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Working Paper No. 534

Argentina: A Case Study on the Plan Jefes y Jefas de Hogar Desocupados, or the Employment Road to Economic Recovery

by

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ABSTRACT

After the 2001 crisis, Argentina—once the poster-child for pro-market structural-adjustment policies—had to define a new strategy in order to manage the societal demands that had led to the fall of the previous administration. The demand by the majority of the population for employment recovery spurred the government to introduce a massive employment program, the *Plan Jefes y Jefas de Hogar Desocupados* (Program for Unemployed Male and Female Heads of Households). This program, which accounted for less than 1 percent of GDP at the outset, paved the way for a reduction of the contractionary effects that otherwise would have caused a catastrophic devaluation of the currency.

This paper explores how Argentina pursued a strategy of employment generation, with the state participating as employer of last resort, to recover from one of the worst social and economic crises in its history.

Keywords: Argentina; Employment; Employer of Last Resort (ELR); Economic Growth; Fiscal Policies; Social Policies

JEL Classifications: H53, J08, J48

1. INTRODUCTION

In December 2001, Argentina and the world witnessed diverse groups of people from different social classes proclaiming unanimously that the time had arrived and, with one voice, said “everybody out” (*que se vayan todos*). They were referring to all the representatives of the political system.

Ten years after the introduction of the currency board (convertibility) and after three years of recession, the unfilled gaps in the ELR (employer of last resort) schema started to crack—not only on the poor and the unemployed, but also the middle classes that had some savings in the banking system denominated in U.S. dollars. In a desperate move by “the father of the convertibility,” Domingo Cavallo limited money withdrawals from the banking system to a maximum of 300 pesos (equal to US\$300). Before that there was either the reprogramming of the debt, paying to the bond holders an annual interest rate of almost 18%, or the law of “zero deficit,” all precluding any kind of fiscal expenditure in order to recover the economy.

Two groups, the so-called *ahorristas* (savers) and the *piqueteros* (the unemployed that demonstrated since 1997 in the streets of Argentina), went to demonstrate in an action that ended with violent repression and the sad image of the president, elected exactly two years before, desperately climbing in to a chopper and leaving office. The result was that more than thirty people were killed by police in the streets and the political system was destroyed. Politicians could not walk in the streets without being harassed by the people; there were only a handful of them that could be exposed to the public without receiving aggressions.

The parliament followed the constitution and appointed the governor of San Luis, Rodriguez Saa, a flamboyant lawyer that ruled the province since 1983 and announced that Argentina was unable to honor the foreign debt. Several measures were announced that aimed at reducing unemployment and promoting domestic demand.²

Rodriguez Saa only lasted one week. The pressure from the Province of Buenos Aires, the biggest and traditionally most different in the country, ended with the former candidate for the presidential elections of 1999 losing in the first round by a significant margin as people protested in the streets against the political system.

² Rodríguez Saa was very famous for governing his province with heavy state intervention, a system of productive subsidies to industrial firms, and a low unemployment rate. At the same time, national newspapers were talking about corruption there for a long time.

The first thing Eduardo Duhalde (the appointed president) did was to induce a devaluation of 40% in nominal terms. However, under the pressure from the IMF, the government was forced to liberalize the exchange rate, which skyrocketed to over 3.90 pesos per U.S. dollar—from 1.40 pesos to 3.90 pesos per U.S. dollar—in just a few months. The one peso per U.S. dollar exchange rate was a symbol of the past.

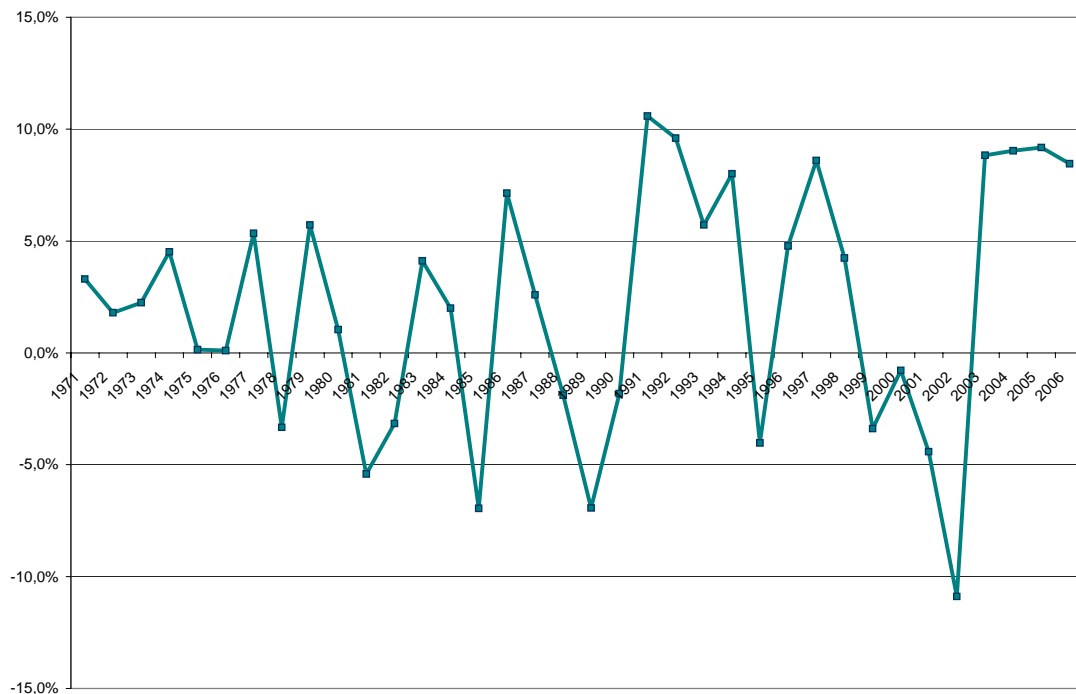
Social unrest did not stop. Months were spent trying to develop a rescue plan with the international community and the IMF. Finally, under the pressure of the people, the government introduced the largest direct transfer, income-employment plan in Latin American history.

In this paper, I will try to present the way in which the *Plan Jefes de Hogar Desempleados* (Unemployed Head of Household Plan) was implemented, its impacts on economic growth and the livelihoods of the population, and the influence on the overall economy. Some of the findings of the survey performed by the Secretary of Technical Programming and Labor Studies of the Ministry of Labor, Employment, and Social Security of Argentina (Roca et al. 2005) constitute one of the pillars of economic recovery following the 2002 crisis, a crisis that even jeopardized the democratic system of the entire nation.

2. SOME REFERENCES ON EMPLOYMENT AND SOCIAL PROGRAMS IN ARGENTINA

The Argentine economy has been characterized by its volatility (Figure 1). Since the crisis of the Tequila in 1995, Argentina implemented a type of employment program under the support and supervision of the World Bank called *Trabajar*. The sharp increase in the unemployment rate in May 1995 forced the introduction of such a program. In theory, the program seemed universal, targeting the unemployed over 18 years old, but a budget constraint led to its unclear implementation. It never had an effect on more than 15% of the unemployed. Despite the federal government's role as head of management and resource allocation, those more linked to local governments and NGOs held the power to decide who participated in the program and who did not.

