

EMPLOYER OF LAST RESORT: A CASE STUDY OF ARGENTINA'S JEFES PROGRAM

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I. Introduction

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 (ELR), 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 US 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). However, Argentina has recently adopted a job creation program that is explicitly based on our proposals. This paper will provide a preliminary analysis of Argentina's experience.

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*, (*Jefes*, hereafter) to provide jobs to poor heads of households. A Labor Ministry economist, Daniel Kostzer, had become familiar with the ELR proposals developed in the US and helped to design and implement the *Jefes* program. By most measures, the program has been a tremendous success, providing 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.

II. Summary of Argentina's *Plan Jefes de Hogar*

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. *Trabajar* was the darling of the World Bank, which consistently gave it positive reviews. From program targeting and administration to project execution and evaluation, World Bank ratings of *Trabajar* varied time again 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 the government's primary program 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 US 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.

III. Preliminary Assessment

UMKC's C-FEPS staff (Kregel, Tcherneva, and Wray) visited Argentina between August 13 and 17, 2002. They met with the Ministry of the Economy (Dr. Pedro Dudiuk), with faculty of the University of Buenos Aires (members of the Plan Fenix), with the Ministry of Labor (Enrique Deibe, Secretary of Employment, Marta Novik, Undersecretary of Labor Studies, and Dr. Carlos Tomada, Minister of Labor), and with CIEPP (Ruben Lo Vuolo, Director) to discuss the *Jefes* program and to plan for further collaboration. In addition, we have reviewed World Bank reports as well as results of surveys of program participants. In this section we provide an assessment of the program's success and problems.

According to the World Bank's reviews (see for example World Bank Report No: 23710-AR), the program has been highly 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 the program. While there have been some problems associated with the implementation and supervision of the program, cases involving mismanagement or corruption appear to have been relatively rare. Still, there are reports of favoritism, and some home country researchers have made critiques of program design.

One of the most surprising results of the program has been the large influx of women into the program—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. This is viewed by some as 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.

Implementation of the *Jefes* plan 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 07/30/2004. 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 the only significant 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. Indeed, we are working on a viable alternative proposal that could link job creation to a debt swap—but that is beyond the scope of this article.

Most of the domestic criticism of the program results from attempts 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.

IV. Program Impact

1. *Indigence and Poverty*

Despite the program deficiencies outlined above, *Jefes* has been very 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. After only 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 limited. It is obvious, however, that immediately after the implementation of the *Jefes* program in April of 2002 the unemployment rate fell by several percentage points ([Figure 2](#)). In May 2002, the unemployment rate was a record 21.5 percent, while in May 2003 it had dropped to 15.6 percent. Today the unemployment rate stands at 14.8 percent, however the methodology of measurement had changed in 2003. As a result, the labor force participation rate jumped significantly primarily because much broader and detailed survey questions were being asked, making the unemployment rate significantly larger than under the old methodology. While it is difficult at present to compare the series, we estimate that under the old methodology the unemployment rate today would have been close to 12 percent, which means a drop of almost 50% from its record levels in May 2002. We emphasize that the very fact that *Jefes* limits participation to heads of household is the primary reason why the drop in unemployment is not as large as one would hope.^[1]

3. ***The Program is Well Targeted*** There are other ways in which we can assess program success. As we have already mentioned the program is well targeted.^[2] The beneficiaries are largely those of households with at least one unmet basic need ([Figure 3](#)). 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 3 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 4](#)) and fall primarily in the bottom two income quintiles ([Figure 5](#)). 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 6](#)). 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. There is however evidence that men are beginning to take advantage of this program in increasing numbers.

4. ***The Program is Well Received***

The response of the beneficiaries to the *Jefes* plan has been overwhelmingly positive. As [Figure 7](#) 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 8](#)). 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 9](#)). 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 10](#)).

5. ***The Program Produces Successful Projects***

And, in fact, the program allows them to do just that—help the community. An overwhelming number of projects are designed specifically to cater to community needs by providing a wide range of goods and services. As [Figure 11](#) shows 87% of *Jefes* beneficiaries work in community projects. These include primarily agricultural micro-enterprises and various social and community services ([Figure 12](#)). 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 ([Figure 13](#)). 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.

V. Response to Critics of ELR

Over the past few years, most of the leading heterodox journals have devoted substantial space to critics of ELR. In a recent issue of the JEI, Sawyer was given 30 pages to make a case against ELR. In that article, he claimed that ELR is nothing but "unemployment by another name". Other heterodox economists, most notably Paul Davidson, have variously labeled ELR "communism", "fascism", and "slavery". Davidson and Sawyer have claimed that it is just "NAIRU with a human face". Asprogopolopolus has argued that ELR would generate unsustainable government deficits and debts. Ramsay warns that it will set off a class war. Sawyer claims the program will have the same effects as "dropping money from helicopters". Others have argued that if ELR were offered, no one would show up; that such a program would be unmanageable; that it would be impossible to find useful jobs for ELR workers to perform; that it is politically infeasible; that it would cause a trade deficit that would result in collapse of the currency; that it would be inflationary; and so on. By contrast, a few heterodox economists have recognized the benefits of ELR. Minsky argued that only the national government can ensure full employment, by providing a perfectly elastic demand for labor. He insisted that only an ELR program could "take workers as they are", a necessary first step to achieving true full employment. While the *Jefes* program does have some design problems, and while it is still in a relatively early stage of development, we believe that it does allow us to assess the validity of some of the complaints about ELR coming from the critics.

The early experience of the *Jefes* program shows that a huge program can be implemented quickly without major problems. As mentioned above, within a couple of years after implementation, the program was employing five percent of the population. Further, implementation was accomplished in less than ideal conditions: economic, political and social instability was high; there were literally riots in the streets that forced the government to move quickly; the economy had collapsed, unemployment was above 20%, and GDP was falling rapidly; consumer inflation was running at 40% while producer prices mushroomed by 125%, and currency depreciation reduced the peso by more than 200%. Admittedly, the dire economic straits forced the government to take action, and it saw *Jefes* as something of a last ditch effort to restore stability. This made the program more politically feasible, which helped to overcome some of the other problems.

The *Jefes* program proves that people will show up to work even at very low wages. Of course, unemployment and poverty rates were exceedingly high. But the survey of program participants shows that they want to work and are satisfied with the program; indeed, survey results demonstrate that the pay is a relatively minor consideration. People wanted to participate and make a contribution to society. Obviously, they do not view the program as "slavery" or "fascism" or "unemployment by another name". Perhaps there is some truth to Davidson's claim that ELR is "communism" in the sense that participation does enhance a communal spirit and sense of community.

Indeed, one of the most interesting results of the *Jefes* program is that it demonstrates that a decentralized program can be used to increase political participation and foster grass-roots democracy among groups that had traditionally been marginalized. In the next three sections we look at additional social and economic benefits of the *Jefes* program.

1. *Jefes* is Empowering: 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 decree in January 2002 during the short term of president Duhalde, 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 are publicly available, thereby increasing transparency and reducing 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 project that have been approved, the municipality contacts program beneficiaries informing them of the availability, time, and place of work. For details on the administration of the program, see Appendix I.

We emphasize that these are much needed community projects. Furthermore, the fact that certain activities are recognized as worthwhile labor that deserves remuneration has helped 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. Many other undertakings that may not be in the purview of profit-making enterprises, such as environmental cleanup, are also part of these government-funded jobs.

The Argentinean experience shows that most projects are successfully completed. These are not "make work" projects of "digging holes" as most critics have claimed. The projects provide real benefits to the community. Further, by increasing political participation, the program ensures that even when beneficiaries leave the program, the community will continue to benefit from the enhanced feeling of community.

2. Formalizing the Market and Reintegration of Jefes Workers into the Private Sector

Argentina's program provides strong evidence that it 'formalizes' 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 is able to move people from the informal to the formal sector. Gray economic activities are slowly eliminated.

As [Figure 14](#) demonstrates, the number of program participants has steadily declined since its peak in May 2003. Part of the decline is due to participants moving to other programs such as *Familias* and *PEL*.^[5] Nonetheless, a significant number of people have moved into the private sector. This implies that efforts to reintegrate *Jefes* workers into the labor market are largely successful.

The next chart ([Figure 15](#)) shows the evolution in the 'insertion rate' of beneficiaries into the labor market. While more recent data is not presently available, we see that in September 2003, over 76,000 *Jefes* workers entered the labor market. Note that this was at a time when the economy was still in disarray. Today, as the economy recovers more robustly the reinsertion rate is expected to be noticeably higher, as evidenced by the steady decline in program beneficiaries. Therefore, the *Jefes* program has been able to (re)integrate its workers into private sector activities.

We have long argued that the ELR wage will put a floor on wages in both the private and public sectors. The Argentinean experience demonstrates that this is the case (see [Figure 16](#)). 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 means that the *Jefes* wage is the effective minimum wage in the economy.

3. Macroeconomic Stabilization

Before concluding, we consider Argentina's macroeconomic conditions, such as currency stability, inflation and demand. It has been our contention that the introduction of ELR will not introduce currency or price instability. After the collapse of the currency board in January 2002, the peso quickly devalued, plunging to 3.76 pesos to the dollar in early October of the same year. Since then, the exchange rate has improved and stabilized around 3 pesos to the dollar ([Figure 17](#)).

