policies were put into place to promote employment and raise aggregate demand. However, government spending of the 1930s was never sufficient to pull the economy out of the depression.

Part of the reason for the reluctance to deficit spend was the convertible nature of the currency. It has always been common for governments to abandon convertibility during a crisis. As a domestic gold drain began in 1934—as dollars were converted to gold—the government abandoned convertibility domestically. Americans would never again be allowed to convert dollars to gold. However, the US did not discover the solution to the Depression until WWII broke out: the government abandoned gold convertibility altogether and engaged in massive deficit spending. The two actions were linked: the tremendous deficits would not have been thought possible if the currency could be converted to limited gold reserves.

During WWII, the deficit rose as high as 31% of GDP—or more than five times the highest ratio achieved during the Great Depression—as the government purchased up to 60% of the nation's output. Unemployment fell below 2% by 1943, and a national campaign greatly expanded the labor force (as women came into the labor force in large numbers). What had not been "financially" possible during the Great Depression suddenly became possible. No doubt the deficit greatly exceeded desired net saving, however, as discussed above, this did not generate significant inflation due to a combination of rationing, wage and price controls, and patriotic net saving (even with exceedingly low interest rates; for example, the short term government borrowing rate was 3/8 of one percent). There was no fear that either a run on currency or retiring government debt would lead to loss of gold reserves as the promise of convertibility had been removed. For all practical purposes, this allowed unemployment to disappear.

The Argentinean experience demonstrated a similar point. The currency board and the severe Washington Consensus austerity measures did not allow the Argentinean government to revive its economy through fiscal stimulus programs. Only after abandoning the currency board and putting a moratorium on debt payments was the government able to take decisive action to help rescue its economy. Argentina was now able to fund *Jefes*. There was no longer any major (real, as opposed to perceived) barrier to carry out a full employment policy. But did Argentina implement a true full employment program?

Argentina's *Plan Jefes de Hogar*

Through most of the 1990s, Argentina had been the poster child for the Washington Consensus, adopting a currency board, opening markets, downsizing government, and freeing capital. After its economy collapsed and unemployment and poverty skyrocketed, it implemented a limited employer of last resort program called *Plan Jefes de Hogar*, to provide jobs to poor heads of households. The program has provided jobs to 2 million workers or about 5% of the population, and about 13% of the labor force. Argentina's experience allows us to assess the viability of ELR programs and to respond to critics.

Argentina's experience with job creation is not new. During the second half of the 90s, the Argentine government tried to tackle poverty and unemployment by instituting a program called *Trabajar*. This program had three phases: the first began during the 1995-96 Tequila crisis, the second was implemented during 1997-98, and the third ended in 2002. The World Bank favored *Trabajar* and frequently gave it positive reviews. From program targeting and administration to project execution and evaluation, World Bank ratings of *Trabajar* varied mostly between "satisfactory" and "highly satisfactory" (see World Bank Report No: 26134-AR). *Jefes* is effectively the fourth phase of this social protection program, although technically it was executed as a replacement for *Trabajar*. The institutional design of the latter was no longer capable of providing the necessary safety net to deal with the large-scale social dislocation, poverty and unemployment that precipitated from the 2001-2002 economic crisis. *Jefes* was conceived to be far more comprehensive.

This last phase began in April 2002. The *Jefes* program provides a payment of 150 pesos per month to a head of household for a minimum of 4 hours of work daily. Participants work in community services and small construction or maintenance activities, or are directed to training programs (including finishing basic education). The household must contain children under age 18, persons with handicaps, or a pregnant woman. Households are generally limited to one participant in the *Jefes* program. The program was intended to be one of the government's primary programs to deal with the economic crisis that gripped Argentina with the collapse of the currency board. Most other safety net programs were eliminated or reduced in order to shift funding to *Jefes*. The Ministry of Labor also operates another employment program, *Programa de Emergencia Laboral (PEL)* with a design very similar to that of *Jefes*—monthly benefits are the same, but it includes some beneficiaries that do not qualify for *Jefes*.