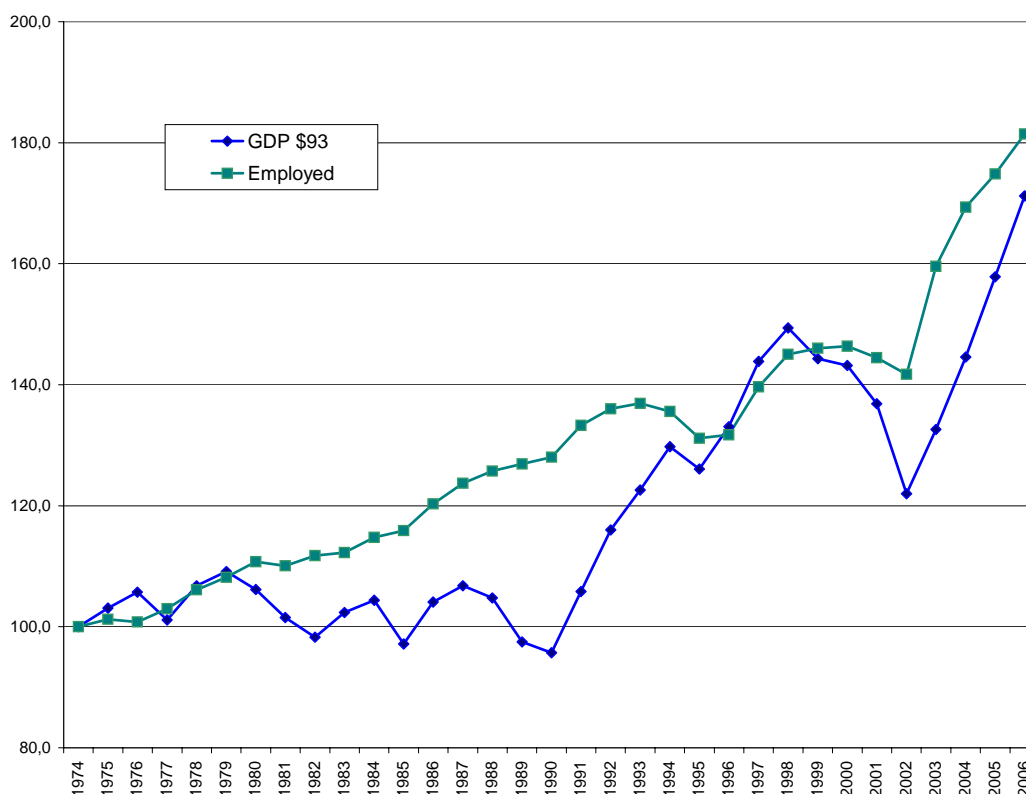
Figure 1. Argentina's Yearly GDP Growth (in percent)



Source: National Accounts

Although the only requirement to receive the benefit was to be unemployed, the *Trabajar* program was not an entitlement or a right to the unemployed. At the maximum, *Trabajar* provided 350,000 people with work in a workfare or social work program. Although it was not necessarily a targeted program, as was norm for those implemented in the 1990s, *Trabajar* could not be considered universal or semi-universal due to the quota frequently defined by those responsible for public finance.

Figure 2. Index of Employed and Overall GDP in % (Base 1970=100)



Source: National Accounts and INDEC

In early 2000, the Ministry of Labor’s team of the Employment Secretary worked on the first sketches of a new type of program. This program aimed to reduce poverty, unemployment, and boost domestic demand after two years of recession.

The challenges were many. On one hand, they faced increasing budgetary limitations due to debt payments. On the other, the newly elected government maintained its commitment to the currency board, sound fiscal policies, and accepted every suggestion by the IMF and the World Bank. It is worth noting that as a signal to markets in Machinea, the finance minister (now director of ECLAC) increased taxes to middle-income groups. He then went on to reduce wages and pensions in the state by 12% in nominal terms, citing not only the fiscal numbers, but also the “signal that should be sent to the economy.”

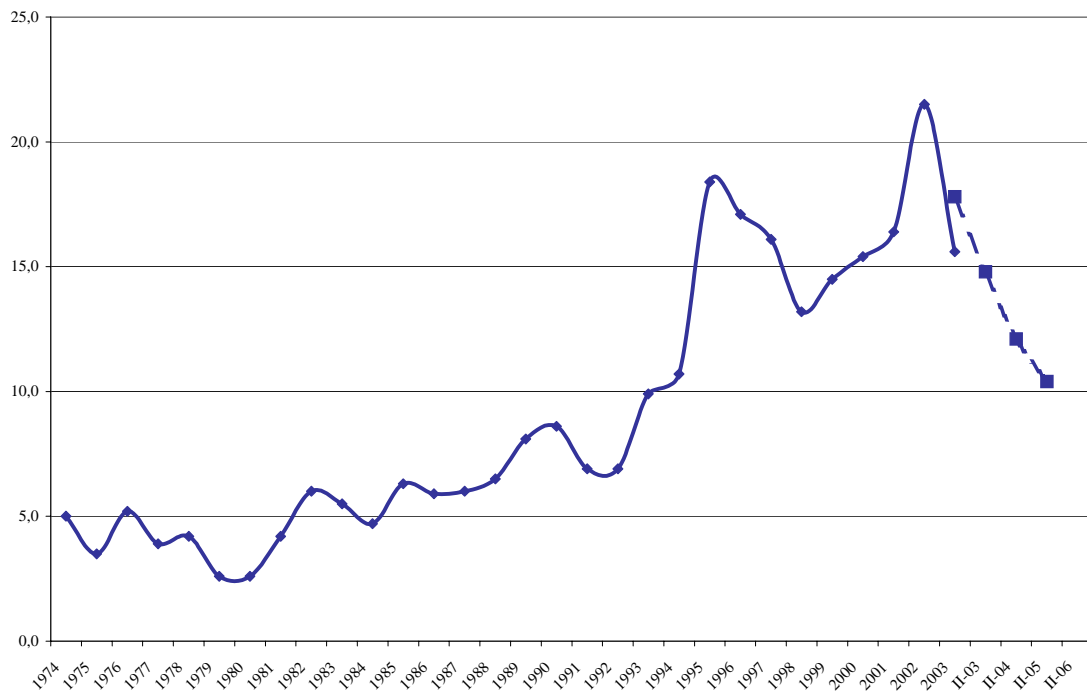
Within this political framework, the change in overall social policy was more than a political necessity, but pressed by the World Bank, the Ministry of Social Welfare opted for income programs that targeted specific areas and were based on a child allowance to the poor, much like the Mexican *Progres*a plan. The Ministry of Labor’s³ knowledge of the

³ At the Ministry, everybody was worried since the pressure of the people was for employment programs. They wanted to have the legitimacy of something that looks like a job, not just charity, but the final decision was outside their jurisdiction.

characteristics of unemployment in specific areas and the time it would take to interview the areas with problems and identify the households depended on the research unit *Dirección de Estudios y Formulación de Políticas de Empleo*. Inspired by the ELR programs from certain post-Keynesian institutions, they stressed the idea of a universal program for a group of individuals and targeted the unemployed head of the household.

The first numbers and calculations showed that a minimum of 500,000 people would apply to the program. However, a larger number of people were expected to apply to the program due to a lack of formal or regular employment. It was estimated that this would increase figures by at least 50%.

Figure 3. Evolution of Unemployment Rate as a Percent of the Economically Active Population



Source: INDEC

Note: The dashed line indicates the new methodology of the household survey that changed in 2003.

The plan was publicly announced three times in newspapers, which always drew some pressure that aborted the initiative. In relation to the labor market, the trend was to send a new reform to parliament that aimed at reducing costs to firms in general. This marked the beginning of the end for the government elected at the end of 1999.