The rate of inflation has similarly stabilized. Prior to the collapse of the currency board, both the consumer and producer price indexes had been *declining* on yearly basis. With the devaluation of the peso, both indexes skyrocketed, with producer prices experiencing the most dramatic increase, due to the high import content of domestic production. However, for the last two years, prices have sharply fallen and stabilized to single-digit yearly rates of change ([Figure 18](#)). In the meantime, demand has steadily increased ([Figure 19](#)) and production has expanded robustly ([Figure 20](#)).

In addition the macroeconomic impact of the *Jefes* program is significant. 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. 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 consume their wages in their entirety leaving nothing to savings. With a multiplier of 2.57, the impact of 150 pesos per person per month for 1.8 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 (See Appendix II for detailed discussion and calculations).

VI. Conclusion

The *Jefes* experience allows us to move from the realm of theory to the reality of practice. Many of the fears of the critics of ELR have been shown to be fallacious. Job creation, even on a massive scale and under difficult circumstances, can be successful. Participants welcome the chance to work. They view participation as empowering, rather than as modern slavery. The program can be democratically implemented and can increase participation in the political process, with relatively few instances of corruption and bureaucratic waste. Useful projects can be undertaken. Even with a huge program that

employs 5% of the population, communities have not yet experienced problems in finding useful work for participants. The program has not set off a class war, and indeed, most businesses have not opposed the program (some concessions have been made to accommodate agricultural employers during harvest season—they pay extremely low wages and were worried that *Jefes* would hinder their ability to find workers willing to work at low wages during harvests). Indeed, if anything, *Jefes* has reduced social unrest, and has provided demand for private sector production.

Argentina is not the US. Argentina was a middle-income country that experienced a severe social, political, and economic crisis. Certainly one can raise the objection that the *Jefes* experience cannot be applied directly to the US—with unemployment rates in the 5% range, with low inflation and relative currency stability, and with a more-or-less democratic political system that does not face crisis. However, note that conditions for those that live in America's urban core are not far from crisis. Unemployment rates easily run to double digits and jobless rates are 50% and more. Social isolation and problems of political disenfranchisement are severe. Living standards are objectively substandard by any measure. Infrastructure and social services do not come close to first world standards. Through thick and thin, through rising tides and wars on poverty, through welfare reform and personal responsibility acts, these areas continue to deteriorate. Could *Jefes* work here? Or should heterodox economists continue to accept the conservative belief that Keynes ridiculed:

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 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.... (Keynes 1972, pp. 90-92)

Appendix I: Institutional Design and Administration of

Jefes

A key feature of the program is its decentralized model. The institutional design of the *Jefes* plan includes three main partners. First, there are the national and local institutions, which provide the broad guidelines for the organization and execution of the program. The National institutions include the Ministry of Labor and GECAL (The Office of Management of Employment and Labor Qualification, which is the national agency overseeing the program)^[6], while the local institutions include the municipalities and the municipal consultative council (MCC), which in turn administer the program. Secondly, there are the project-executing organizations. These include various governmental, nongovernmental and nonprofit organizations where the work is performed. And finally there are the beneficiaries of the program—the workers.

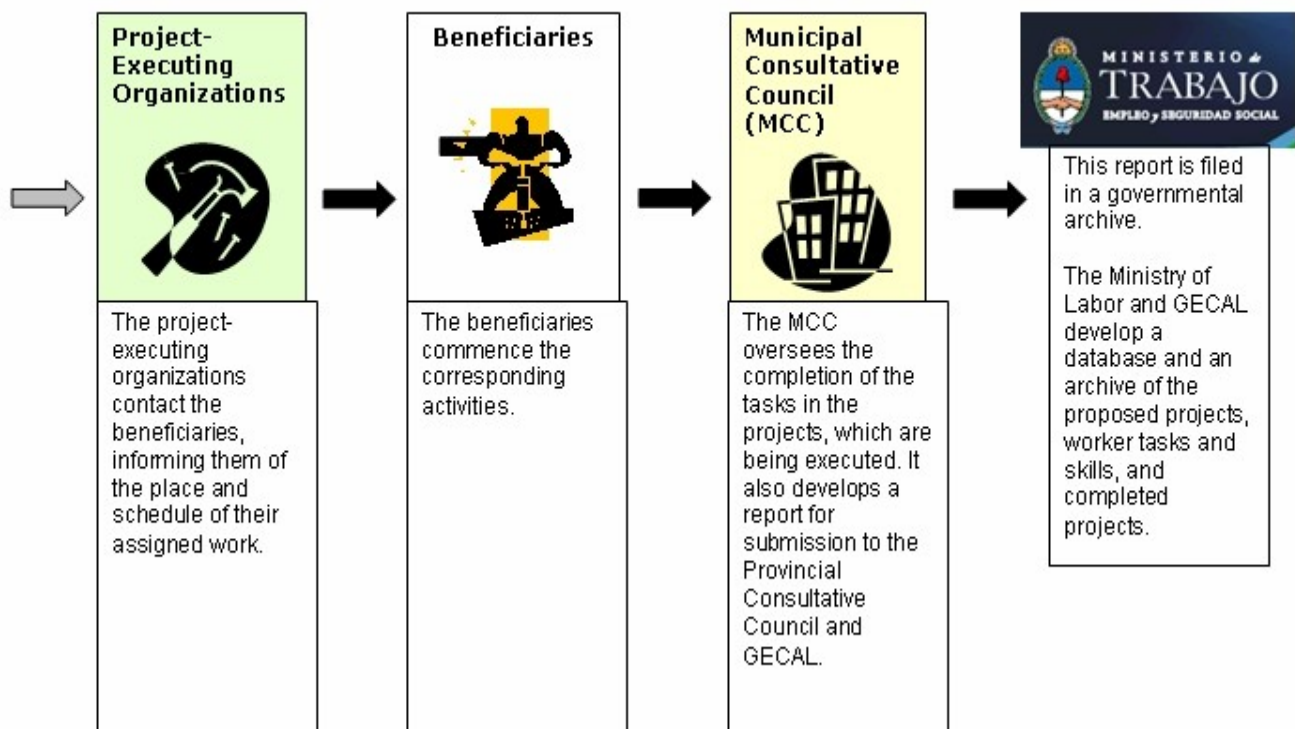
The program is organized and executed as follows (See Diagram 1). The Ministry of Labor and Social Security, through the Central Executive Branch of the Office of Management of Employment and Labor Qualification (GECAL) inform and advise the municipalities and communes on all the aspects of the program.

The MCC and the municipality make a diagnosis of the community, identifying social needs and available resources. The municipality in conjunction with the Municipal Consultative Council (MCC) informs the governmental agencies and non-profit non-governmental agencies (NGOs) of the possibility for developing projects/activities which

require the participation of program beneficiaries. After the diagnosis of community needs, various organizations (governmental or otherwise) design proposals of activities or projects which are then presented to the municipality and the MCC. The MCC evaluates the submitted proposals and rules on whether they should be authorized or rejected. Depending on the ruling the municipality either approves or rejects the proposals.

In either case, the decision is filed in an archive, so that the ruling is available for future audits. The municipality informs the project-executing organizations of the approval or rejection of their proposal and, in the former case, assigns the participating beneficiaries. It then sends to GECAL a summary of the activities and beneficiaries under its jurisdiction. The municipality publishes the listing of the approved projects/activities. The project-executing organization contacts the beneficiaries, informing to them of the place and schedule of their assigned work. The beneficiaries commence the corresponding activities. The MCC oversees the completion of the tasks and evaluates the outcome of the projects which are being executed. It also develops a report for submission to the Provincial Consultative Council and GECAL.

There are several key features of this design that deserve emphasis. First the central authority only provides the general guidelines of the program. Second, the local municipalities who are most familiar with the specific needs of the communities are the ones who actually administer the program. Third, the projects are well targeted to the needs of the localities and they are performed by non-profits, NGOs or governmental agencies, which already exist and operate within these localities. Fourth, employment in the public sector prepares beneficiaries for private sector employment. Beneficiaries are registered in a government database, according to the projects they have completed and the training they have undertaken. This registry in effect provides a visible and employable pool of labor to potential employers. Furthermore, by registering workers using their newly issued social security numbers, the database serves the purpose of formalizing the labor market. When private employers hire from this pool of labor, they are obliged to pay social security and unemployment insurance benefits to these worker.



Appendix II: The Multiplier Effect of Jefes

The Ministry of Labor uses the following formula for the Keynesian multiplier:

$$\text{Multiplier} = 1 / [1 - c(1 - t) + m]$$

In this equation, c is the marginal propensity to consume, t is the tax rate and m is the marginal propensity to consume imports. The latter reflects the increase in consumption of imports due to an increase in effective demand. Traditionally, the value of m for Argentina has been 11%, but in recessions it drops below 10%. Thus, in calculating the multiplier, m is set to equal to 0.1, c to 0.9 and t to 0.21 (Impacto Macroeconómico, Agosto 2002).