Government's total spending on *Jefes* and *PEL* is currently equal to about 1% of GDP, with nearly 2 million participants (about 1.6 million in *Jefes* and 300,000 in *PEL*). This is out of a population of only 37 million, or more than 5% of the population. The size of the program was a concern, not only because of organizational demands but also because of the cost. However, it should be noted that the U.S. spends 1% of GDP on social assistance, while France and the UK spend 3-4% of GDP on such programs. Given a national poverty rate above 50%, and with 9.6 million indigents and a child poverty rate approaching 75%, Argentina's spending is small relative to needs.

Preliminary Evaluation

According to the World Bank's reviews (see for example World Bank Report No: 23710-AR), the program has been successful in achieving a number of goals. First, program spending is well targeted to the intended population—poor households with children. Second, the program has provided needed services and small infrastructure projects in poor communities, with most projects successfully completed and operating. Third, the program has increased income of poor households, although it has not pulled them above the poverty line (this is not surprising, because of the low monthly income provided through the program). Hence, the poverty rate in Argentina continued to rise during the first months after the implementation of *Jefes*. While beneficiaries report satisfaction with the program, there are reports of favoritism, and some home country researchers have made critiques of its design.

One of the most surprising results of the program has been the large influx of women into *Jefes*—women account for over 60% of program participants. It is suspected that many households have chosen to allow the wife to participate in the program while the husband attempts to find private sector work, including work in the underground economy. Some consider this to be an undesirable outcome. In addition to the program's apparent inability to reduce significantly poverty rates, it has not been successful at reducing unemployment and underemployment rates to desirable levels either. Part of the reason is the entry of women into the program that had previously been outside the labor force. Hence, it is probable that the program would have to expand in order to produce a considerable drop in measured unemployment and underemployment. This could be accomplished by relaxing rules so that more than one family member could participate in the program. More generally, if the program would move beyond the head of household and drop means testing, it could provide jobs to all willing to work at the base wage.

The implementation of *Jefes* was budgeted at a total cost of $1987 million, of which $600 million was funded through a Specific Investment Loan from the World Bank. The World Bank project was implemented over a two-year period, with an expected closing date of 30 July 2004. Almost all of the World Bank's contributions were targeted to fund wages paid to program participants. It was estimated that the World Bank would finance about 60% of the total number of working participants over the life of the World Bank project. Given the design of the program, which is targeted toward providing community services and infrastructure to raise the quality of life in poor neighborhoods, it is not likely that Argentina's dollar earnings will be increased significantly by the program. Hence, the government's ability to repay the World Bank loan is not likely to be directly increased by the *Jefes* program. This seems to raise our main concern about the program's long run viability. In point of fact, the World Bank foreign currency loan was not required because program participants are paid in pesos. It appears that both Argentina and the World Bank recognized this, and that the real purpose of the loan was to allow Argentina to continue to service its outstanding dollar debts. We believe that such loans amount to a Ponzi scheme that only increases the likelihood that Argentina will have to default on its dollar debts.

Another point of concern is that the program is designed specifically to limit entry. This has resulted in some cases of discrimination as potential participants were denied access even though they appeared to meet program requirements. More importantly, and as discussed above, households have been forced to make a choice concerning who would participate in the program. Frequently, women have entered the labor force to participate in *Jefes*, while their husbands have tried to find employment, often in the underground market. This result has also generated domestic criticism, in part because the program is not reducing unemployment rates significantly. If entry into the program were not restricted to one participant per family, it is probable that many poor families would send both husband and wife into the program. This would provide a minimum family income of 300 pesos monthly, lifting some families out of poverty. Hence, not only would poverty rates fall, but unemployment rates would also decline. If the program were broadened further, extended beyond heads of households with children, persons with disabilities, or pregnant women, participation would almost certainly grow well beyond 2 million. The unemployment rate would fall much further, as would the poverty rate.

Program Impact

1. *Indigence and Poverty*

Despite the program deficiencies outlined above, *Jefes* has been successful in reducing indigence rates among its participants. Indigence is extreme poverty measured in income necessary to purchase the minimum amount of food calories per day. Four months after the implementation of *Jefes* in April 2002, the indigence rates among participating households had fallen by nearly 25% and among individuals by over 18% (Figure 1). As noted above, reduction in poverty has been negligent, largely because the program restricts participation to heads of household and because the income it provides is below the official poverty line.