As General De Gaulle returned to save the country, 2001 saw the come back of a more adjusted Domingo Cavallo. Very much induced by the media and the establishment, the faith of the people in the streets suggested that he was the only one that could take the country out of the “straight-jacket” of a fixed exchange rate that was showing its dramatic limitations.

Table 1 shows the drastic changes in the social and economic indicators of Argentina after a decade of currency board—a 25% decline in average nominal income per household, a 48% reduction in the real income (measured by the ratio between nominal income and the poverty line), a rise in the Gini coefficient, three times more poor households, and lower elasticity of distribution and income to poverty. In a nutshell, a chaotic scenario that explains the people’s doubt of their democratic system and politicians.

Table 1. Some Key Social and Economic Indicators of Argentina.

| | 1993 | 1998 | 2003 | 2006* |
|--|------------|-------------|-------------|-------------|
| Average income of households (current \$) | \$1.137.90 | \$1.183.60 | \$892.00 | \$1,842.65 |
| Variation of average incomes | - | 4% | -25% | 107% |
| Median of the income | \$800.00 | \$800.00 | \$600.00 | \$1,450.00 |
| Poverty line value in current \$ | \$424.70 | \$495.30 | \$720.10 | \$930.00 |
| PL variation | - | 17% | 45% | 29% |
| Ratio average income and PL | 2.68 | 2.39 | 1.24 | 1.98 |
| Variation of ratio average income and PL | - | -11% | -48% | 60% |
| Gini coefficient (G) | 0.455 | 0.472 | 0.482 | 0.4495 |
| Households under the poverty line (H) | 13.6% | 17.7% | 42.6% | 19.2% |
| Income elasticity of poverty | -2.23 | -2.13 | -1.42 | -2.16 |
| Distribution elasticity of poverty | 3.74 | 2.96 | 0.34 | 2.11 |

Source: Own calculations based on EPH-INDEC (www.indec.gov.ar)

3. THE HEAD OF HOUSEHOLD PLAN

Despite the announcement by the week-long administration of Rodriguez Saa to create one million posts, local governments started to think about what to do with the growing number of unemployed. In May 2002, the number peaked at 25%.

The social unrest was augmented by the rallies of the middle classes, demanding the reimbursement of their savings in dollars and a solution for the debtors of mortgages denominated in dollars. Because of this issue, as well as the problem of the large number of poor and unemployed, President Duhalde decided to introduce the *Plan Jefes y Jefas de Hogar Desempleados*.

In the beginning, the technical team that designed the plan suggested opening registration at schools where potential beneficiaries' children attended, which would mean that only 30–40 families would have to be serviced at each site. This would reduce the queue (a factor used to target social policies), since only those that really need the benefit will stand for hours to get it. However, the main reason behind using the schools was that teachers know the households of their students, so they would be able to add insight into some of the characteristics of the households that were applying for the benefit. Their insight would be used to implement additional policies by analyzing the employment potential of the beneficiaries, as well as in adding transparency to the selection process.

In order to induce the political recognition of local governments, the selection process was allocated to the municipalities. This was met with very poor results, not because of who was selected (since most were poor), but because important information that could emerge from the first interview was lost by urgency.⁴

4. SOME NOTES ON THE OLD AND THE NEW MACROECONOMIC SETUP

The currency board was characterized by a reduction in degree of freedom of macroeconomic policies, mainly monetary. The pressure for fiscal surpluses implied a lack of tools for intervention in the midst of a recession for more than three years.

The currency board forced the central bank to buy and sell dollars to everybody, implying procyclical behavior. When there were capital inflows (mainly short term) the central bank printed money in order to buy those flows. This enhanced liquidity in

⁴ It is true that with the lack of legitimacy of the government, the teachers union was reluctant to help. A few months before the teachers had abandoned their support for the population census and the government was afraid to face pressures in this field.

commercial banks and firms and put some pressure on domestic prices while fostering imports.

In the presence of capital flights, the central bank sold dollars and absorbed pesos, reducing liquidity, increasing the interest rate faced by the private sector, and reducing domestic activity. However, this process put pressure on tax collection. Since fiscal surplus was a must in order to maintain the “market’s” confidence, fiscal expenditure was curtailed, generating a process of implosion starting with the Asian crisis, increasing with the Russian default, and growing worse with the Brazilian devaluation.

The implementation of the promarket policies recommended by the Washington Consensus caused the disarticulated pattern of growth, as has been widely explained by several authors, such as Stiglitz (2002) and Frenkel and Taylor (2006) (in the specific case of Argentina), but also by many post-Keynesians in a more general scope.

In “Globalization and Disarticulations: The Road to Exclusion in Latin America” (Kostzer 2004), we try to make a more “institutional” and behavioral approach to what happened during the 1990s. We highlight the disarticulated pattern of growth that fully open economies have in the framework of a globalized world with independent central banks and open capital accounts that lead to dramatic exchange rate appreciation, among other things.

This implies that even when the economy grows, this growth is quite heterogeneous among social groups, industries, firms, and regions, and is something quite different from the Fordist or Keynesian regime of accumulation. Growth takes the form of mushrooms that, on average, show high rates of GDP increase, but also deteriorations in functional and personal distribution of income.

The main characteristic of these patterns of growth is its disarticulation at three different levels: social, sectoral, and regional. The social disarticulation reduces the interaction, via domestic demand, between labor and capital. Labor is just a cost of production and not a source of demand or a market for domestic firms. In the framework of open economies where everybody (at least in theory) faces the same cost of production for inputs, the only source of competitiveness is higher productivity. Increased productivity is achieved by a reduction in salaries, an increase in working hours, or some other labor arrangements that generally are not in the workers’ favor.

The sectoral disarticulation is the result of a reduction in import taxes and increased integration with foreign inputs, especially in the framework of exchange rate appreciation.

Most of this process is done intra-firm, but it implies the closing of small- and medium-size domestic lines of production in order to integrate the final product with intermediates of foreign origin.

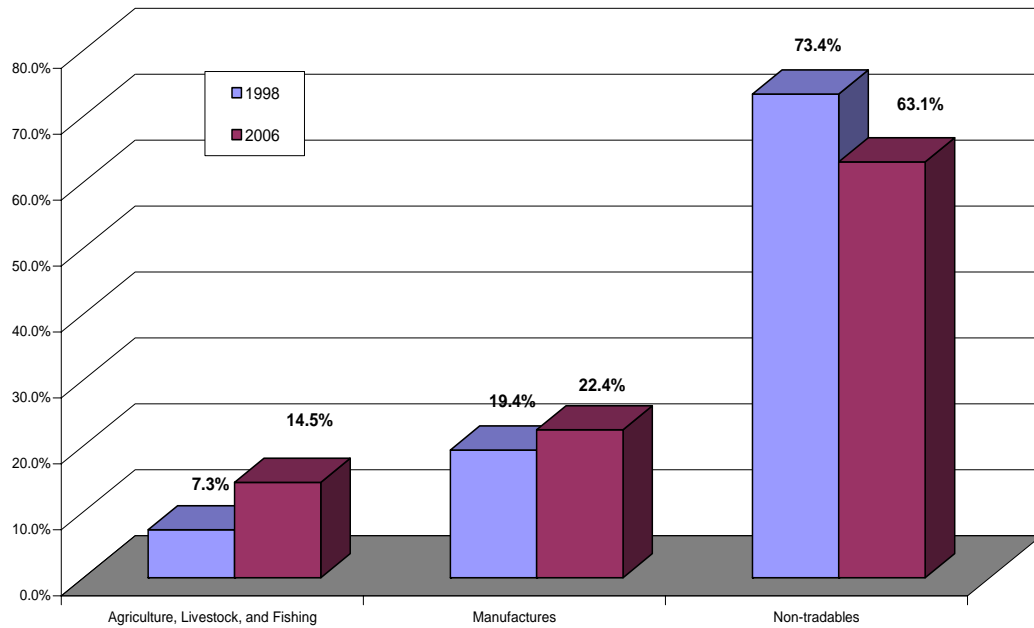
In large countries, these two dimensions of disarticulations have a deep impact locally where they are reproduced. Some regions end up losing their economic viability due to growing unemployment and social exclusion. This dramatic picture is worsened by the local governments' lack of tools to administer countercyclical policies. The reduction in local business and other activity cuts local tax collection, enhancing implosionary effects.

