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Their Promises

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by
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1. Introduction

Proponents of income and job guarantee schemes agree on two things. The first is that both the market economy and the modern welfare state have failed many members of society by increasing the precariousness of the labor market, reducing safety nets, and leaving many without the basic resources for a decent living. Poverty, income inequality, and unemployment are pervasive features of capitalism, and modern welfare often takes the form of punitive measures aiming to discipline the ‘undeserving’ poor or the unemployed. The second is that to begin addressing these problems, public policy needs to provide some type of universal guarantees to all citizens. It is the nature of these guarantees that represents the sharp division in policy recommendations.

Income guarantee supporters champion the provision of an adequate standard of living by providing sufficient resources to all member of society. They argue that this objective can be achieved by guaranteeing a minimum income to all (a basic income guarantee, or BIG hereafter). Direct job creation proponents want to guarantee access to a job that could provide a minimum income to the economically active population and their dependents. They believe that adequate resources can be provided by guaranteeing a job to all who want to work, usually through programs like the Employer of Last Resort (ELR). The key distinction between the two is that basic income advocates want to decouple the income-work relationship observed in modern economies, claiming that economic justice and freedom require that resources are provided to individuals without the compulsion to work. Job guarantee supporters, on the other hand, want to address the unemployment problem, arguing that there are many people who want to work but cannot

find employment. They would provide ‘welfare’ through an income guarantee only to those who cannot work.

In this paper we advance two arguments. The first is that basic income guarantees are unlikely to achieve the objectives of alleviating poverty, income inequality or poor standards of living, because these proposals have an inherent highly inflationary bias with potentially disastrous consequences for the currency. An understanding of modern monetary systems elucidates why the provision of income without requiring that the recipient expends any effort in exchange can drastically reduce the value of the currency. This onset of inflationary pressures, in fact, renders the basic income guarantee self-defeating. By implication then, the proposal cannot ensure the freedom and opportunity that BIG supporters claim it would. The poor bear much of the brunt of inflation and thus precisely those whom BIG aims to help suffer from that very same policy.

Next we argue that certain direct job creation programs such as ELR achieve most of the common goals that income and job guarantee supporters share, without introducing the crucial problem of inflation. We explain that such programs can be designed so that they are not coercive or demeaning. Neither should they be means tested. An ELR program is neither slavery, nor unemployment by another name. Using Argentina’s recent experience with job creation, we demonstrate how ELR can promote civic duty, citizenship, social cohesion, reciprocity, and community involvement while guaranteeing full employment—all without the harmful consequence of price instability. In addition, the Argentinean experience demonstrates that an ELR program can contribute to the redefinition of the meaning of work, by commanding recognition that certain forms of labor, such as caring and community involvement, are socially useful. The Argentinean

ELR program *Jefes de Hogar* (Heads of Household) has also promoted democracy by empowering individuals who had previously been marginalized. All of these consequences are considered highly desirable by basic income supporters.

We do think that there is common ground between BIG and ELR and that these are not competing but complementary policies. We agree that basic income is needed for those who are too young, too old, or too ill to work (Tcherneva 2003). Further, we agree that a less generous form of BIG would not necessarily cause high inflation. For example, mailing an annual check of \$100 to all American citizens is not likely to cause inflation. However, it is the intention of some BIG proponents to guarantee a decent standard of living by mailing a check sufficient to purchase that standard of living to all Americans. We believe that such a policy will cause high inflation, if not hyperinflation. The dollar price of a decent standard of living would rise, necessitating rising annual payments and (probably) a benefit-price spiral. Further, the incentive to work would be reduced, so that employment and output would fall adding to inflationary pressures. Some BIG supporters want to include a progressive income tax to ‘finance’ the BIG payments (Aronowitz and Cutler 1998, Aronowitz and DiFazio 1994); this would only make matters worse and could hasten hyperinflation by further reducing the incentive to work for ‘market’ income. The logical conclusion could be hyperinflation with output falling. In practice, this could take some time and it is possible that hyperinflation and output tending toward zero would not result for months or even years. Many income guarantee supporters propose a flat, but quite high, tax. Clark, for example, proposes flat taxes for Ireland at 47.14% and for the US at 35.2% (Clark 2002, 2004). Finally, Van Parijs (1995) and Meade (1989) have proposed a regressive tax. A flat tax would not

provide such a large disincentive to work as compared with a progressive tax, while a regressive tax would practically ensure that no one would want to work in lower wage jobs subject to high tax rates.