2. *Unemployment*

The effect on unemployment has been somewhat disappointing. Nonetheless, immediately after the implementation of the *Jefes* program in April of 2002, the unemployment rate fell by several percentage points. In May 2002, the unemployment rate was a record 21.5 percent, while in May 2003 it had dropped to 15.6 percent. In the first quarter of 2005 the unemployment rate stood at 13 percent, however the methodology of measurement had changed in 2003. As a result, the labor force participation rate jumped significantly mainly because much broader and detailed survey questions were being asked, making the unemployment rate significantly larger than under the old methodology. Once again we point out that the fact that *Jefes* limits participation to heads of household is the main reason why the drop in unemployment is larger.[2]

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[2] Galasso and Ravallion (2003) and Marshall (2004) argue that program coverage extends to only about 8% of the unemployed because it restricts participation to heads of households leaving many poor and unemployed individuals without this government safety net.

3. *Program Beneficiaries*

There are other ways in which we can assess program success. As we have already mentioned the program is well targeted. The beneficiaries are largely those of households with at least one unmet basic need (Figure 2). These are people who live in overcrowded or otherwise inadequate housing conditions, with poor sanitation and very high dependency ratios, which measure the number of family members per employed person in the household. As Figure 2 shows, the average dependency ratio in families with *Jefes* beneficiaries is 3.9 people per employed individual. Secondly, *Jefes* workers are individuals with low educational attainment and low income; the vast majority of *Jefes* beneficiaries have high school education or less (Figure 3) and fall primarily in the bottom two income quintiles (Figure 4). One surprising result, as we already noted, has been the significant influx of women into the program, who account for 64% of program participants (Figure 5). As the *Jefes* income is rather small, it seems that often the woman has been designated the "head of the household" in order to receive the benefit as a supplementary income, while the man in the household attempts to find work elsewhere.

4. *Beneficiaries' Response*

The response of the beneficiaries to the *Jefes* plan has also been positive. As Figure 6 shows, only a small fraction of *Jefes* workers have said that they are dissatisfied with the program, while 90% are either satisfied or very satisfied with it. When asked how they felt when requesting the program, most people (over 70%) reported "respected" as opposed to "undervalued" or "politically used" (Figure 7). Some of the reasons for this satisfaction include the opportunity "to do something" and "help the community," but note that the second largest reason for satisfaction that people report is the good environment that *Jefes* jobs provide (Figure 8). When asked what they would prefer to do as part of *Jefes*, most people stated that they would like to be involved in training and community projects (Figure 9).

5. *Program Activities*

And the program allows them to do just that—help the community. A large number of projects are designed specifically to cater to community needs by providing a wide range of goods and services. As Figure 10 shows 87% of *Jefes* beneficiaries work in community projects. These include primarily agricultural micro-enterprises and various social and community services (Figure 11). Some specific examples include cleaning and environmental support in the agricultural sector, improving the sewer systems and water-drainages. Much of the community work is performed in local community centers, thus renovation of existing centers or construction of new ones represent many small *Jefes* infrastructure projects. Examples of community services performed in these centers include food kitchens or family attention centers which address domestic violence issues or provide temporary shelter and other services to abused women or children. Other projects include health promotion programs, which offer basic education on sanitary issues—how to boil water, for example, or how to handle food and avoid dysentery and other infections. Others deal with mending old clothes that have been donated to poor communities. A similar program exists for the public libraries, where scrapped books from wealthier regions are repaired and catalogued for public libraries in poorer communities. Large-scale infrastructure projects, primarily under the jurisdiction of the Ministry of Infrastructure, also hire *Jefes* workers for the repair of Argentina's roads and bridges.

A peculiar aspect of the project organization is that the federal government finances no more than 80% (but usually only 60%) of the various *Jefes* projects. This provision requires that the project executing firms and NGOs contribute with their own resources—an arrangement, which commands a higher level of commitment from both sides of the public and private sphere.

6. *Administration and the Meaning of Work*

The Argentinean experience shows that an ELR program can be up and running in a very short period of time. In Argentina, it took no more than five months. There are other lessons we can learn from *Jefes*. The program has allowed local and municipal governments who are most familiar with the economic needs of their communities to administer the program. In addition, it has recognized certain kinds of activities as socially useful, thereby helping redefine the meaning of work.