All three happen almost simultaneously and all very rapidly. Depending on how appreciated the exchange rate is and how long the setup continues along the same road, the more harmful the exit will be. This was Argentina's experience and it almost jeopardized their democracy.

The new macroeconomic setup offers an updated set of relative prices that have helped consolidate a different pattern of growth.

- **De facto protection of domestic production** due to the new exchange rate. As it is expensive to import many goods, this aims to induce some import substitution while recovering certain activities and inducing new ones, further reducing pressure on the foreign exchange gap.
- **Technologically** there is no bias to imported technologies with low labor content. It is expensive to buy "turnkey" technologies, so firms prefer more appropriated ones.
- **New fiscal instruments.** The massive devaluation increased competitiveness among local firms and generated windfall gains, part of which were appropriated by the state via *ad-valorem* taxes.
- **Fiscal surplus.** The increase in domestic activity impacts positively on tax collection, reducing the fiscal gap. The fiscal surplus generates a *buffer stock* that can be used in social policies and income redistribution on a more universal basis.

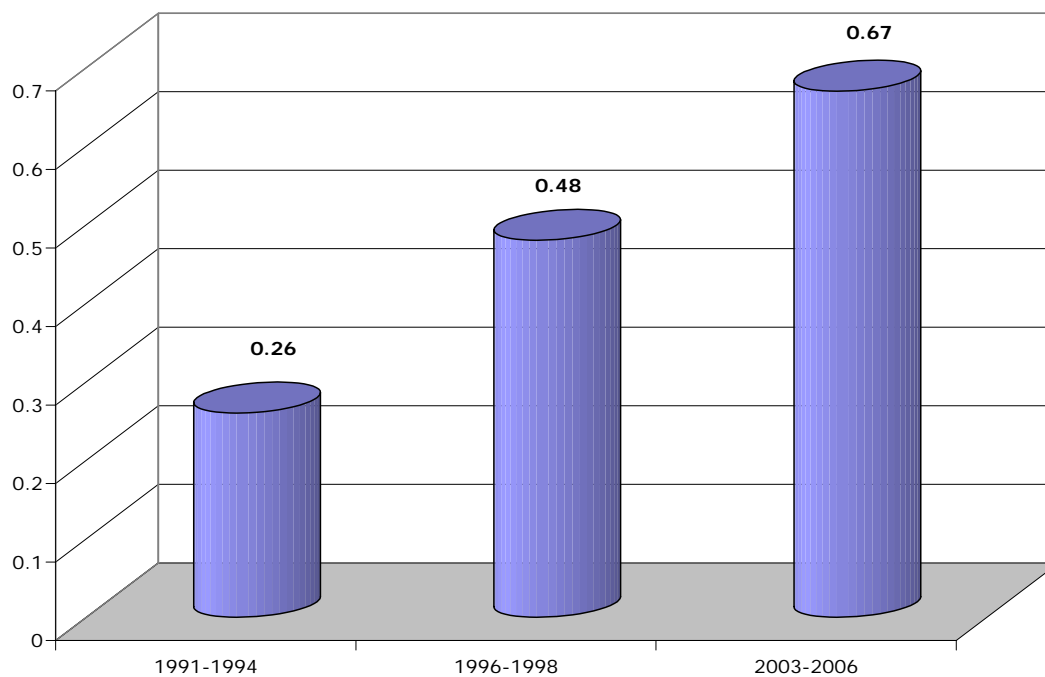
Figure 4. Participation in GDP by Sector during the Currency Board and after the Devaluation.



Source: National Accounts

With unemployment reaching almost 25% of the economic active population, and poverty affecting nearly 42% of households and more than half of the population, urgent measures had to be taken. Traditionally targeted social policies were not effective in reaching the population, but the new macroeconomic setup allowed more traditional Keynesian instruments, such as the state as employer of last resort.

Figure 5. Employment to GDP Elasticity



Source: INDEC and National Accounts

The previous two graphs can be regarded as the change in the pattern of economic growth of the last two years in relation to the previous stages under the currency board. This is more relevant when presented within its structural parameter, such as the employment to GDP growth elasticity, which during the first years of the convertibility was very low (0.26). Even having so-called Asian growth rates, unemployment doubled. The recovery from the Mexican crisis was more sustained in the informal sector, with elasticity slightly less than 0.5. The actual recovery, with a long-run elasticity of over 0.67 (and in some quarters close to unity), generated an important growth of formal employment.⁷

In Figure 4, it is clear that the new set of relative prices have changed the productive structure of the country, but this is not enough to explain such systematic and sustained recovery. It can only be due to the restoration of the articulations mentioned in the section above.

⁷ Between the years 2003–2006, for each 100 jobs created, 89 were in formal sector and 11 were nonregistered work, whereas from 1991–2001, 95 were nonregistered labor and only 5 were formal.

5. AN ELR TO HELP THE RECOVERY

If the recovery of the economy is going to be based on the export sector, it will be difficult to resist the social pressure in the streets. Argentine exports are mainly natural resource based products with a high technological (biotechnology) content and extensive agriculture with a very low labor content. On top of that, these resources also constitute the wage-good of vast sectors of the population, generating a type of Ricardian conflict between workers, manufacturers, and landlords.

Additionally, the spatial disarticulation left some regions away from the Pampas (where most of the exportables are produced) without the chance of developing these above-mentioned advantages.

It is important to generate a boost in domestic demand in order to foster the process of import substitution, increase capacity utilization, and generate employment. In this respect, a massive employment plan that is widespread all over the country and provides an income to every household in need has proven to be the best alternative.

6. GENERAL ADVANTAGES OF THE ELR

An employment program presents advantages in several dimensions. These were stressed in previously cited papers (Kostzer 2004) and will be reproduced here as a summary on the strong points of this type of strategy.

6.1 Political Advantages

It should be clear that an ELR program needs a certain degree of political will and autonomy. In that sense, it presents some advantages to the policymaker that help in the implementation of such a program.

- **Constitutes a global strategy against exclusion and poverty.** An ELR program is global in the sense that it addresses the problems of exclusion and poverty by centering on the employment condition of the individual and restoring the citizenship status absent during the period of structural adjustment programs. It helps to show figures in terms of poverty and indigence reduction as goals of the administration.

- **It's a clear schema of social protection, not charity.** Since an ELR program involves a social service by the individual, it cannot be considered a mere charity strategy and should be envisioned as a social protection schema by the overall community, enhancing the political and social acceptability of the plan.
- **Reduces unemployment.** Unemployment is one of the crucial variables that help in the appraisal of a political administration. Since ELR reduces involuntary unemployment to almost zero, it can be presented as an achievement.
- **Integrates excluded groups.** It helps excluded collectives to extend nets and linkages via equality of opportunities, at least at the level of the program. It has a high level of self-targeting, thus making it superior to other types of social programs.
- **Allows the identification of problems for further interventions.** Since poverty is multidimensional, the program helps to identify other problems that are hiding at the household level under the guise of unemployment and aids in the design of complementary interventions.