2. Inalienable rights

a. The Right to Income

The moral justifications for basic income can be traced back to the writings of Thomas Paine (1796). In the modern literature, the most ardent supporter of this idea is Philippe Van Parijs, who champions a profound reform in policy based on the ethical imperative of securing freedom, equality, and justice for all (1995).¹ The basic idea rests on Van Parijs's concept of *real freedom*, which ensures full membership and participation in social life to all members of society.² The libertarian concept of *real freedom* rests on two pillars. The first is that individuals are formally free within a well-enforced structure of property rights and personal liberties. The second is the concern with the *worth* of that individual liberty.³ This second pillar is in fact the crux of the pro-basic income argument. According to Van Parijs 'the worth or real value of a person's liberty depends on the resources the person has at her command to make use of her liberty (Van Parijs 2001: p. 14).' Thus the object of concern, Van Parijs continues, must be

the distribution of opportunity—understood as access to the means that people need for doing what they might want to do—[which is] designed to offer the

¹ See also Van Parijs's edited volume *Arguing for Basic Income: ethical foundations for a radical reform* (1992). This tome offers a comprehensive list of rationales for the basic income idea—including left-libertarian, egalitarian, and communitarian justifications.

² Barry argues that the concept of *real freedom* is defined too broadly (1996). Widerquist's discussion of freedom as 'independence,' 'effective control self-ownership,' or 'the power to say no' attempts to qualify the meaning of real freedom and strengthen the argument of real freedom as a mandatory condition for social justice (2004).

³ The concept of 'worth of liberty' comes from John Rawls (1971).

greatest possible real opportunity to those with fewest opportunities, subject to everyone else's formal freedom. (*ibid.*)

Real freedom then is not only a matter of rights but also of means (Van Parijs 1995: p. 30). Thus the provision of a basic income to all which offers equal access to resources and opportunity is seen as an unalienable human right.

b. The Right to a Job

Job guarantee supporters see employment not only as an economic condition but also as potentially a right. Wray and Forstater (2004) provide a concise statement of the justifications for the right to work as a fundamental prerequisite for social justice. They first trace the philosophical origins of the argument to John Dewey, who maintained that:

The first great demand of a better social order...is the guarantee of the right, to every individual who is capable of it, to work—not the mere legal right, but a right which is enforceable so that the individual will always have the opportunity to engage in some form of useful activity and if the ordinary economic machinery breaks down through a crisis of some sort, then it is the duty of the state to come to the rescue and see that individuals have something to do that is worthwhile—not breaking stone in a stoneyard, or something else to get a soup ticket with, but some kind of productive work which a self-respecting person may engage in with interest and with more than mere pecuniary profit. (Dewey 1939: pp. 420-21, quoted in Wray and Forstater 2004: pp. 253-254)

Some job guarantee supporters such as Harvey (1989) and Burgess and Mitchell (1998) argue for the right to work on the basis that it is a fundamental human (or natural) right. Such treatments find support in modern legal proclamations such as the United Nations Universal Declaration of Human Rights or the Employment Act of 1946 and the Full Employment Act of 1978. As these authors recognize, social justice arguments rest on more than the official recognition of the right to work as a fundamental human right. Amartya Sen, for example, supports the right to work on the basis that the economic and social costs of unemployment are staggering with far-reaching consequences beyond the

single dimension of a loss of income (Sen 1999: p. 94). Another Nobel Prize Winner William S. Vickrey (2004) identified unemployment with “cruel vandalism” and spent the latter years of his life outlining the social and economic inequities of unemployment and devising strategies for its solution.