The program was born via a presidential degree in January 2002 during the short term of president Duhale, but was actually signed into law on April 3, 2002.[3] Between April 3 and May 17, 2002 most unemployed heads of households who were ready, willing and able to work and who met the eligibility conditions were issued social security cards and registered in a national database. Participants were also required to register their children in school and take the necessary vaccinations. These are two added benefits of the program design, made possible by simple eligibility criteria.

One of the most distinguishing features of the program's institutional design is its decentralized model of administration. The Argentinean federal government provides the funding, general guidelines for the execution of work projects, and some auxiliary services for managing the program. Such services include maintaining a national registry of program beneficiaries, as well as databases that track all projects that have been proposed, approved, denied and completed. Note that all these databases have been made publicly available, in attempt to increase transparency and reduce corruption.[4]

The actual administration of the program, however, is primarily executed by the municipal governments. The municipalities are responsible for assessing the pressing needs and available resources of their communities and for evaluating the projects proposed by the local non-profits or NGOs. For those projects that have been approved, the municipality contacts program beneficiaries informing them of the availability, time, and place of work.

In addition, by remunerating certain activities *Jefes* is helping to broaden the meaning of work. For example, in the past, some people have delivered medicine or read newspapers to the elderly on purely voluntary basis; now the *Jefes* program allows for these to be paid activities. Other undertakings that may not be in the purview of profit-making enterprises (e.g., environmental cleanup) are also part of these government-funded jobs.

[3] ***Decreto Nº 565/2002***- Creación del PROGRAMA JEFES DE HOGAR para ser aplicado mientras dure la Emergencia Ocupacional Nacional
[4] For example, the Ministry of Labor collects data on *Jefes* beneficiaries, which is available monthly and lists all workers (by name and registry number) involved in the projects of each municipality.

The preliminary indication is that the projects provide needed services to the community. Furthermore the program has enhanced civic participation by involving many people across different social strata in the political process.

7. *Formalizing the market and reintegration of Jefes workers into the private sector*

Argentina's program has helped 'formalize' underground activity. By registering the unemployed, issuing them social security cards, involving them in training and employment, and assisting them in reentering the private sector markets, the program aims to move people from the informal to the formal sector and eliminate gray economic activities.

The next chart (Figure 12) shows the evolution in the 'insertion rate' of beneficiaries into the labor market. In September 2003 over 76,000 *Jefes* workers entered the labor market. These numbers are rather small, and therefore more recent data is required to assess the programs ability to reintegrate workers into the private sector.

Finally, the ELR wage is supposed to put a floor on wages in both the private and public sectors. The Argentinean experience seems to confirm this expectation (see Figure 13). When examining the wages which *Jefes* beneficiaries receive after (re)entering the private sector, we observe that over 93 percent of these workers receive wages of 150 pesos or above. This suggests that the *Jefes* wage is the effective minimum wage in the economy.

8. *Macroeconomic Effects*

The Argentine ministry of labor estimates that the effect of *Jefes* on growth is overwhelmingly positive. The multiplier effect of the increase in income due to the *Jefes* benefit is a whopping 2.57. This, according to their methodology, is a conservative estimate.[5] With a multiplier of 2.57, the impact of 150 pesos per person per month for 1.8

[5] To calculate disposable income, the greater VAT tax on consumption goods of 21% is used, as opposed to the 13% percent income tax, which substantially reduces the value of the multiplier. Furthermore, the marginal propensity to consume (*mpc*) is set to 0.9, even though there are strong reasons to believe that for those people in the lowest income quintiles (i.e., those receiving the *Jefes* income) the value of *mpc* is closer to 1. In other words the poorest workers consumer their wages in their entirety leaving nothing to savings.

million people (the number of beneficiaries at the time of these calculations), the annual addition to GDP is calculated to be 8.327 billion pesos, which represents 2.49% of GDP

Is Argentina's Plan *Jefes de Hogar* an ELR Program?

The Argentinean direct job creation program Plan *Jefes de Hogar* has many institutional features, which could potentially make it a true employer of last resort program (Table 1). However, it is still a partial employment program and therefore, in its present state, it does not benefit from all the desirable ELR features. It is clear that *Jefes* has not eliminated unemployment. Furthermore, it is difficult to assess its anti-inflationary features, because it is not clear that the program has a powerful countercyclical bufferstock mechanism. We can however see that it provides an institutional framework which can be further enhanced and elaborated to achieve the desired outcomes. In sum, until the program stops limiting entry, eliminates means tests and offers a living wage, it cannot be considered a true employer of last resort. Furthermore, for its long-term viability it needs to be entirely financed out of pesos and not though dollar denominated loans.