6.2 Social Advantages of the ELR

The ELR is meant to reduce the exclusion that characterized the structural adjustment strategy implemented during the 1980–1990s in most of the countries of the region, generating what was called “social disarticulation.”

- **Solves basic-needs insufficiencies at the household level.** A large number of households have unsatisfied basic needs, most of them due to the insufficiency of income, thus leading to an increase in school drop-out rates, infant mortality, poor housing, dependency rate, etc. The provision of a basic income via employment helps to solve this facet of the problem.
- **Improves human capital at the individual, local, and national levels.** It is well known that the chances of an unemployed individual finding employment are lower the longer the unemployment period is, thus the reinsertion into an employment schema that involves training is a very efficient way of avoiding this process of human capital deterioration.

- **Involves beneficiaries in collective plans and projects.** The beneficiaries of the program, some of them with years of unemployment, can be involved in collective plans (many of them designed at the grassroots level), restoring the social links and networks locally. Overall, it enhances the feeling of participation at the local level.
- **Reduces pressures on the unprotected informal labor markets.** In countries with high informal or nonregistered labor markets, the vulnerability of workers is immense. If all individuals have the opportunity to get a reasonably paid job, it will induce wage increases and better working conditions in those markets, some of which are at the fringe of legality.

6.3 Local and Regional Advantages of the ELR

Since the implementation of an ELR has deep roots locally, there are clear advantages aimed at the restoration of the articulations disrupted by the pattern of growth.

- **It is basically countercyclical.** As was stated above, ELR has an important role in reducing the negative impact of the business cycle, as well as other effects (climatic problems, external shocks, etc.) at the local level. It also plays a role in preventing the transfer of those negative effects to other sectors linked to the main employers in the region.
- **It improves infrastructure and proximity services.** The beneficiaries will be involved mainly in local community projects that provide improvements to the local infrastructure (sanitation, housing, better sidewalks, irrigation schemas, road maintenance, school and hospital maintenance, etc.), as well as services appropriated by the community, its residents, and small-scale business, such as day care, school support, health support, etc.
- **It generates multiplying and accelerating effects.** Since the pattern of development and accumulation has changed from a homogeneous one to one with the behavior of “mushrooms,” it is very important to induce demand at the local level in order to recover local activities that were impacted by the disarticulation process. With an ELR, the injection of demand locally can restore part of those linkages destroyed by the institutional change.

- **It is able to articulate with the productive sectors in order to create stable, good quality jobs.** If the domestic demand is induced and some of the activities developed within the ELR program can be directed to foster the productive infrastructure of the region, it is more likely that the business community will take advantage of that potential induced by the ELR. This does not mean that the beneficiaries should play the role of the subsidized labor force for the private sector, as this has proven to be harmful (due to several factors that reduce the effectiveness of ELR).
- **It barely distorts local labor markets.** Although this is not a major point in economies that have unemployment rates of two digits, labor market distortion is one of the arguments stated by those that defend free markets. However, the alternatives to subsidizing private employment of various types are real distortions to the labor market, resulting in the *piling up* of people in the queue and not generating enough jobs. On top of that, some pervasive effects tend to occur, such as fictitious turn-over or massive lays-offs at the end of the program.

7. THE INTEGRATION OF THE *JEFES* PLAN IN THE NEW MACRO FRAMEWORK

When the *Jefes* plan was implemented, one of the first things evaluated was its macroeconomic impact, not only at national level, but also regionally. The results were promising, although those against this type of initiative did not believe in the positive outcomes of the program.

The calculation with the simple Keynesian multiplier showed that in the midst of the crisis, the marginal propensity to consume of those households that were going to receive the benefit was close to one. Even taking into account that part of the income was going to pay past debts, this value was very important.

On the other hand, the marginal propensity to import of these groups with the new set of relative prices was also low, implying a multiplying effect of 2.53 for the medium run. This was very important in an economy that was in a recession for four years, since every one point of GDP that was invested in the program resulted in a 2.53% of growth.

The allocation of beneficiaries was scattered all over the country, but mainly concentrated in those regions where the production of exportables did not have an impact.

Some of the social and sectoral articulations started to take place locally at a pace impossible to achieve by the sole impulse of market forces.

In this respect, the recovery of employment in the provinces occurred before and faster than in the city of Buenos Aires, where it took more than a year for the recovery to begin.⁸ This was the result of the important impact that an employment program with income transfers had in those regions with lower average income overall.

This raises the question about the feasibility of a program of this type under fixed and appreciated exchange rate, where a big part of the multiplying effects may leak to the purchasing of foreign goods—especially in the second round, where the middle- and upper-classes start to appropriate the macro benefits.

8. SOME CONSIDERATIONS ON THE INSTITUTIONAL SETUP OF THE PROGRAM

The program was implemented in a mixture of centralized and decentralized ways by the Ministry of Labor, Employment, and Social Security, which was responsible for the direct payment, but the projects were defined at the local level, as were the beneficiaries.

The legal instrument was the Decree of the National Government 565/2002, designed as *Derecho de Inclusion Familiar* (Entitlement for Family Inclusion). This decree involved a work or back-to-school commitment and provided a monthly income support of \$150 (three-quarters of the minimum wage of that moment) to the unemployed head of household with dependants who were less than 18 year old. The plan was governed by the Resolution 312/02, where the eligibility and the work commitment were defined.

The Decree can be summarized in the following points:⁹

- “Due to the present economic and financial juncture of Argentina, ..., it declares the state of social, economic, administrative crisis”;
- “...the country has reached levels of extreme poverty aggravated by productive paralysis, it is mandatory to take measures to alleviate the difficult situation that is facing an important sector of the population”; and

⁸ The area of Greater Buenos Aires accounts for one-third of the total population, but significantly more in terms of GDP. Moreover, average incomes in Buenos Aires are several times higher than those in the rest of the country.

⁹ The summary and its translation aspire to maintain the aim of the decree. Original text of the decree can be found at:
http://biblioteca.afip.gov.ar/afip/gateway.dll/Normas/DecretosNacionales/dec_c_000565_2002_04_03.xml

- “There is the need to establish an entitlement for family inclusion to all unemployed heads of household... warranting a minimum monthly income to all Argentinean families.”

The decree was not very clear in defining if this was a program of income transfers or employment, something that was criticized on both sides of the ideological spectrum.

The program was financed by the treasury, involving almost 1% of the GDP and 4.9% of the yearly budget.

Since 2003 the financing has been done by the World Bank (\$600 million). This can be attributed not to the financial requirements of the government, but rather the need of a quick roll-over by the Bank, and the program offered a consistent and coherent package for the board.

Although the first year of full implementation was in 2003, by the end of 2002 two million beneficiaries were already receiving support. The following table shows the impact of the plan in the National Administration Budget.

Table 2. The *Plan Jefes* in the National Budget

| | Millions \$ | % |
|---|--------------------|--------------|
| Total National Budget | 61,758.5 | 100.0 |
| Total Ministry of Labor, Employment, and Social Security | 9,705.8 | 15.7 |
| Employment Actions | 3,722.4 | 6.0 |
| <i>Plan Jefes</i> | 3,055.7 | 4.9 |

Source: Cetrangolo and Jimenez (2003)

As shown in Table 2, almost 5% of the total budget was devoted to the plan and this was more than 80% of the budget allocated specifically to employment actions (workfare programs and training).