In sum, we believe that the justifications for the right to income and the right to employment on the grounds that they are human rights consistent with the goals of social justice and freedom are not incompatible. But the theoretical discord arises when we study each policy in the context of modern monetary economies. It then becomes clear that income guarantees fail to deliver their promises.⁴

3. The Basic Income Guarantee (BIG) and its objectives

There are multiple variants of the guaranteed income idea—it generally goes under the names of ‘territorial dividend’, ‘state bonus’, ‘demogrant’, ‘citizen’s wage’ ‘universal benefit’ and ‘basic income’ (Van Parijs 2004: p. 7). Generally these refer to a universal payment to each citizen, irrespective of gender, marital or employment status. There is another type of basic income called the negative income tax (NIT), which guarantees a basic income to those who cannot earn adequate or any private sector income.⁵ In other words, those individuals whose income falls below a certain tax threshold receive a negative tax to bring them up to the minimum that is promised. Most modern income guarantee advocates support a basic income scheme that is not conditional on market participation the way the negative income tax is, and therefore, NIT will not be the object of our attention here.

⁴ Harvey (2003) similarly argues that there is no theoretical incompatibility between income and employment guarantee proposals. He favors the latter over the former on the grounds that basic income is more costly and fails to address adequately the need to secure the right to work.

⁵ NIT is thought to have originated in Milton Friedman’s *Capitalism and Freedom* (1962).

Van Parijs offers perhaps the broadest and most widely accepted definition of basic income:

By *universal income* I mean an income paid by a government, at a uniform level at regular intervals, to each adult member of society. The grant is paid, and its level is fixed, irrespective of whether the person is rich or poor, lives alone or with others, is willing to work or not. (Van Parijs 2001: p. 5)⁶

The essential feature of BIG for the purposes of our paper is that basic income is not conditional on market participation.

BIG goals

Basic income proposals are motivated by a plurality of goals. Justice as we explained in the previous section is a core justification, but basic income is considered just also because it liberates individuals from submitting to demeaning wage-labor employment and it allows them to pursue the ‘realization of one’s conception of the good life’ (Van Parijs 2004: p. 18). In essence, BIG offers the freedom to say ‘no’ to undignified forms of employment and to choose the form of activity an individual wishes to pursue (Widerquist 2004).

The underlying assumption is that the labor market can no longer ensure adequate wages for all to cover their basic needs. Global transformation, high inflation, and protracted periods of unemployment have marginalized those individuals whom the market mechanism has found to be redundant (Standing 1992, Offe 1992).

As conventional policies are considered to be lacking, BIG meets the dual challenge of poverty and unemployment without the general welfare traps of forced

⁶ Some BIG schemes propose a basic income to all citizens, and not just to adults. See for example Clark (2004).

inactivity or low-paid inactivity (Van Parijs 1995, Clark 2002).⁷ Thus basic income provides a social safety net, which arguably eliminates the poverty and unemployment traps, while at the same time enhancing individual's autonomy and worker's bargaining power.

Another major goal of BIG is the advancement of socially inclusive society and the improvement of the socio-economic situation (Clark 2002, Fitzpatrick 2003). In addition, BIG is expected to increase efficiency. Clark (2002) argues that solely monetary measures of efficiency are inadequate and proposes the following definition:

Efficiency is concerned with the improvement of the socio-economic situation of the whole country, with an emphasis on maximizing social participation in all its forms. (Clark 2002: p. 17)

By enhancing social inclusion and civic attachment, income guarantees also enhance efficiency.

How big should BIG be?

If a basic income is pitched at a level insufficient to cover an individual's basic needs, then it is partial. A full basic income will be at the subsistence level (Van Parijs 1992: p. 237n27) or at the official poverty line (Clark 2004). For Van Parijs, however, maximization of individual life-chances and opportunities and, therefore, real freedom requires that a basic income be set at the *highest sustainable* level (Van Parijs 1992, 1995, 2004). Such an income will (arguably) make a number of public assistance programs obsolete. Van Parijs believes, however, that a partial basic income, which replaces very few or no public assistance programs, is an important first step to implementing his more ambitious proposal.

⁷ These welfare traps are the 'poverty trap' and the 'unemployment trap.'