TABLE 1. Is *Jefes* an ELR Program?

Institutional Characteristics	ELR	Jefes
1. Infinitely Elastic Demand for Labor	Yes. No means tests, no term limits	No. It is means-tested and limited to heads of household only, but it does not have term limits.
2. Hires off the bottom	Yes	Yes
3. Loose Labor Markets	Yes	Maybe. There is some indication of people moving into private sector albeit not in large numbers.
4. Exogenous Wage	Yes	Yes, but it is not a living wage.
5. Enhancing Human Capital	Yes	Yes, but the training and education component is still small relative to needs.
6. Useful Activities	Yes	Yes

We do believe, however, that the *Jefes* experience has demonstrated some beneficial characteristics of job creation programs. *Jefes* shows that a massive employment program can be implemented in relatively short time, which can be property targeted to the intended population, which can be favorably received by its beneficiaries and which can perform useful activities that serve destitute communities. The Argentina model also shows how a federally funded program can be administered locally with heavy participation of non-profit and non-governmental institutions. Finally, it can help broaden the meaning of work by remunerating activities as family care and community involvement.

Of course there are also challenges ahead. To be truly successful such programs should not limit entry, should pay a living wage and should have a bufferstock feature. More effort is necessary to minimize cases of corruption and abuse (see Table 2). In any event Argentina provides a roadmap for dealing with problems related to program design and implementation.

Is Argentina capable of securing full employment and price stability? We believe that the present institutional design offers fertile ground for making this a successful program. The potential is there if there is a political will and commitment to take the necessary steps and adjustments, which will secure prosperity and high growth.

TABLE 2. *Jefes*: Report Card

Pros	***Cons***
The program is well targeted to the intended population – poor families with dependents.	The program is not universal and thus it has not eliminated unemployment .
The program is well received by beneficiaries. It has reduced indigency rates.	*Jefes* offers below-poverty wage and thus its impact on poverty is minimal.
The program is mostly federally funded. The government has sovereign control over its currency and therefore completely capable of funding *Jefes* in its entirety.	The program is partially funded by WB loan. *Jefes* jobs are generally not dollar-generating activities. Thus program financing only increases Argentina's foreign indebtedness.
The program is locally administered by municipalities who are most familiar with their communities' needs.	*Jefes* has not yet exhibited a clear bufferstock mechanism (in part because *Jefes* has been in operation for a short period of time).
Program beneficiaries perform useful projects, targeted to community needs and making use of available resources.	There are reports of abuse and corruption.

Jefes has helped broaden the meaning of work, by recognizing caring and community involvement as socially useful activities.	The program seems to be losing political support.
Jefes helps formalize underground activity. *Jefes* workers are issued social security cards. Employers who hire *Jefes* workers must register them and pay benefits.	

Perhaps there is no better way to conclude than with John Maynard Keynes call for sensible economic policies. Keynes argued:

> The Conservative belief that there is some law of nature which prevents men from being employed, that it is "rash" to employ men, and that it is financially "sound" to maintain a tenth of the population in idleness for an indefinite period, is crazily improbable—the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years.... Our main task, therefore, will be to confirm the reader's instinct that what *seems* sensible *is* sensible, and what *seems* nonsense *is* nonsense. We shall try to show him that the conclusion, that if new forms of employment are offered more men will be employed, is as obvious as it sounds and contains no hidden snags; that to set unemployed men to work on useful tasks does what it appears to do, namely, increases the national wealth; and that the notion, that we shall, for intricate reasons, ruin ourselves financially if we use this means to increase our well-being, is what it looks like—a bogy.
>
> –John Maynard Keynes 1972, 90-92

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List of Figures

Figure 1: *Decline in Indigence and Poverty of* Jefes *Beneficiaries*

	% of households below the line of indigence and poverty		
Households	without *Jefes*	with *Jefes* (Aug 2002)	percent change
indigence	86.4	61.8	-24.6
poverty	98.3	95.4	-2.9

	% of individuals below the line of indigence and poverty		
Individuals	without *Jefes*	with *Jefes* (Aug 2002)	percent change
indigence	87	68.6	-18.4
poverty	98.6	96.7	-1.8