The multiplier therefore is:

$$\text{Multiplier} = 1 / [1 - 0.9(1 - 0.21) + 0.10]$$

$$= 2.57$$

The Ministry of Labor considers this to be a conservative estimate. It uses the much larger value added tax rate of 21% to calculate disposable income and a lower marginal propensity to consume, both of which reduce the value of the multiplier.

To calculate the Multiplier effect on GDP, the following data is also used:

GDP = 334 billion pesos (current prices)

Number of *Jefes* beneficiaries = 1.8 million

Monthly *Jefes* wage = 150 pesos

The increase in annual income due to the *Jefes* wage equals to:

$$1.8 \text{ million} \times 150 \times 12 \text{ months} = 3,240 \text{ million pesos annually}$$

Therefore the multiplier effect is:

$$3,240 \times 2.57 = 8,327 \text{ million pesos annual addition to GDP, or 2.49\% of GDP}$$

The Ministry of Labor offers an alternative estimate of the multiplier, which uses a much larger marginal propensity to import $m=0.15$, which further reduces the multiplier to 2.28. In this case the total annual increase in GDP is 7,387 billion, or 2.21% of GDP:

$$3,240 \times 2.28 = 7,387 \text{ million pesos addition to GDP or 2.21\% of GDP}$$

Figures

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

		% of households below the line of indigence and poverty	
		with Jefes	per cent change
Households	without Jefes	(Aug 2002)	
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	per cent change
		(Aug 2002)	

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indigence	87	68.6 4
poverty	98.6	96.7-1.8

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

Figure 2: Unemployment Rate

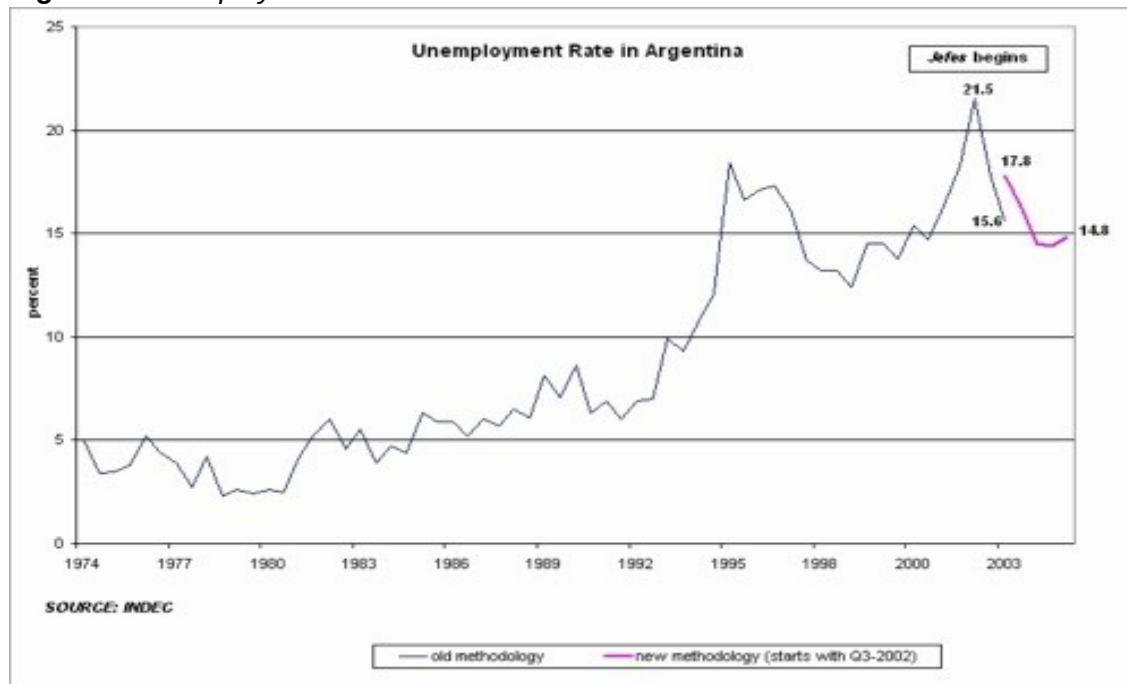


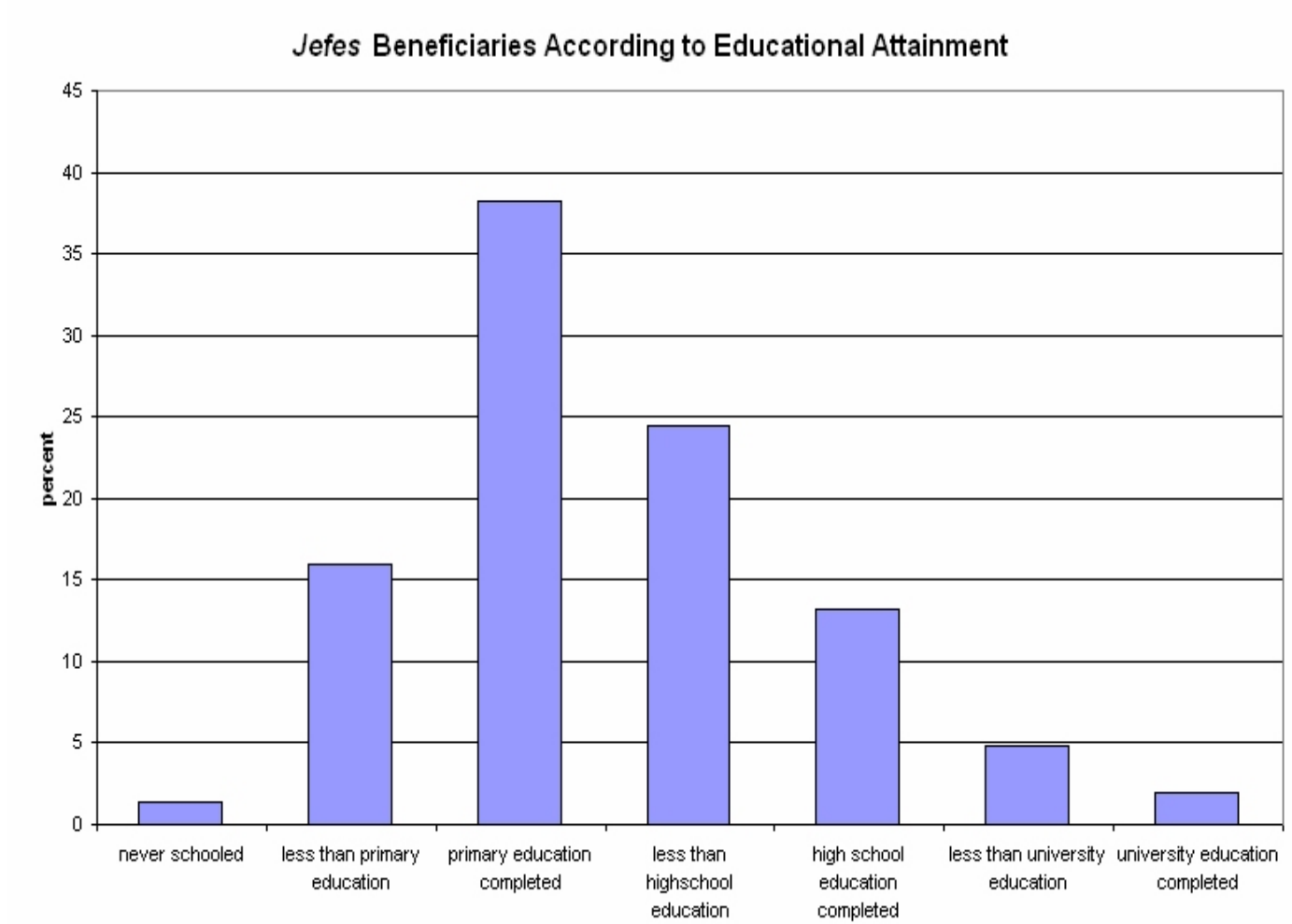
Figure 3: Beneficiaries According to Unmet Basic Needs
Beneficiaries According to Unmet Basic Needs