The basic income proposals vary in size. Among the relatively modest proposals is Atkinson's 'revenue neutral participation income' for the UK for 1992, which ranges from £17.75 to £39/per week (or approximately £925 to £2034 annually) (Atkinson 1996: pp. 69-70).⁸ Among the boldest schemes is Schutz's \$30,000 per year (Schutz 1996: pp. 14-15). Generally, however, proposals hover around the official poverty line (see Simon's pitch for \$8,000 (2001) and Clark's proposed \$9,359 minimum (2004)). Barry defends a subsistence level basic income (2001: p. 64), while Dore (2001: p. 80) and Van Parijs (2001) see subsistence-level incomes as the first step toward the highest sustainable income guarantee.⁹

The size of the basic income is crucial for its ability to accomplish its goals. In the next section we explain what a job guarantee would look like. It will become clear that, while the objectives of ELR seem somewhat narrower, the actual positive effects of the program are substantial and broad. In this sense, ELR has sizeable positive externalities, which bring about additional benefits, which are considered highly desirable by BIG supporters.

Some of the desirable goals, such as social cohesion and civic participation, are much emphasized in the debates over conditionality requirements for income guarantees. Not all BIG supporters insist on breaking the income-work relationship. Atkinson for example proposes that:

⁸ Atkinson advocates a partial basic income, which is conditional on participation in useful activities. We believe that basic income programs conditional on participation make the most sense, although we disagree with the specified methods of financing. For a detailed discussion on the logic of financing job or income guarantee programs in modern monetary economies, see Tcherneva 2003 and Mitchell and Watts 2004.

⁹ Van Parijs does not put a price tag on what he considers to be the highest sustainable income, which undoubtedly will vary from country to country.

basic income would be paid conditional on *participation*. I should stress at once that this is not limited to labour market participation ...but ...would also include people engaging in approved forms of education or training, caring for young, elderly or disabled dependants or undertaking approved forms of voluntary work, etc. (Atkinson 1996: pp. 68-69)

In fact, Atkinson's participation income offers the greatest promise for a marriage between ELR and BIG.¹⁰ All of these proposals emphasize the need for defining work very broadly—an objective considered highly desirable by ELR advocates as well.

4. The Employer of Last Resort (ELR) and its objectives

There are different versions of ELR. Harvey's proposal seeks to provide a public sector job to anyone unable to find work, with the pay approximating a 'market wage,' whereby more highly skilled workers would receive higher pay (1989). Argentina's *Jefes* program (examined below) targets heads of households only and offers a uniform basic payment for what is essentially part-time work. The version of ELR that we will examine here is based on Hyman Minsky's 1965 proposal, developed further at *The Center for Full Employment and Price Stability*, University of Missouri-Kansas City and independently at *The Centre of Full Employment and Equity*, University of Newcastle, Australia. The federal government provides funding for a job creation program that would offer a job to anyone who is ready, willing and able to work. The compensation

¹⁰ Another similar proposal is White's *Civic Minimum*. White (2003), Fitzpatrick (2003), Galston (2001), and Anderson (2001), among others, support some conditionality on the basis that there needs to be a reciprocal obligation on the part of the recipient of the basic income. Atkinson's motivation for conditionality is different—he proposes community involvement primarily for pragmatic reasons—it is easier politically to achieve BIG with some work requirement than with none. Jordan et al. (2000) support a gradualist approach of introducing basic income conditional on labor market participation, which will later be broadened to include various public service activities as suggested in Atkinson's participation income, until finally all conditionality clauses are removed. Other commentators such as Van Parijs (1992, 1995, 2004), Clark (2003), Widerquist (2004), and Noguchi and Lewis (2004) oppose any conditionality provisions. But when discussing the political realities, Van Parijs has consented that participation income may be preferable in the short run. See also Groot and van der Veen (2001) and Rogers and Cohen (2001).

would consist of a uniform hourly wage with a package of benefits. The program could provide for part-time and seasonal work, as well as for other flexible working conditions as desired by the workers. The package of benefits would be subject to congressional approval, but should include health care, child care, payment of Social Security taxes, and usual vacations and sick leave. The single, uniform, wage would also be set by congress and fixed until congress approves a rate increase—much as the minimum wage is currently legislated. We will discuss additional details below, including considerations involving the initial setting of the wage and benefits package.