Source: Ministry of Labor, Employment and Social Security, Argentina

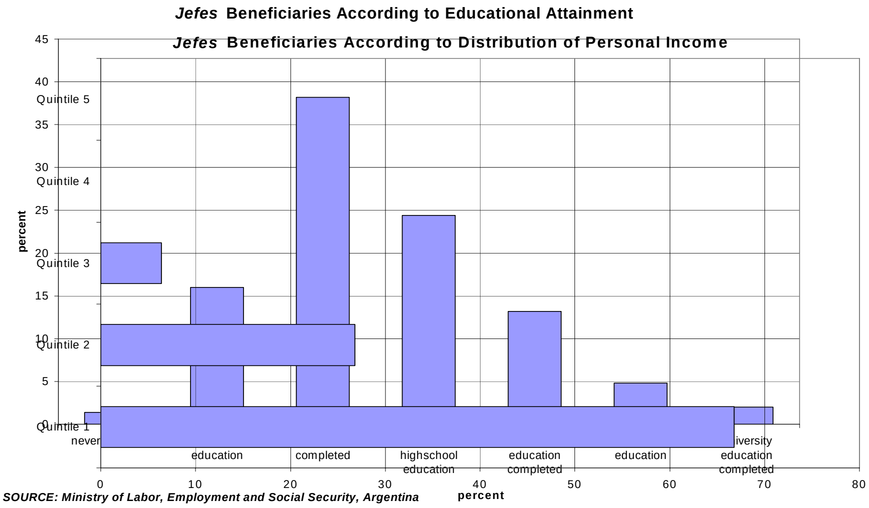
Figure 2: *Beneficiaries According to Unmet Basic Needs*

Beneficiaries According to Unmet Basic Needs

Poor sanitation	44.90%
More than 3 members per room	21.80%
Inadequate housing	8.60%
Kids that do not go to school	0.90%
Dependency rate (number of family members per employed individual in the household)	3.9
Household with at least with one unmet basic need	56.80%

Source: Ministry of Labor, Employment and Social Security, Argentina

Figure 3: *Beneficiaries According to Educational Attainment*



SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 4: *Beneficiaries According to Distribution of Personal Income*