The payments went directly to the beneficiaries via bank accounts. In large cities this payment was done with a debit card that allowed for certain additional benefits, such as discounts in transportation or refunds of the value-added tax.

The management of the projects where the beneficiaries were placed was done by local governments, NGOs, or grassroots organizations that submitted the list of beneficiaries to the Ministry of Labor in order to pay them. This type of administration has the advantage

¹² Since it only focuses on beneficiaries of the program, it can not be used to make comparisons with the overall population, but it has the virtue that it is representative of the two million people that are currently or were formerly involved in the program.

that local institutions know the needs of the people and, at the same time, can highlight what type of projects should be implemented in order to provide the environment to accomplish the work commitment behind the program.

8.1 The National Council of Administration and Control

In order to promote a more effective implementation of the program, the national government created the National Council of Administration and Control of the Head of Household Program, integrated by three members of each of the following organizations: employer's organizations, worker's organizations, NGOs, religious organizations, and the national government.

This national council did not have any specific function in the normative framework, but was more the political attempt in the middle of the crisis, with people on the streets claiming for changes, to achieve legitimacy by gathering representatives of heterogeneous social groups.

At some point, the idea was that the national council would do some auditing on the program in order to avoid political corruption.

8.2 The Local Councils (LC)

As was pointed out, since projects were scattered all over the 28 provinces and 2,300 municipalities of Argentina, the program was decentralized at local level.

The Decree (*Derecho de Inclusion Familiar*) created the Provincial Consulting Councils and, after some time, an internal norm by the Ministry of Labor created the Municipal Consulting Councils.

The objective of the local councils was to control the allocation of benefits and provide transparency to this activity, which had been stained by a long tradition of political patronizing. They would also control the registration, incorporation, and execution of the program at local level.

The LC was the place where all irregularities (such as beneficiaries not attending, two or more registrants per household, etc.) were denounced; it supported the decisions of the new incorporations and exemptions to the program made by the local government. It was also the responsibility of the LC to evaluate the proposal of new projects and activities, and help in the training of organizations and beneficiaries involved in the program. In a nutshell, the LC was the institutional and participatory support of the program, since it included community representatives.

Following García and Langieri (2003) in their field work on a large number of councils, they show that these local councils became the most relevant and novel instrument of the social policies in Argentina. They created a new institutionalism in the implementation and participation of state-managed social programs and they strengthened the participation by organizations of the civil society at the grassroots level—new in the political scenario. The level of representation was very heterogeneous.

Although there is consensus that the capacities of these councils was exceeded by the operational requirements of such a program (e.g., the design and management of small infrastructure projects, the provision of social and local services, etc.), an important number of those developed new abilities in order to perform their tasks.

The infrastructure of the LC was also very heterogeneous, depending mainly on the characteristics and development of local governments and the way in which they coordinated with local NGOs and community organizations.

9. SOCIODEMOGRAPHIC CHARACTERISTICS OF THE BENEFICIARIES OF THE PLAN

The beneficiaries of the plan were followed very carefully by two means: the household survey, performed twice per year by the INDEC (National Institute for Statistics and Census) and an ad-hoc survey done by the Undersecretary for Technical Programming and Labor Studies at the Ministry of Labor. Additional studies were done by the World Bank at different levels, as well as by other institutions such as the ILO.

Although all views and surveys are important and contribute to the comprehension of the issue, the survey done with the beneficiaries provides the richest information.¹² Some of the findings, presented last August, are summarized here (Roca et al. 2005).

The authors state that in terms of geographical extension and population coverage this program has no historical precedent in the country and just a few at the international level. “It covers 16% of the overall country households, but regional differences are high. In some provinces, such as Formosa, Chaco, and Jujuy, this value reaches 40% of households” (Roca et al. 2005). This provides an idea of the local impact of the plan in those areas where unemployment impacted in a more dramatic way. This regional difference can also be higher when considering rural households, where the concentration of beneficiaries is very significant.

In terms of age, almost half of the beneficiaries were below 35 years old, with 33% who were between 25 and 35 years old and a little over 14% who were less than 24 years old, indicating that was a group of very young people.

9.1 The Positive Gender Bias of the Plan

The first factor than can be highlighted is that the plan has a considerable gender bias towards women. As a matter of fact, 71% of the beneficiaries are women and 60% of those households are single-headed. The difference between the two numbers can be attributed to some cultural facts, such as the stigmatization of men getting an unemployment benefit, but also that many of them have occasional jobs in the informal sector and the plan reinforces the very low payment that they get. It could be said that the household survival strategy is what defines who gets into the program; in general, it is the member of the household that has the least chance of getting a job in the market. Obviously this can be done only in those households with an informal or nonregistered relationship in the couple.¹⁴

9.2 Educational Level of Beneficiaries

A clear idea of the social strata reached by the program is given by the educational level of the beneficiaries, which is generally very low. When asked the highest educational level reached, 20% of the participants did not finish primary school (in Argentina, between first and seventh grade), while 37% did. The rest is divided between the 25% that started, but did not conclude secondary school, 11% that finished secondary studies (5 years, generally starting at the age of 13 years old), and 7% that began university.

To make a comparison, the overall economically active population in the country that did not finish primary school is only 7.4%, while 52.7% have finished secondary school or more.

9.3 Characteristics of the Households

Sixty percent of the households have one or two children, compatible with the single-headed young female household that was pointed out earlier in this paper. Sixteen percent have three kids, while 20% are very large households.

¹⁴ It is true that in some cases an informal couple may attend to the registration separately and get two benefits, but there is little evidence of that.

They are all very poor households; ninety percent are below the poverty line of that moment and 53% are indigent. Without the program, these figures would be more dramatic. The indigence level would reach 78% without the transfers from the program.

On average, the overall household income of the beneficiaries has increased by 67%, reducing indigence by 25 percentage points. One-fifth of the households have the benefit of the plan as their sole income.

9.4 Work Commitment

As was expressed in the legislation that governed the program, there is a work commitment of 20 hours per week for every beneficiary of the program. If this is not accomplished, the person could be laid off, while the same would happen if the beneficiary finds a full-time job in the formal sector.

This point has several political, social, and economic implications that generally define the different approaches that society has to the program.

After the recovery of the economy, some in the local business community were very much against the program, since it defined a de facto minimum wage for the informal sector, especially in the rural and more backward areas. Added to this was the stability that the beneficiaries of the plan have in terms of continuity in the reception of the allowance, making employees reluctant to leave the *Jefes* program for work in the formal or informal sector.

Many rural activities pay a salary well below the legally established minimum wage and are more seasonal than in urban areas, so beneficiaries were reluctant to leave the plan in order to engage in such activities that may last for just a few weeks or a couple of months, as reinsertion into the plan that was not guaranteed at the beginning.

Employers in those areas raised their voice, arguing that they had a lack of labor supply due to the program. Although this is a very personal point of view, the general idea is that labor costs have increased in some stages of agricultural production (such as fruit, tobacco, or vegetable harvesting) that require large amounts of physical labor. These costs have increased due to the wage floor established by the ELR program, but the producers would prefer the absence of such a wage floor in order to maximize profits. A similar situation occurred in urban areas with low-qualification jobs, such as housemaids, gardeners, and other types of activities that were, and are, poorly remunerated.

The Ministry has changed the regulations, allowing beneficiaries to leave the program for short periods of time in order to reduce distortions in local labor markets, but the minimum work requirement defined by the allowance is still in place.