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

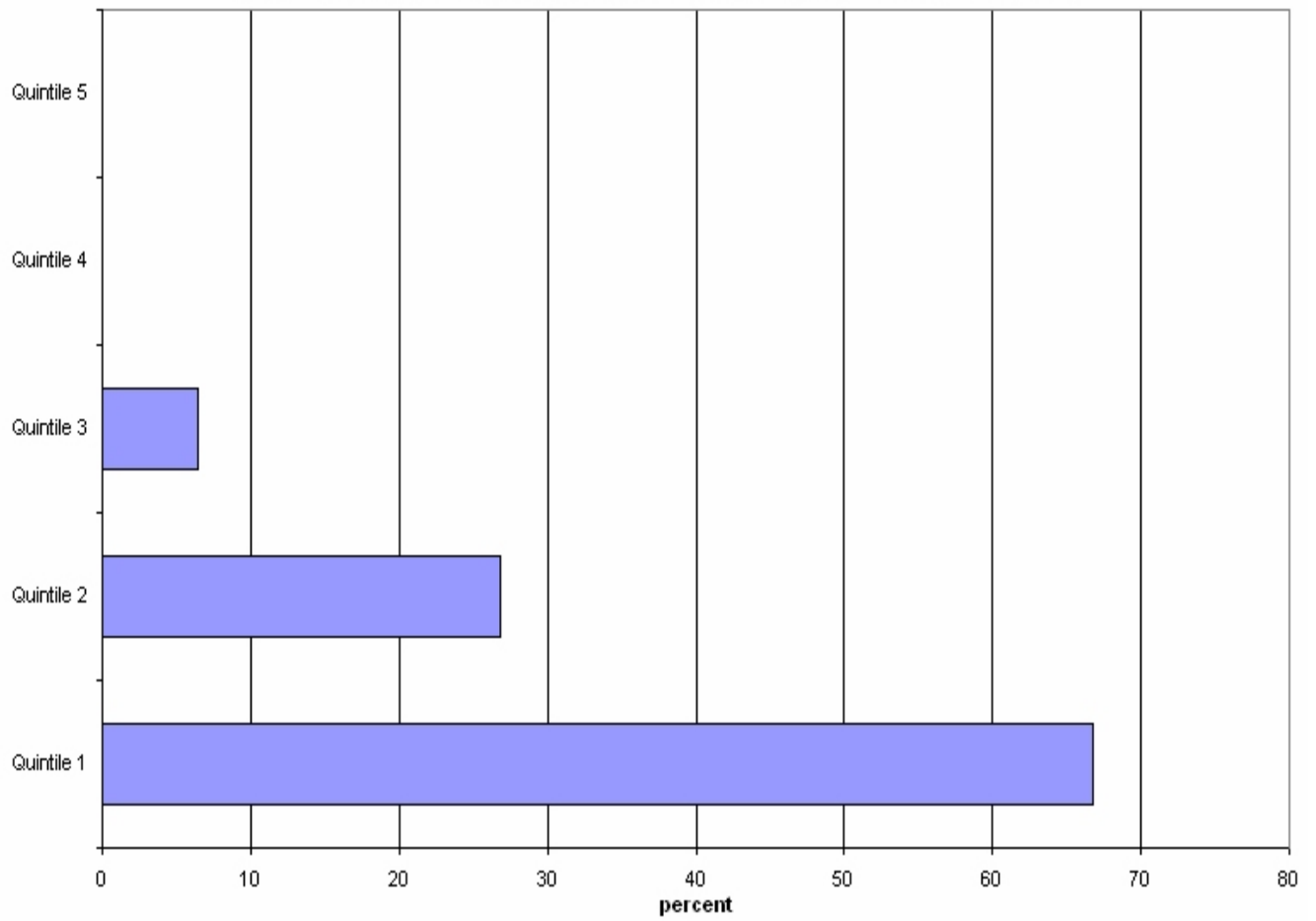
Figure 4: Beneficiaries According to Educational Attainment



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

Figure 5: Beneficiaries According to Distribution of Personal Income

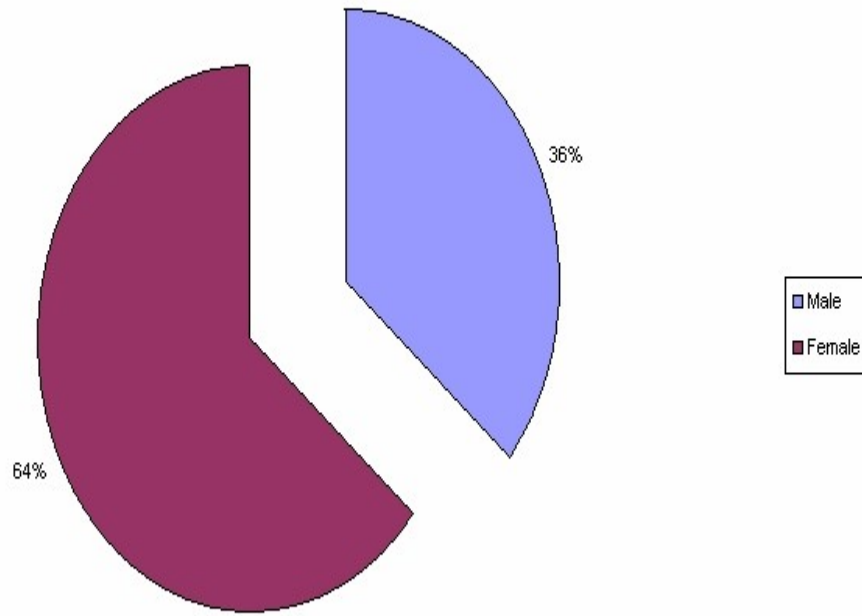
Jefes Beneficiaries According to Distribution of Personal Income