ELR goals

The goals of ELR are to promote full employment and price stability. ELR aims to provide a job at a living wage to those who are ready, willing and able to work and who have not found private sector employment. ELR would not aim to reduce poverty among the inactive population (except among dependents of workers). However, by promoting price stability, the economically inactive population could receive benefits by maintaining the purchasing power of their income (from whatever source). As such it could be argued that its goals are narrower than those of BIG. It would have to be supplemented by an income maintenance program for those who are not economically active.

a. Full Employment

There are various definitions of both full employment and price stability, so it is necessary to define these terms as we will use them. The old Beveridge definition identifies full employment as a situation in which there are more job vacancies than people seeking employment. Minsky's adaptation of this definition for ELR is a

perfectly elastic labor demand at the uniform basic ELR wage. In other words, a job vacancy is made available on demand for anyone ready and willing to accept work at the ELR wage. As such, it also fulfills the Beveridge definition.

b. Price Stability

Price stability has been defined with respect to a constant price index; however, this is not very useful in a dynamic economy in which an overall index can change simply because the composition of the basket changes. Federal Reserve Chairman Greenspan has defined price stability as a situation in which inflation no longer plays a role in decision making—a definition for which we find no strong theoretical justification, and that we find unhelpful on an operational level. We will define price stability with respect to stability of what Keynes called the wage unit. Of course, as Keynes recognized, labor is heterogeneous so that wages in a capitalist economy are anything but uniform. If we could weight labor by skill (and other relevant variables such as experience, seniority, and so on) we could reduce all labor units to multiples of a basic, unskilled, unit of labor that is paid ‘the’ wage unit. Labor with greater skill, experience, seniority, and so on, would be paid a multiple of the wage unit. Price stability is realized as a constant purchasing power of money in terms of this wage unit. In practice, of course, this is somewhat problematic. The uniform basic wage paid in the ELR program, however, could be a reasonable approximation of the wage unit.

As we will explain below, except in unusual circumstances, non-ELR employers would have to pay at least the ELR wage (including benefits package) to hire workers away from the pool. Hence, from the perspective of the ‘labor market,’ the last (marginal) worker that would be hired out of the pool would have to be ‘worth’ at least

the ELR wage to the employer. On the margin, the productivity of the workers hired out of the pool would vary, so that the value of the dollar would vary somewhat in terms of the labor unit hired. Stated another way, the dollar will be ‘worth’ the number of ‘labor units’ it can hire out of the ELR pool. If the ELR wage is \$10 per hour, then the dollar is worth 6 minutes of labor time (reduced to this simple labor unit).

So long as the ELR wage is held constant, the wage unit (as described here) is constant, if the ELR operates as a buffer stock. The mechanism is as follows: when there is upward pressure on wages due to high private demand for labor, government spending shrinks as ELR workers find jobs in the private sector, thus relieving inflationary pressures. Conversely, when the private sector lays off workers, government spending expands countercyclically as the unemployed find jobs in the ELR program, thereby relieving deflationary pressures. It follows that ELR promotes price stability *so long as ELR operates as a buffer stock.*

Program design

As we envision the program, the federal government provides the funding for the wages and most of the benefits; it would also provide funding for at least some of the administrative, capital, and infrastructure needs (more below). However, the actual hiring of most of the workers would be highly decentralized, and undertaken by not-for-profit community organizations, and state and local governments. We are skeptical of for-profit participation in this program because of the likely substitution effects—however, it is conceivable that a carefully designed program could include some funding of private firm hiring of ELR workers. Below we will discuss how Argentina has designed a decentralized program in which communities formulate projects and then

apply for funds to hire ELR workers. As we discuss later, this helps to ensure that the work performed by ELR workers produces ‘output’ valued by the community. This can be critical for maintaining political support for the program.

Obviously the process of actually employing a worker in ELR is somewhat complicated. Let us take the example of a private sector worker who has just lost her job. She may have a severance package that includes employer-provided unemployment benefits, and hence, prefers to devote herself to full-time job search; she may also have state-provided unemployment benefits with a specified duration; and she may have savings that allow her to postpone accepting a job for some number of months as she seeks the highest offers. So long as she is satisfied with such a situation, she is not involved with the ELR program. At some point, she may decide that she is not going to find an acceptable job offer and she has exhausted her unemployment benefits and savings, so she seeks work in the ELR program. She will register at her local ELR employment office, which begins to try to match her interests and skills with local ELR employers. These employers have already submitted proposals to employ ELR workers, received approval, filed with the employment office, and agreed to submit to oversight, accounting, and reporting requirements.