There is a large portion of the public opinion that argues that in order to receive the income support, the work commitment should be mandatory. This is part of some sort of petty bourgeois morality, very much imposed by the mass-media, that is not willing to take responsibility for the well-being of the large number of excluded in the country.

The advantages of the work commitment are precisely those that are more criticized by some; it reduces the pressure on the poorly paid informal sector by providing a regular income, while providing on-the-job training whenever possible, as well as producing goods and services to be appropriated by the local community.

More than 80% of the beneficiaries work in some type of project. The rest argue that either health problems or having to take care of a direct relative is what impedes their ability to participate in the program. There may also be problems regarding the management of the projects. Sometimes local governments engage in projects that are finished and there is some dead time before the start of a new project or some local governments are quite inefficient designing or defining new projects. The national government tries not to punish the beneficiaries for the lack of work caused by poor planning within the municipal administration.

The participation rate of beneficiaries in projects varies according to regions and, in cases such as the province of Tucumán or Formosa, is well above 90%. The Greater Buenos Aires area, with a large number of beneficiaries, has the lowest value (at around 75%), but is also very heterogeneous according municipalities. It should not be like that in a large city where there are a wider range of activities that could involve beneficiaries, as will be seen when analyzing the typologies of projects.

9.4.1 Typologies of the Projects

The projects that the beneficiaries of the program are involved in can be divided into six major categories:

- Community projects
- Microenterprises
- Back-to-school
- Vocational training

- Administrative work at municipalities
- Private employment

The first group, community projects, involves a wide array of activities related to local development, both in terms of services and goods production. The services can be child or elderly care, health program support, community and school kitchens, etc. These are activities that were traditionally implemented by the state or provided at a market value, but inaccessible to households with lower incomes. There was also an increasing demand for these services due to the economic crises.¹⁵

In terms of goods production, this category can be divided in to local infrastructure (sewerage and irrigation schemas, construction and maintenance of schools and hospitals, forestry, parks maintenance, building of community centers and sports halls, etc.) and production of consumables (bakery, clothing, recycling, etc.). Around 60% of the beneficiaries involved in a work commitment are involved in these types of projects.

Microenterprises are projects that the beneficiaries initiate on an individual or collective basis. Sometimes they are associations with other types of organizations, such as cooperatives or even the private sector. They involve goods production, but also some services (housing maintenance, carpentry, small metal workshops, etc.)

These projects may receive the support of other public programs, such as loans, technical and commercial assistance, etc. but only eight out of every one hundred beneficiaries are in this category, notwithstanding the efforts from the public sector to involve more people in these types of activities.

Six percent of the participants in the program have chosen to go back to school to finalize their formal education. The expectations were that this typology could include more people, but there are some limitations in terms of infrastructure and teachers for adult population since the system was almost completely dismantled during the past decade. There are also problems at individual level, as people who abandoned school a long time ago are often too afraid or shy to get back into it.

Vocational training involves 4% of the beneficiaries. Here also is the problem of the infrastructure and the lack of special programs. The bulk of these programs were organized

¹⁵ The case of community or school kitchens is clear evidence of the income crisis of certain groups in extreme poverty, since thousands of these kitchens had to be implemented in order to reduce malnourishment in certain areas. Most of them were around local NGOs operating in public places (schools, hospitals, community centers), but also in private ones (churches, private houses, etc.).

with local governments that identified the needs in terms of skills at local level and implemented through technical schools, unions, and employers.

On average, 19 hours per week were dedicated to the work commitments, excluding those that were involved in schooling or training.

In relation to the organization of the work, a little over 50% of the participants agreed that the work was well organized by the institution responsible, with a reasonable provision of the materials and tools, as well the training involved in the task.

The main complaints were that the effort could be more productive or oriented towards other types of things, skilled individuals were doing lower qualification jobs, or that there was some sort of arbitrariness in designing the project in which the person was involved. Also a large number were unsatisfied with respect to the amount of the allowance.

It was very characteristic that those who are middle aged and previously had a job in the formal labor market perceived this as a temporary alternative and the longer they were in the program, the more difficult it would become to recover the previous type of jobs they held. In that respect, they demanded training in line with market requirements. Meanwhile, those that were working outside home for first time or previously had low-quality jobs were happy with what they were doing in the program.

Using the traditional characteristics for the analysis of the labor market, all beneficiaries could be considered employed or at least under-employed, since they worked 20 hours per day. With the information from the survey, a classification was constructed that showed the relationship with the work commitment of the beneficiaries to their position in the overall labor market in a differentiated way.

Table 3. Beneficiaries According Their Work Commitment and Activity Condition

| | Male | Female | Total |
|---|---------------|---------------|---------------|
| Works in the program and outside | 51.9% | 29.1% | 35.7% |
| Works in the program and is unemployed | 24.4% | 23.4% | 23.7% |
| Does not work in the program and works outside the program | 11.4% | 6.9% | 8.2% |
| Does not work in the program and is unemployed | 1.8% | 3.0% | 2.6% |
| Works in the program and is inactive | 7.1% | 28.2% | 22.1% |
| Does not work in the program and is inactive | 3.4% | 9.4% | 7.7% |
| TOTAL | 100.0% | 100.0% | 100.0% |

Source: Roca et al. (2005)

The 35% of the beneficiaries that work outside the program are involved in precarious activities in the informal sector, mainly seasonal work; sixty percent of them are self-employed and the rest are nondeclared workers. According to the survey, on average, male workers perform work for 24 hours per week, while females work for 14 hours per week. Of those who have work both within and outside of the program, 81% fulfill their *Jefes* work-commitment.

9.5 Labor Profile of Beneficiaries

The bulk of the people involved in the program have had previous work experience. Almost all men (98%) previously had a job, as well 82% of the women. The first group had mainly been involved in construction, as well as some industrial production activities, while the female population was employed in housecleaning, administrative work, and industries.¹⁶ Almost one-third have a technical or occupational skill achieved either on the job or via school, while the rest are nonqualified workers.

Separated by gender, the male population is divided by half in terms of skilled versus nonskilled, while three-quarters of the females do not have working qualifications.

In terms of regions, those that have now or had previously some sort of industries (i.e., Greater Buenos Aires, Córdoba, or Tucumán) have a higher share of skilled workers in the program.

9.6 Reinsertion of Beneficiaries in the Formal Labor Market

Almost 750,000 beneficiaries were reinserted into the formal labor market since the initiation of the plan. A logistic model shows the probability of reinsertion according certain personal characteristics of those that got a job in the formal sector.

The most relevant factors influencing the dependent variable (reinsertion in the labor market) are gender (male) and previous experience in the labor market. The combination of both is three times higher in relation to the case of a female without previous working experience.