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

Figure 6: Beneficiaries by Gender

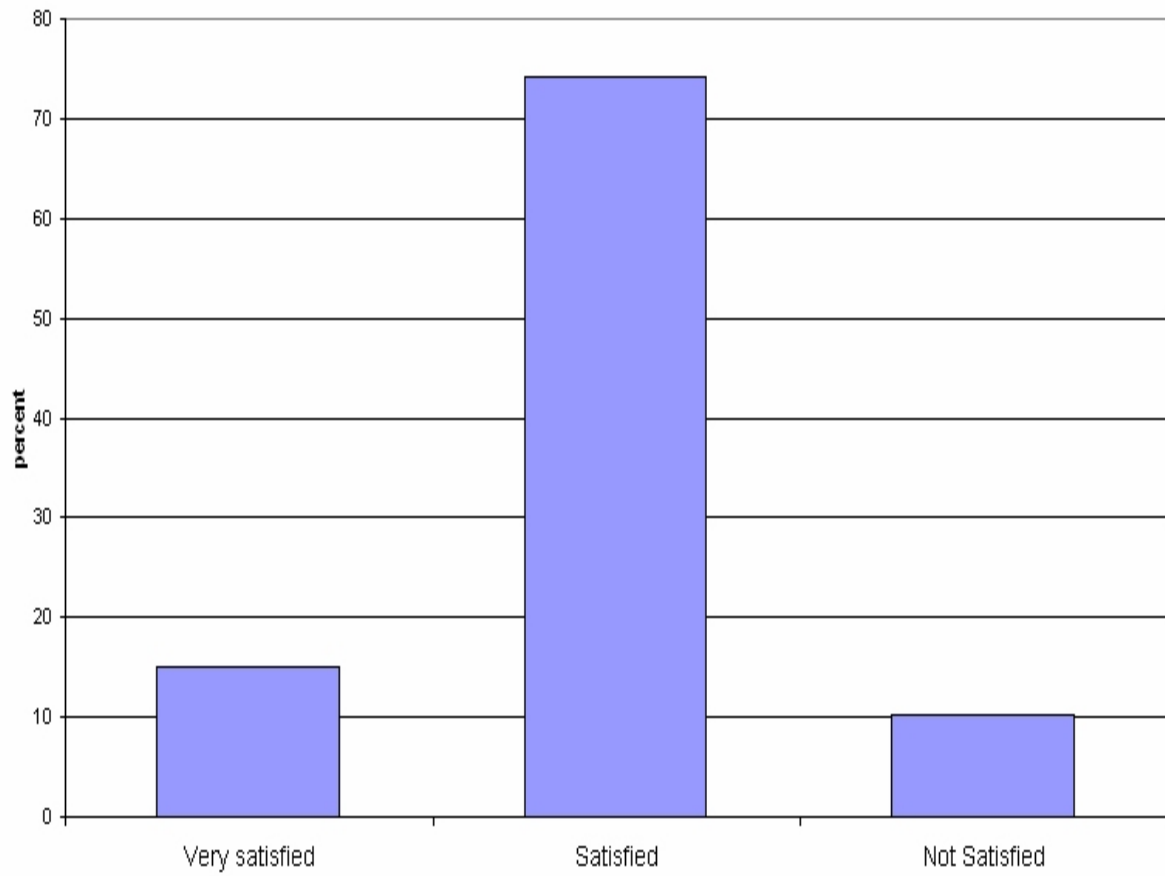
Jefes Beneficiaries by Gender



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

Figure 7: Degree of Satisfaction with the Program

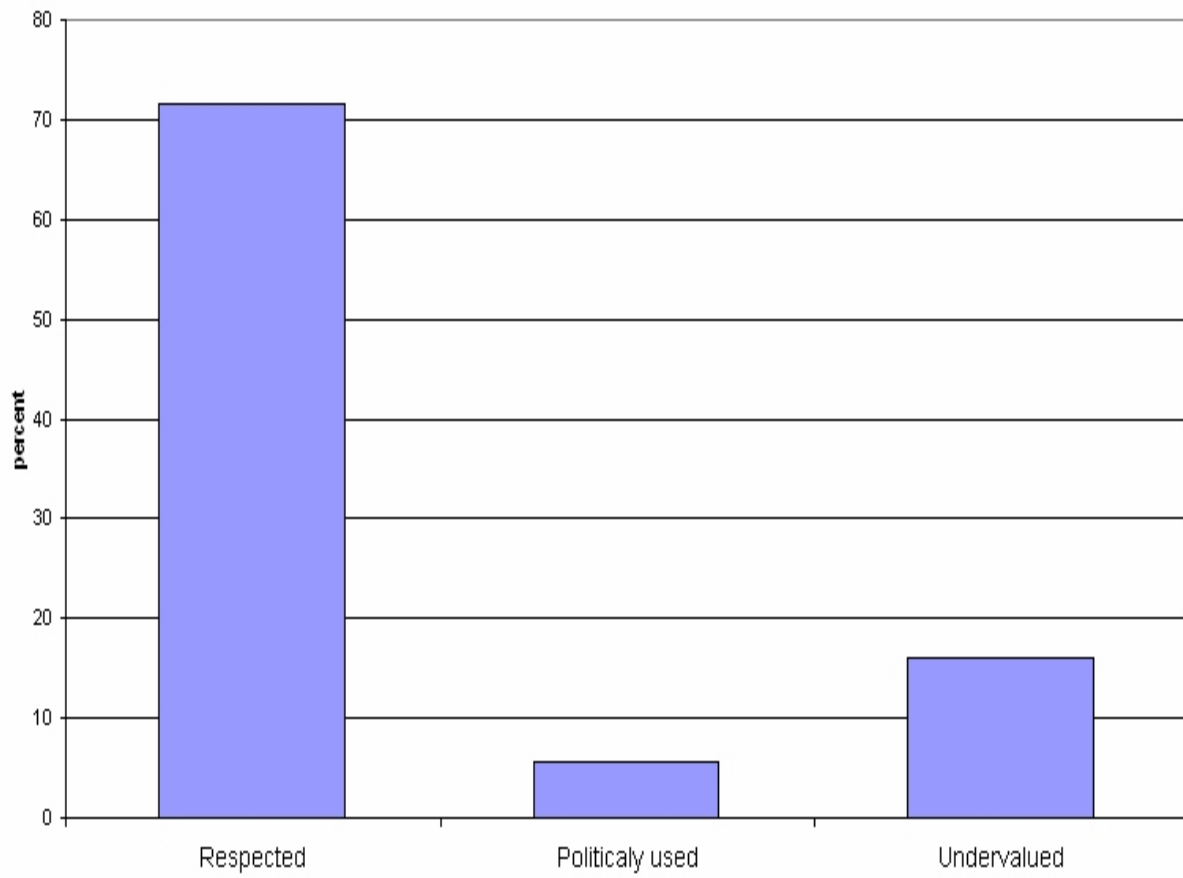
Degree of Satisfaction with the Program



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

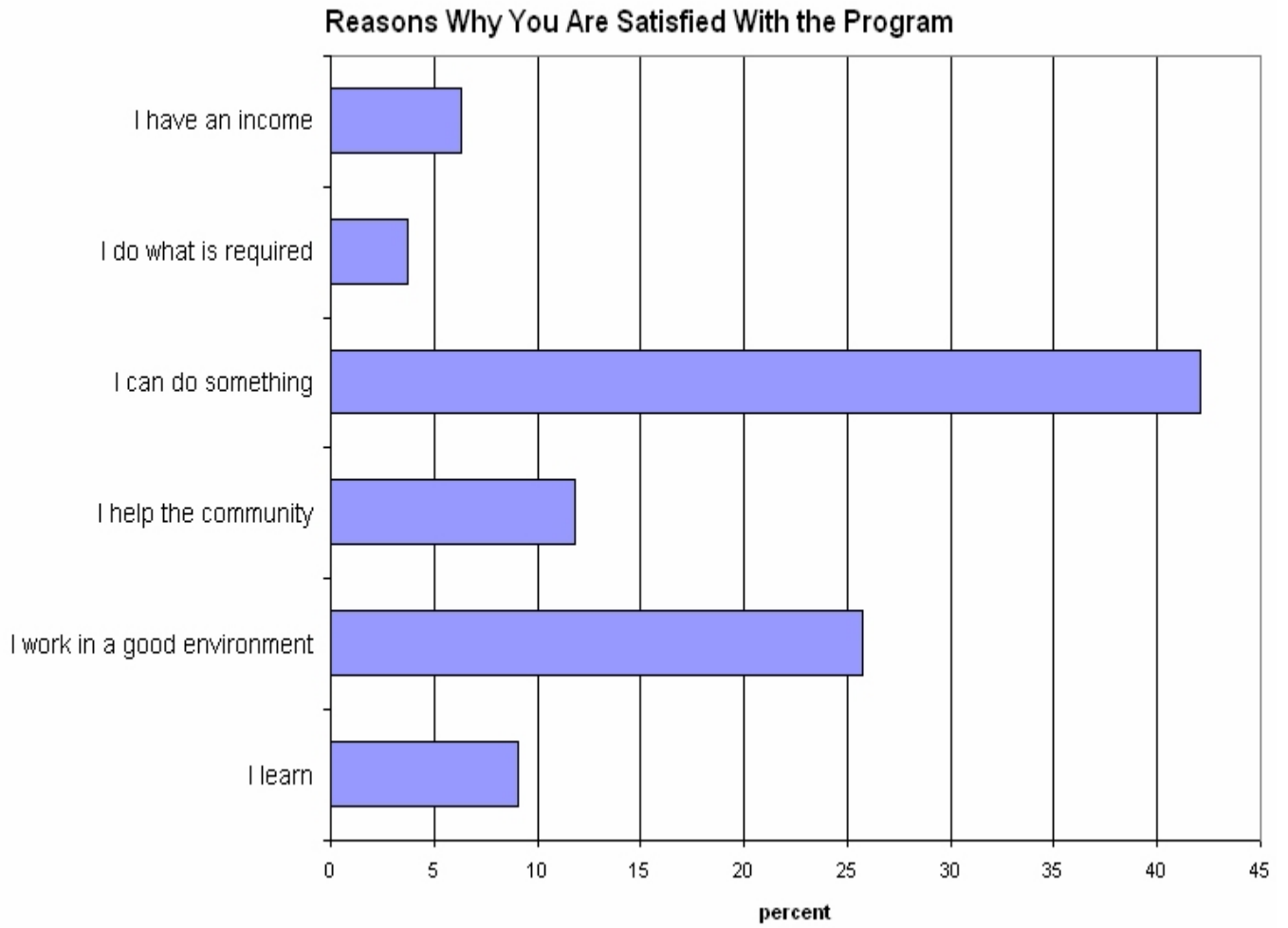
Figure 8: How Did You Feel When You Requested the Program?

How Did You Feel When You Requested the Program ?



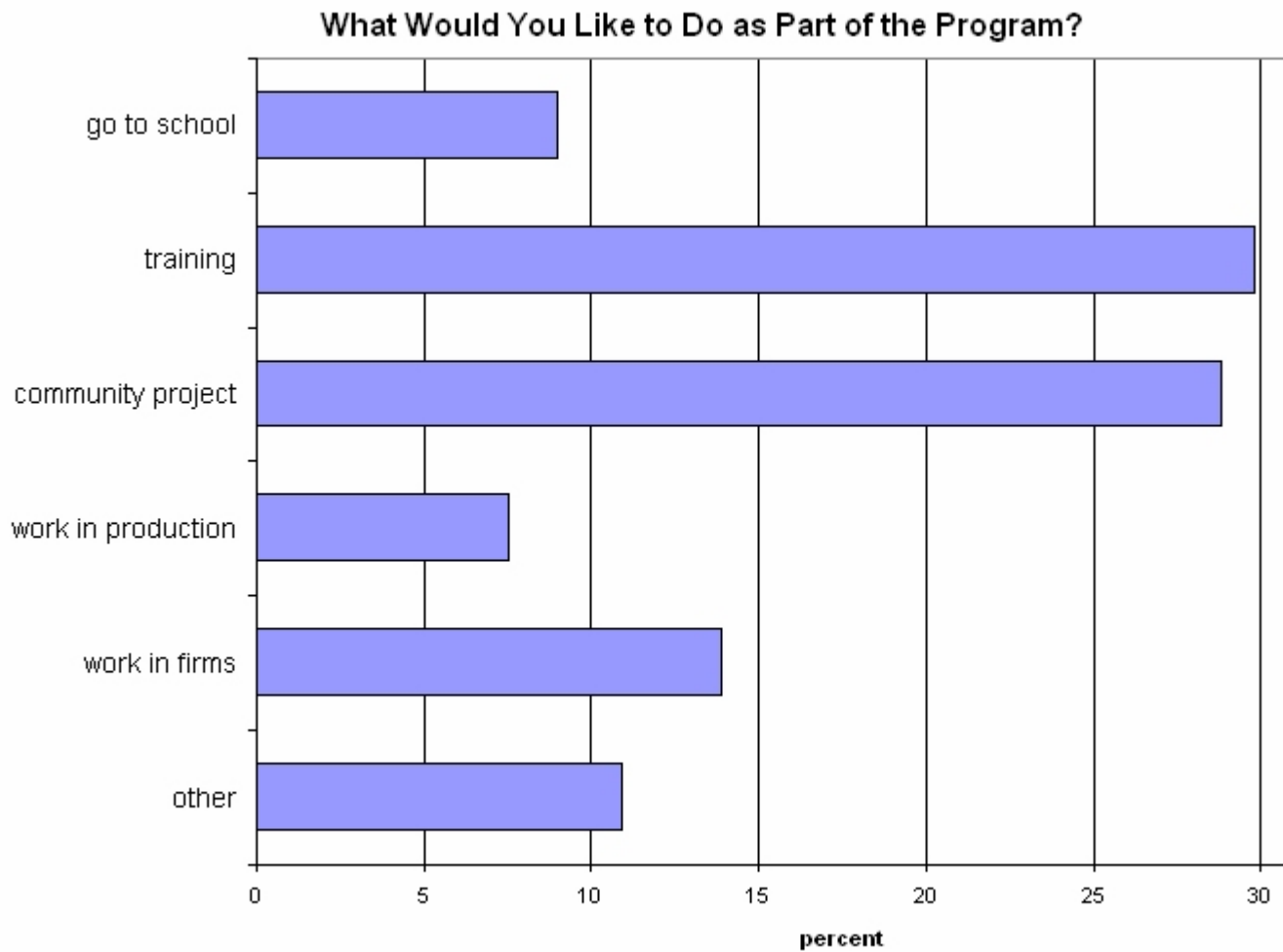
SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 9: Reasons Why You Were Satisfied