Matching the worker with an appropriate job can take some time, during which she could begin receiving her ELR checks, depending on program design. Specific job search tasks could be assigned so that she would look for both ELR and non-ELR jobs. Perhaps it would be necessary to offer a temporary ELR job that was not a good match for her particular skills and interests until a better match could be made. In some cases, the worker might be offered training courses or courses in basic literacy, as appropriate—

again, depending on program design. The intermediate goal is to match the worker to a job that she can perform and in which she can maintain (and perhaps improve) basic work skills while enabling the ELR employer to make progress on the community project. The long run goal, which is ultimately the most important goal, is to move the worker into non-ELR work. This is the primary reason that the employment office will try to achieve a good match. Functioning of the ELR program is not seriously impaired even if good matches are not made because so long as ELR workers are actually working, they are demonstrating their employability to the private sector. At the margin, this must be better than remaining at home while collecting unemployment or welfare checks. Still, it is obviously in the interests of the worker and of society to try to find something useful for the ELR worker to do, and which utilizes and enhances the ELR worker's skills so that she will become a more desirable employee from the perspective of non-ELR employers.

In the remainder of the section we examine four important considerations. First we examine matching of employees with jobs. Critics of ELR have raised a variety of muddled objections and questions regarding program design and especially about assignment of workers to jobs. Sawyer wonders whether sexual perverts will be assigned to work closely with vulnerable populations such as children or the frail aged (Sawyer 2003: p. 16). Obviously, ELR employers will carefully screen the pool of potential ELR workers, just as childcare and aged care centers are expected and required by law to do. Neither would women's shelters hire wife-beating males out of the ELR pool. Indeed, no ELR employer would be forced to hire any particular ELR worker. Different approaches could be taken to dealing with the (probably small) residual pool of ELR workers than no

ELR employer wanted to hire. One approach would be to have the state or federal government stand by as the ELR employer of last resort, designing jobs that would be appropriate for such workers. Alternatively, these workers could be sent to training programs, to counseling, to substance-abuse treatment, or whatever alternative was appropriate to dealing with their problems—as a condition of receiving the ELR wages and benefits.

Second, many critics have wondered how ELR differs from forced-labor such as the US slavery system in the pre-civil war south, or from Nazi concentration camps of the 1930s and 1940s. The answer is obvious: only those who sign up for ELR employment are eligible to work in the program; and any ELR worker is free to walk off any ELR job at any time. Those who do not want to work in the ELR program would be free to refuse ELR work. By the same token, ELR employers would be free to fire workers for inappropriate behavior (substandard work, illegal activities, and so on). ELR workers might be given some number of chances, but after an individual is fired, say, three times, she would not be permitted to register for the ELR program for a specified period. As Minsky put it, ELR tries to ‘take workers as they are’ but reasonable, minimum standards would be maintained for those wishing to participate in the program.

Third, Sawyer (2003) has argued that participation in the program would fluctuate between zero employees in a business cycle expansion and millions of employees in a recession. This would, he claims, make the program unmanageable. He appears to arrive at this conclusion by equating the ELR pool with some official measure of unemployment, and then assuming that economic expansions reduce the number of unemployed to zero. In practice, of course, no expansion ever eliminates even the

officially unemployed—the Clinton boom left 6 million officially unemployed people behind. Second, as Pigeon and Wray (2000) have demonstrated, even at the peak of the Clinton boom there may have been 12 million ‘potentially employable’ workers between the ages of 25-64, or three times the number of officially unemployed in that age group. The Bush recession resulted in the loss of 3 million jobs, presumably adding significantly to the number of potentially employable. In any case, the cyclical swing in the ELR pool would not be so large that it would create insurmountable problems for program organizers, or for ELR employers. As Mitchell and Wray (2005) discuss, it might be desirable to create two types of ELR jobs—those that would be maintained across the business cycle, and ‘off the shelf’ projects that would be undertaken only when the ELR pool expanded sufficiently.