Figure 5: *Beneficiaries by Gender*

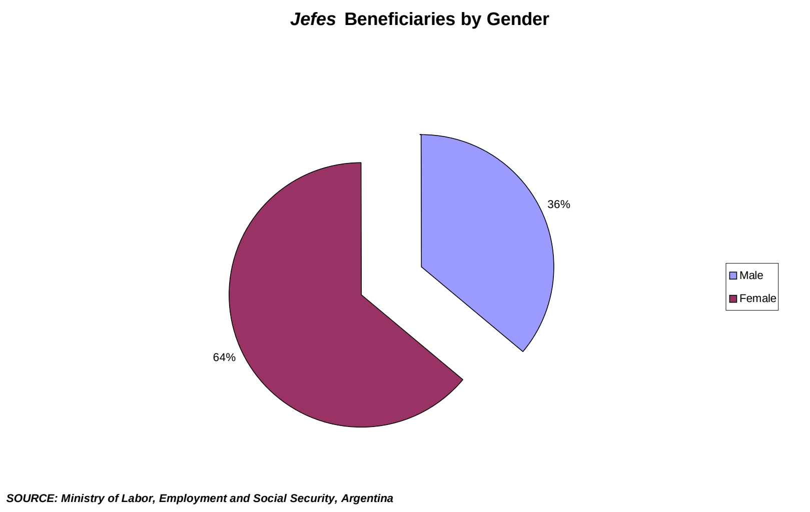


Figure 6: *Degree of Satisfaction with the Program*

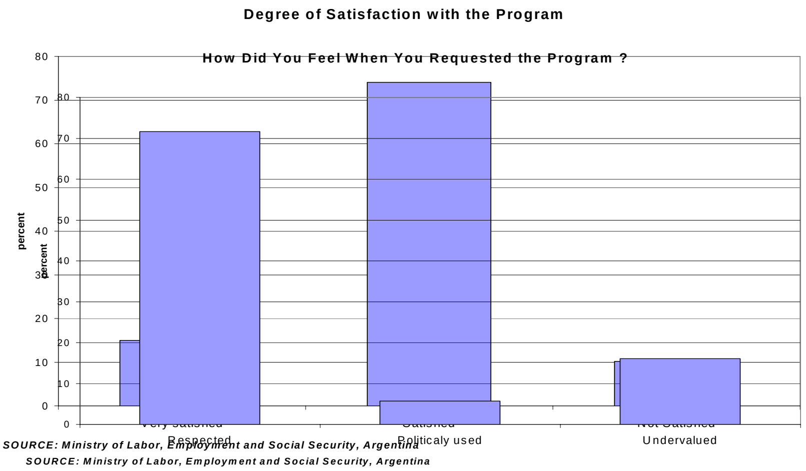
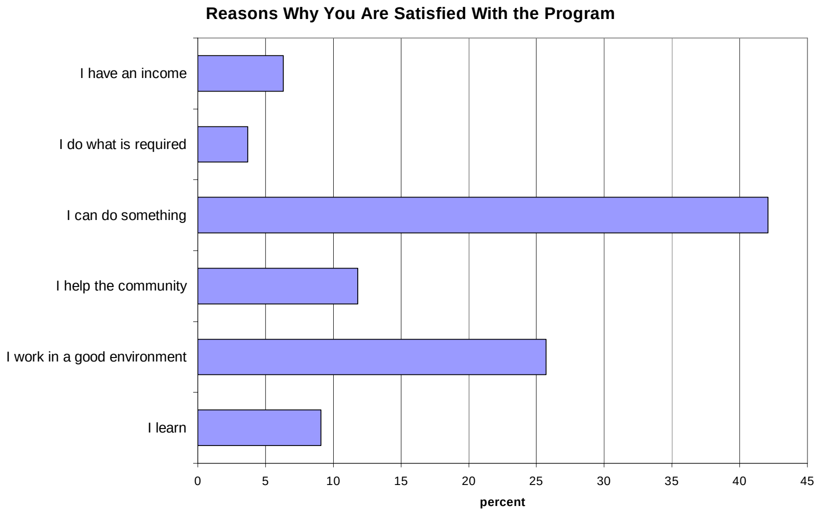


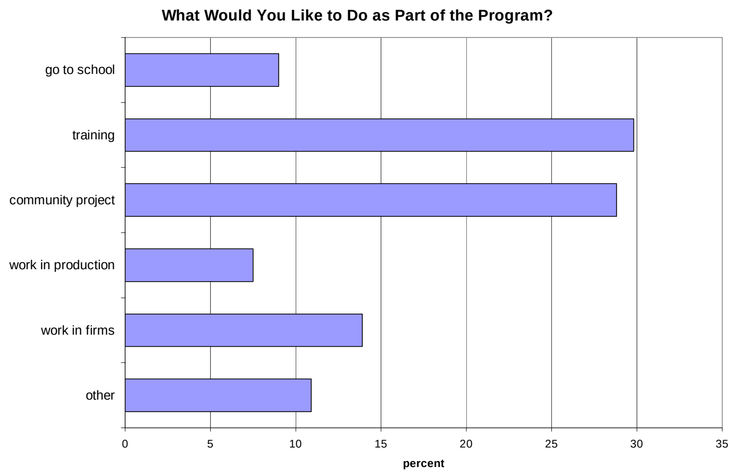
Figure 7: *How Did You Feel When You Requested the Program?*

Figure 8: *Reasons Why You Were Satisfied*



SOURCE: Ministry of Labor, Employment and Social Security, Argentina

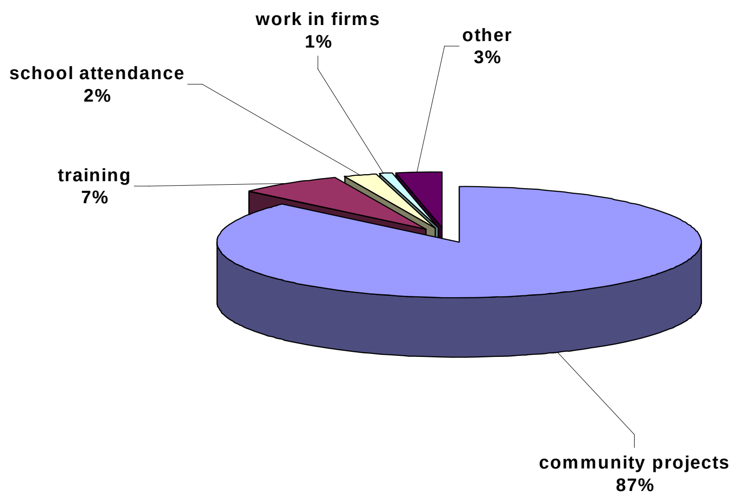
Figure 9: *What Would You Like to Do As Part of the Program?*



SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 10: *Project Typology: Distribution of* Jefes *Workers by Type of Employment*

Distribution of *Jefes* Workers by Type of Employment



SOURCE: Ministry of Labor, Employment and Social Security, Argentina

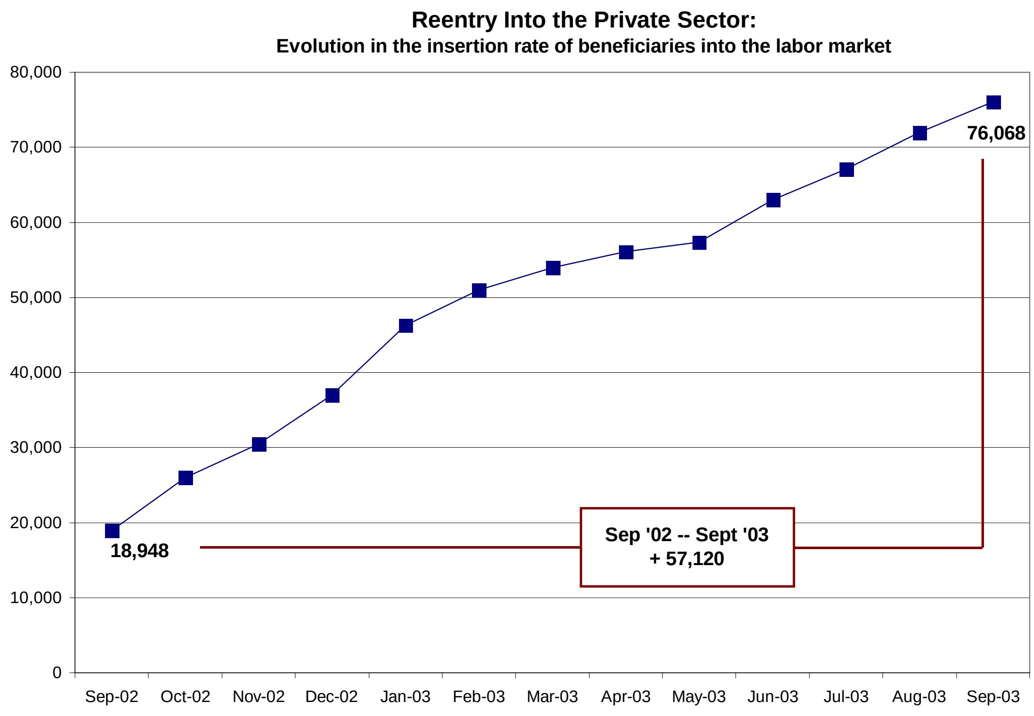
Figure 11: *Project Typology: Types of Community Projects*

Types of Community Projects

Micro enterprises (mainly in agriculture)	26
Social and community services	17
Maintenance and cleaning of public spaces	14
Public lunchrooms	11
Educational activities	10
Construction and repair of homes and social infrastructure	8
Healthcare and sanitation	5
Administrative support	4
Child care	2
Elderly care	1
Other	2
Total	**100%**

Source: Ministry of Labor, Employment and Social Security, Argentina

Figure 12: *Reentry into the Private Sector:*
Evolution in the insertion rate of beneficiaries into the labor market



SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 13: *Reentry into the Private Sector:*

The *Jefes* Wage is the Effective Minimum Wage

Distribution of beneficiaries who have been incorporated into the labor market according to salary received	
Salary received	**Percent of beneficiaries**
Less than 150 pesos	6.8%
150 -- 349 pesos	30.4%
350 -- 549 pesos	34.8%
550 -- 749 pesos	17.7%
750 pesos and above	10.3%
TOTAL	**100.0%**

Source: Ministry of Labor, Employment and Social Security, Argentina