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

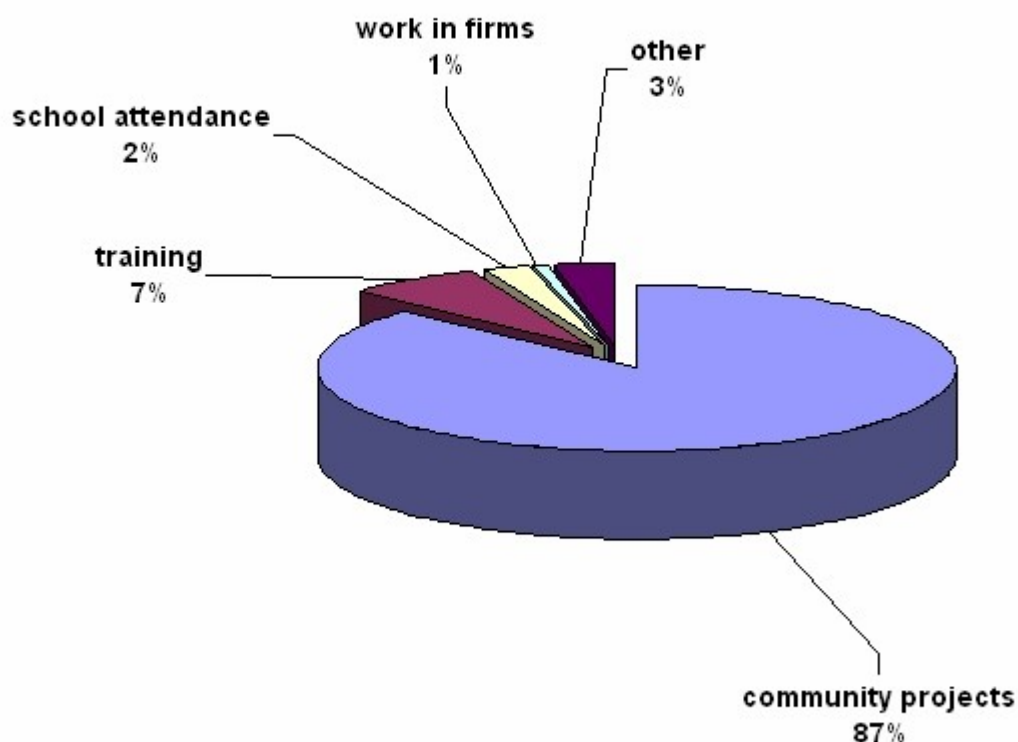
Figure 10: What Would You Like to Do As Part of the Program?



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

Figure 11: 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 12: 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

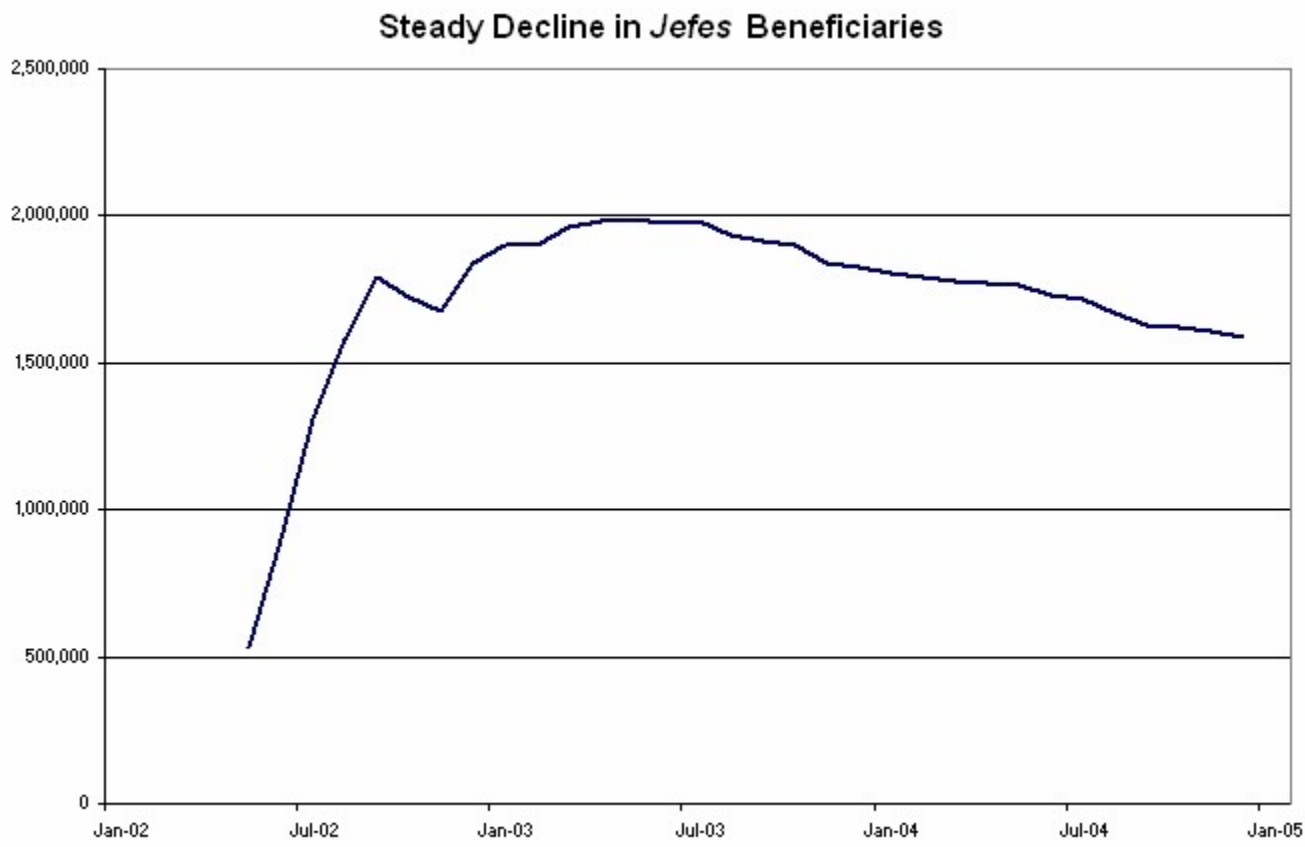
Figure 13: Project Financing

Project Financing

Project Types	Maximum government financing
1. Sanitary Infrastructure	1. Water supply 80% 2. Sewer system, water-drainages 80% 3. Pluvial networks 60%
2. Social Infrastructure	1. Health infrastructure 80% 2. Education infrastructure 80% 3. Welfare infrastructure 60% 4. Communitarian cultural infrastructure 60% 5. Sport infrastructure 60%
3. Productive Infrastructure	1. Municipal infrastructure for trade fairs & markets 60% 2. Municipal slaughter houses 60% 3. Recreational and/or tourist areas 60% 4. Hydraulic defenses 60%
4. Improvement of the Habitat	1. Improvement of claypits 60%
5. Communitarian Orchards	1. Communitarian orchards 60%