Finally, an important consideration regards the setting of the wage benefit and package for ELR workers. The goal would be to set the wage and benefit package at a ‘living standard’ level—appropriate to the society under consideration. Recall that the ELR program will establish the effective ‘wage unit.’ Let us suppose that the ELR wage is set at \$10 per hour (plus benefits)—this will become the minimum ‘market’ wage. If, before ELR were implemented, the market wage for the basic labor unit had been only \$6, the society would experience a one-time adjustment of wages and perhaps prices (in practice this adjustment process could take some time). However, if the ELR wage is then held constant at \$10 per hour, it serves as a stabilizing force by setting the wage unit. This makes it clear that the initial setting is not so important and, indeed, is somewhat arbitrary. Stability once it is set is what is important. Over time, it is likely that the price of a typical consumer basket will rise (or fall) relative to the wage unit—in which case

there will be political pressure to raise (or lower) the ELR wage. We prefer to have infrequent adjustments of the wage unit—to preserve the wage-and-price stabilizing effects—hence, we do not support automatic indexing. Rather, increases of the ELR wage would go through the political process, much as changes to minimum wages now do.

We now turn to possible problems with a BIG program.

5. BIG's Achilles' heel

BIG can be highly inflationary

As we explained in the subsection on price stability, the value of the dollar is determined on the margin by what must be done to obtain it.¹¹ If money ‘grew on trees,’ its value would be determined by the amount of labor required to harvest money from trees. In an ELR program, the value of the dollar is determined on the margin by the number of minutes required to earn a dollar working in the ELR job—six minutes in our example above. Assuming that BIG provides an equivalent payment of \$20,000 per year to all citizens (\$10 per hour for a normal 2000 hour working year), the value of the dollar on the margin would be the amount of labor involved in retrieving and opening the envelope containing the annual check from the treasury, divided by 20,000. Obviously, the purchasing power of the dollar in terms of labor units would be infinitesimally small under a universal BIG scheme. Again, as we said above, this is the logical conclusion of the inflationary process that would be set-off by implementation of such a BIG program—it might not happen overnight.

The BIG inflationary trap

¹¹ Also see Mitchell and Watts (2004) who advance a similar argument.

As BIG sets off inflation, it erodes the purchasing power of the BIG check. In order to maintain its policy goals (i.e. pull people out of poverty or maintain a decent standard of living) the basic income payment must necessarily increase to compensate for the inflationary pressures. If the payment is *not* increased, we will have a ‘one-off’ price rise when the recipients receive their checks; but this payment will not be able to buy the (now) more expensive goods necessary to maintain the desirable standard of living. So if policy keeps the basic income at the original level, the benefit payment will be insufficient to buy a decent living standard.

Since the objective is that people will be capable of buying the minimum desirable basket of goods and services, the basic income payment must be continually redefined upward. This, however, further increases prices and erodes the BIG purchasing power yet again. We are caught in a vicious cycle, which creates what we can call the BIG ‘inflationary trap.’ As the value of the currency deteriorates, the purchasing power drops, necessitating an increase in the benefit payment. As the level of the minimum guaranteed income is redefined upward to compensate for the drop in purchasing power, the value of the currency drops further, requiring another increase in BIG payments. This is a vicious and hyperinflationary cycle created by the BIG trap—the income that aims to provide people with the resources for a decent standard of living is continually eroded thus depriving them of these resources. BIG is therefore self-defeating. As inflation affects the poor more than the wealthy, BIG harms precisely those whom it intends to help the most. What must be recognized here is that *in a modern monetary economy, unconditional provision of monetary income does not offer the means to a good standard*

of living, rather it erodes these means; i.e., it redefines that standard of living (or the poverty line, if that is the desired benchmark) in monetary terms.¹²

6. How ELR addresses some of BIG's goals without introducing its disadvantages.

While the primary objectives of an ELR are somewhat narrower than those of BIG—ELR only aims to eliminate unemployment while maintaining stable prices—it accomplishes a number of goals that are important to BIG advocates as well. Most importantly for the purposes of this paper, ELR does not introduce inflationary pressures.

As discussed above, the ELR wage unit maintains a relatively constant purchasing power of the dollar—the dollar will be worth the amount of labor it can hire out of the ELR labor pool. This is a major advantage over basic income. ELR does not introduce inflationary pressures for several reasons. The most important one is that it fixes the value of the currency to the labor buffer stock wage.¹³

ELR does not suffer from the inflationary trap, which is characteristic to BIG, and if the wage is set at the living wage level (something which most job guarantee supporters favor), neither does it have the unemployment and poverty traps that BIG proponents fear.