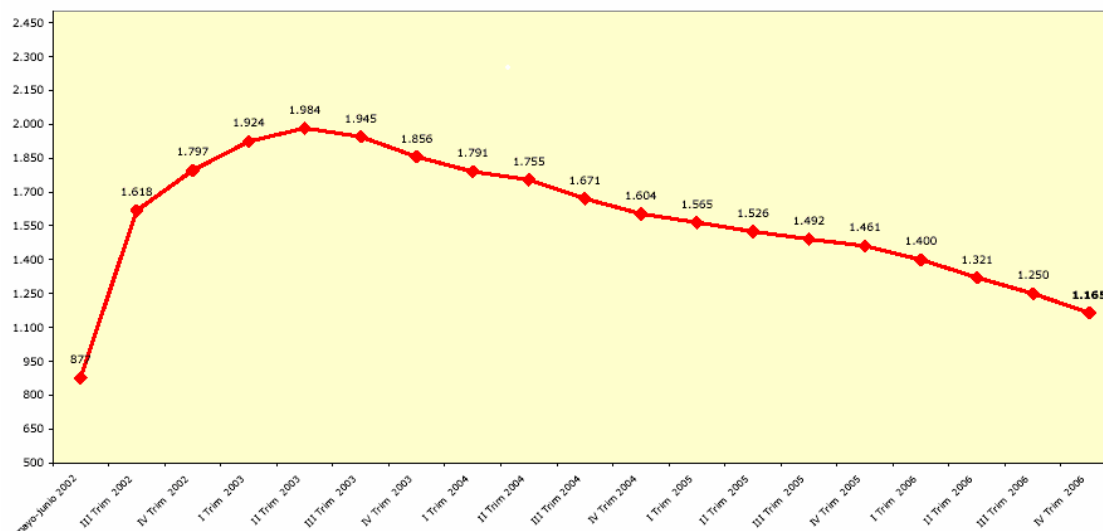
Being skilled increases the probability of finding a job in the formal sector by 30%, while each year of formal education increases the chances of joining the formal labor market by 7%.

¹⁶ There were many localities that were related to one firm or one type of industry that lost their main source of income in the 1990s when unemployment skyrocketed locally.

Married workers have 5% more probabilities, while age and quantity of descendants has a negative probability.

Almost three-fourths of the male beneficiaries went into construction and manufacture, while the females took jobs in the service sector.

Figure 6. Evolution of *Plan Jefes* Beneficiaries—Quarterly Average (in thousands)



Source: Secretary of Employment—Ministry of Labor

10. THE ECONOMY AND THE EMPLOYMENT IN ARGENTINA TODAY

The recovery of the Argentinean economy has been very important since 2002. If the forecasts for 2006 are correct, it will be the first time in fifty years of Argentinean history that the economy grew for four continuous years.

Table 4. Evolution of GDP at Market Prices, Unemployment Rate, and Employment Rate at the Third Quarter of Each Year

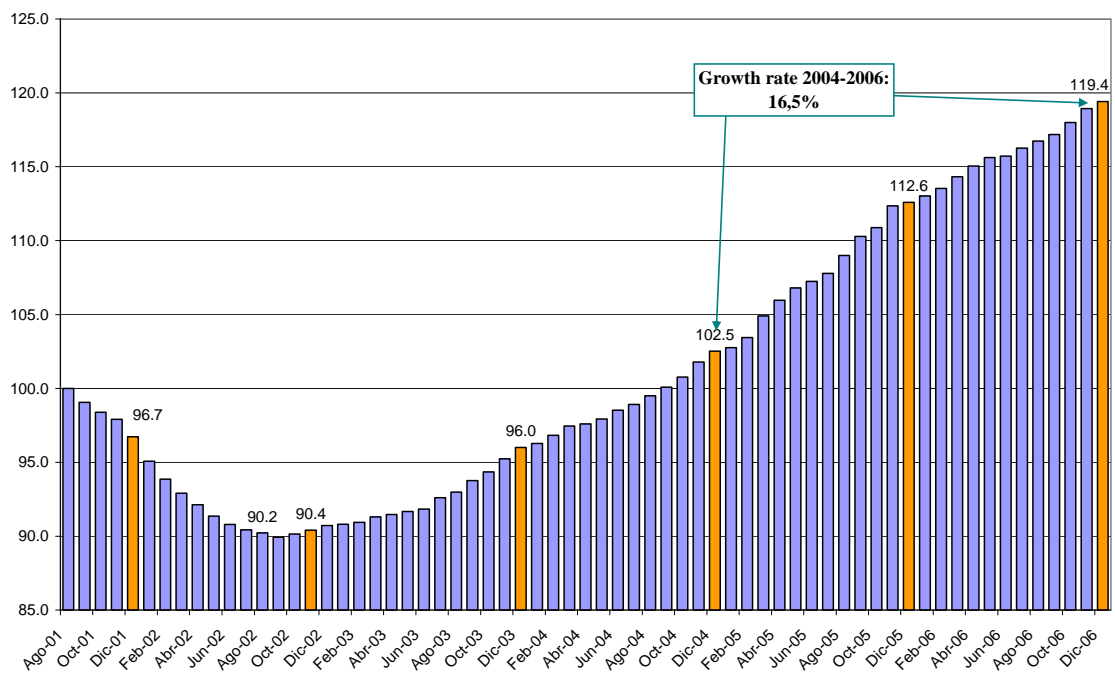
| Year | Quarterly Average | Yearly Growth Rate | Unemployment Rate, QII | Employment Rate, QII |
|------|-------------------|--------------------|------------------------|----------------------|
| 2002 | -0.87 | -10.89% | 21.50 | 32.80 |
| 2003 | 2.81 | 8.84% | 17.80 | 36.20 |
| 2004 | 2.24 | 9.03% | 14.80 | 37.40 |
| 2005 | 2.18 | 9.18% | 12.10 | 39.40 |
| 2006 | 2.08 | 8.46% | 10.40 | 40.10 |

Source: National Accounts and INDEC

Note: Employment rate over total population

The table above shows the GDP growth, as well as the quarterly averages and the forecast for 2006. As was mentioned before, this was also reflected in the employment—not only in the informal sector, but mainly in the formal one.

Figure 7. Evolution of Formal Employment Level (Aug01=100)



Source: EIL—MTEySS (Survey of Labor Indicators—Ministry of Labour, Employment and Social Security)

After the sharp decline of more than ten points between August 2001 to August 2002, the recovery between December 2004 and the same month of 2006 in the formal work at firms with more than ten employees was 16.5%.

The three million unemployed in May 2003 was reduced to 1.3 million in 2006. Of the six million of persons with employment problems (unemployed plus underemployed), the number was reduced in the same period to 3.1 million.

The purchasing power of the minimum wage at the end of 2006 was more than double that in December 2001.

This transcends the mere bouncing back of the economy. It is more a result of steady growth in the new macroeconomic environment, although many things still have to be done.

11. CONCLUSIONS

As can be seen, although far away from the ELR-type of program supported by the so-called Kansas City Approach, the *Plan Jefes* is the closest of these types of programs in place today in any country of the periphery.

There is a lot of disagreement on the importance of this program's contribution to the Argentine economic recovery, but nobody can deny that it played, and plays, an important role, especially in support of those excluded sectors of the society that were very much polarized by more than a decade of following the recommendations of the mainstream.

Obviously, and to avoid the same simplification done by the technocrats of the multilateral institutions, one size does not fit all. The state can always perform the role of employer of last resort in the framework of an aggregate demand type of unemployment. When the problem is more of the type of structural unemployment, i.e., due to a lack of investment and no excess capacity (a-la Marx), the selection of projects and the destination of the money involved should be thought through in a different way.

There are also some structural problems in terms of patterns of consumption and production of some goods, such as wage goods. A country must have the capacity of securing those goods in order to avoid shortages, inflation, or problems that will affect the viability of the program; the state should be ready for intervention at different levels.

The development of analytical tools in order to evaluate the ex ante and ongoing effects of these programs is a must.

This type of program requires a very high level of coordination between jurisdictions (public and private sector), but above all must guarantee transparency and participation in order to assure the political legitimacy of these types of initiatives.

Efficient and creative management, serious technical evaluation, transparency, and strong political will are the basic requirements to succeed on an employment road to economic recovery.

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