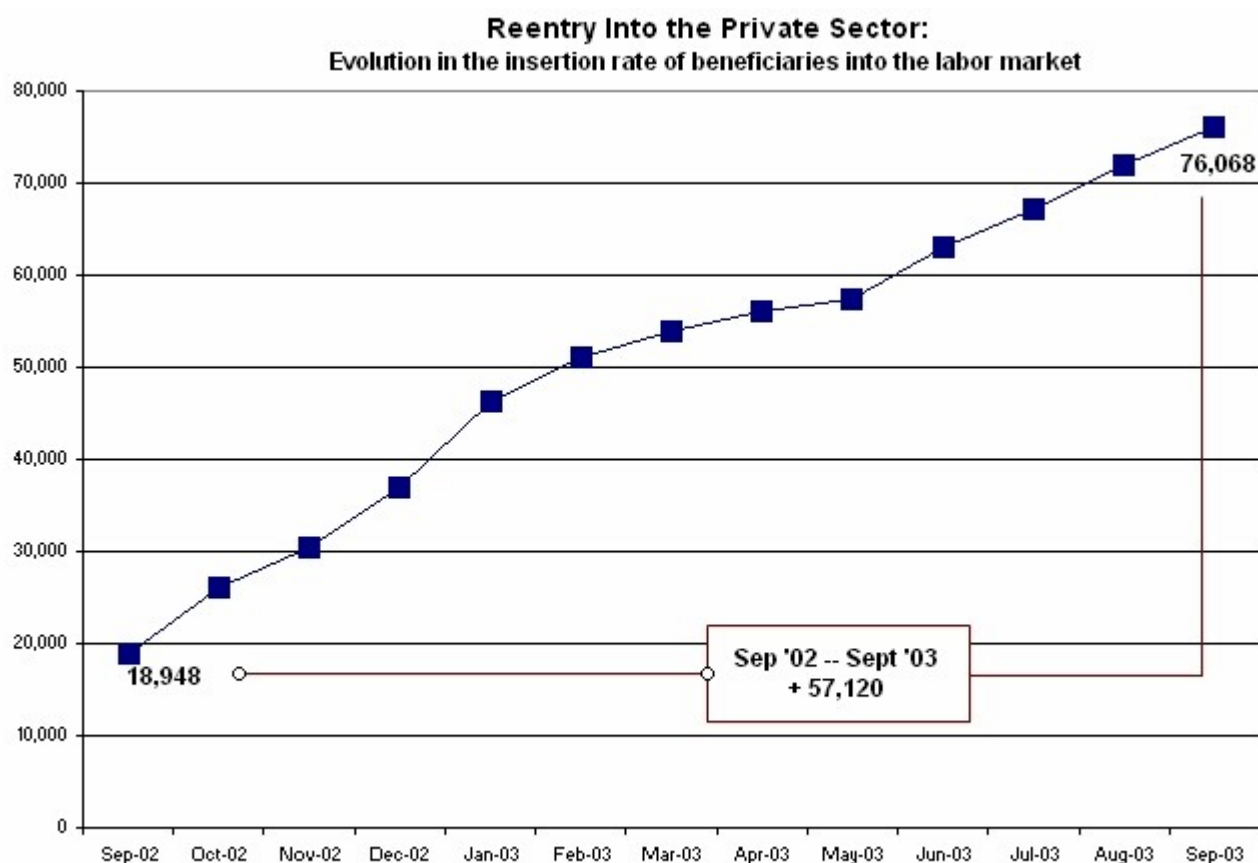
Source: Ministry of Labor, Employment and Social Security, Argentina

Figure 14: *Steady Decline in Jefes Beneficiaries*



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

Figure 15: 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 16: Reentry Into the Private Sector:
The Jefes wage is the effective minimum wage**

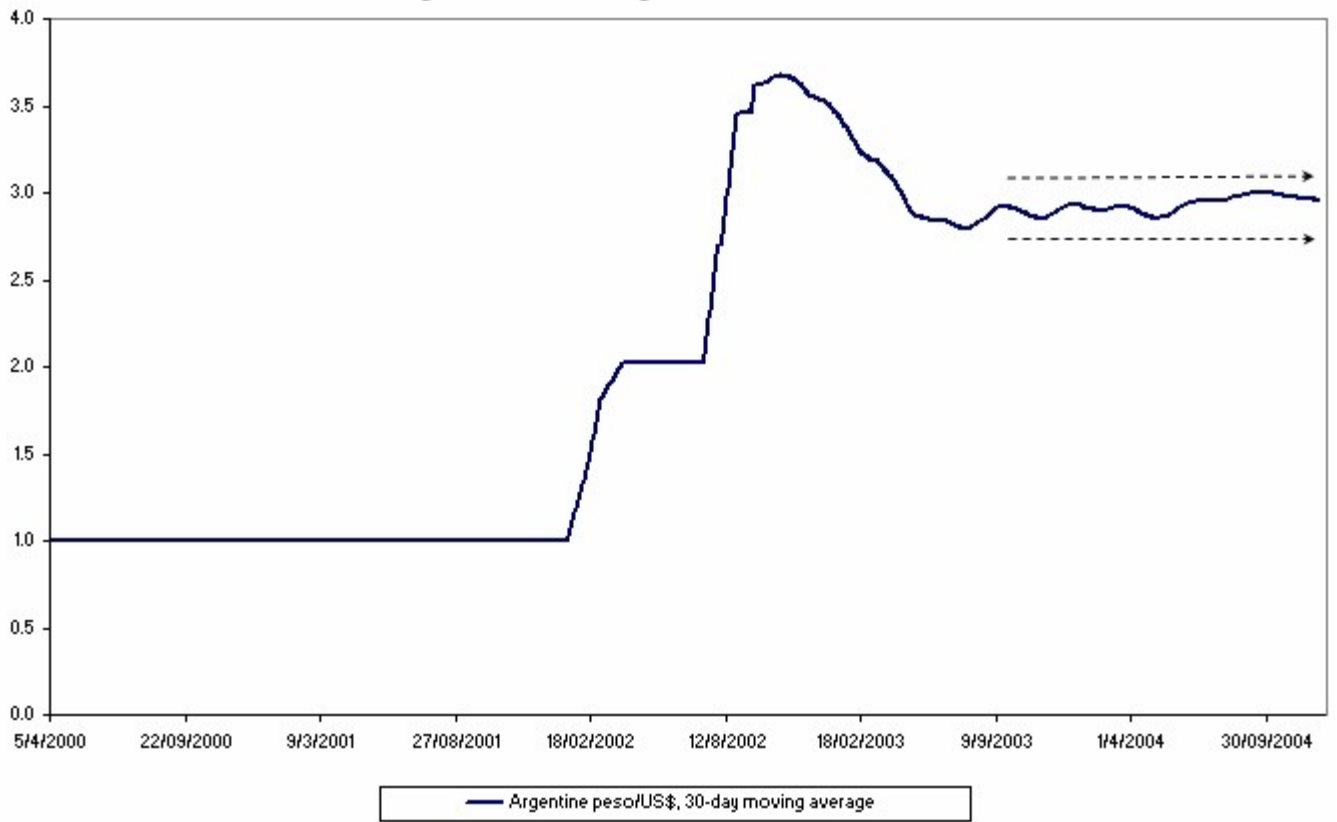
The Jefes Wage is the Effective Minimum Wage

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

Figure 17: Argentine Exchange Rate Has Stabilized

Argentine Exchange Rate Has Stabilized



SOURCE:

Figure 18: Argentine Prices Have Stabilized

Argentine Consumer and Producer Prices Have Stabilized

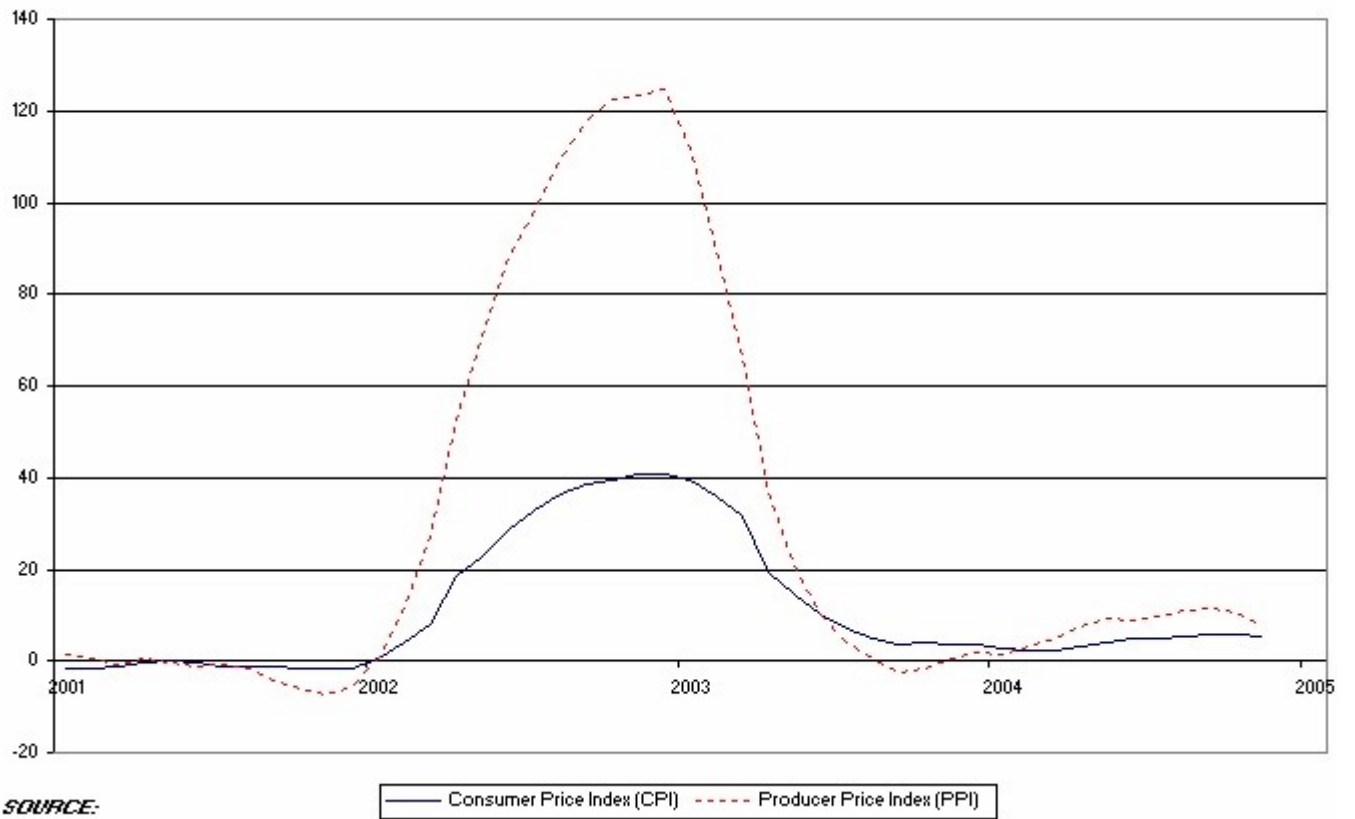
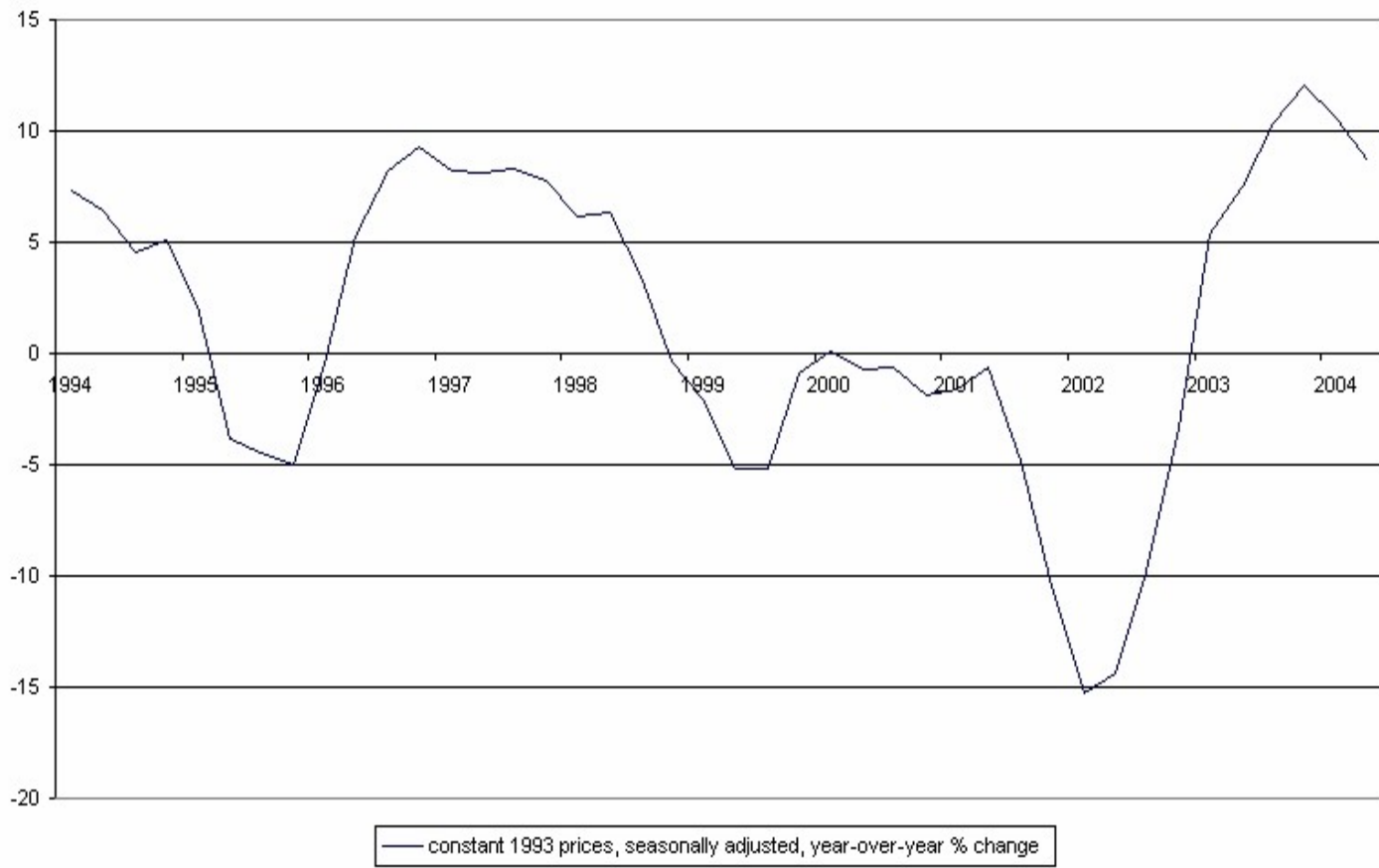


Figure 19: Gross Domestic Product

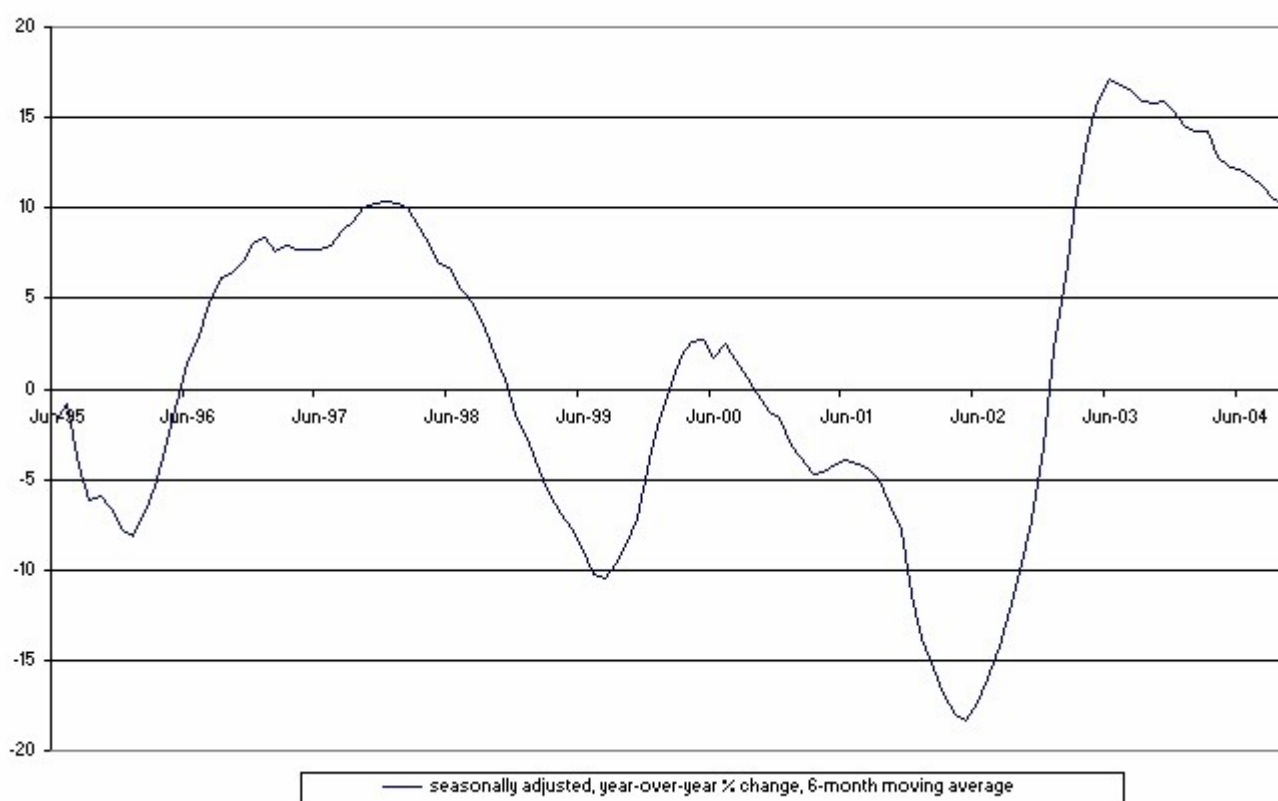
Gross Domestic Product



SOURCE: INDEC

Figure 20: Monthly Production Estimator

Monthly Industrial Estimator



SOURCE:

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[1] Along the same lines 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 guaranteed employment.

[2] For detailed discussion see also Galasso and Ravallion (2003), Lopez and Paz (2003), Cortés et al (2003), and Marshall (2004).

[3] Decreto N° 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.

[5] *Familias* is a program, which gives mothers a stipend per child. While there is no requirement to work as in *Jefes*, this program effectively recognizes that caring after children is a socially useful labor that should be remunerated. As noted above, PEL (Programa de Emergencia Laboral) is an employment program similar to *Jefes* for those poor that do not qualify for *Jefes*.

[6] La Gerencia de Empleo y Capacitación Laboral (GECAL)
posted 1/10/2005