ELR brings other advantages. First, it is universal and purely voluntary. We strongly object to punitive conditionality criteria or demeaning means-tests. Furthermore ELR jobs provide not only income but also socially valuable goods and services.

¹² When compared to direct job creation proposals BIG lacks other desirable features. For example it does not benefit from the strong countercyclical mechanism of ELR proposals. Furthermore, ELR programs are better suited to improving the investment environment and maintaining and enhancing human capital. For details and a more comprehensive critique, see Tcherneva 2003 and Mitchell and Watts 2004.

¹³ For details on the buffer stock mechanism, see Wray (1998). For other reasons why ELR is not inflationary, see Forstater (1999).

Among BIG advocates, Van Parijs, for example, recognizes that even a colossal BIG program may not resolve issues such as inadequate housing, education, or healthcare—all key components of a decent standard of living. Van Parijs acknowledges that a BIG must be part of a more comprehensive social policy that includes other programs, but he devotes little discussion to how to ensure that these other necessities are also provided.

What ELR offers is a *vehicle* for achieving many of the goals that society democratically determines are worth pursuing. If the goal is the adequate provision of care for the young, sick, and elderly, then ELR can explicitly incorporate these services in its institutional structure. If it is deemed that communities require environmental cleanup, then ELR jobs can be targeted specifically to solving these problems. In other words, ELR can be designed as an open and flexible program that can serve many societal needs. Later when we discuss the Argentinean case we explain how this can be done with the least intrusive form of government intervention.

ELR can also broaden the meaning of work by recognizing certain activities as socially useful and by compensating for them. By extension then, through the many forms of community involvement that can be recognized as legitimate ELR jobs, the program fosters advanced citizenship, reciprocity and social cohesion.

Perhaps it is readily obvious that an ELR job necessarily increases worker bargaining power. By establishing a minimum guaranteed wage, coupled with a mandatory benefits and vacation package, the ELR job sets the standard for the private sector. When private firms need to expand employment, they can do so by hiring ELR

workers at a premium from the public sector, i.e. they provide marginally higher wages and benefits (or promises of advancement) to lure workers into the private sector jobs.

Finally ELR increases efficiency. By training and educating workers and maintaining them as gainfully employed, ELR also enhances human capital, thus the detrimental effects of idleness and unemployment are avoided. ELR also increases efficiency because it increases production, maintains human capital and protects the environment.

7. *Jefes de Hogar* (Heads of Household) Plan: Argentina's answer to job creation and social inclusion

The most recent experience with direct job creation in Argentina lends support to the arguments in the previous section.

Throughout 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 in 2001-2002 and unemployment and poverty skyrocketed, it implemented a limited employer of last resort program called *Plan Jefes de Hogar*, to provide jobs to poor heads of households. 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 at its peak or about 5% of the population, and about 13% of the labor force. Argentina's experience allows us to assess the viability of ELR proposals and to demonstrate how ELR achieves some of the goals of income and job guarantees, without negative consequences on the currency.

The *Jefes* program provides a payment of 150 pesos per month to a head of household for a minimum of 4 hours of daily work (note, this was half of the minimum wage for full time work at the time of implementation of the program). 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 tool for addressing the economic crisis, which gripped Argentina with the collapse of the currency board.

Presently, total government spending on *Jefes* is equal to less than 1% of GDP, with nearly 1.5 million participants. 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.

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).

A. Targeted Population

In addition to the World Bank assessment, various other studies have found that the program is well targeted (see also Galasso and Ravallion (2003), Lopez and Paz (2003), Cortés et al. (2003), and Marshall (2004)). The beneficiaries are largely those of households with at least one unmet basic need (figure 1). These are people who live in overcrowded or otherwise inadequate housing conditions, with poor sanitation and very high dependency ratios.¹⁴ 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 2) and fall primarily in the bottom two income quintiles (figure 3). One surprising result has been the significant influx of women into the program, who account for 64% of program participants, and is rising (figure 4). 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. The entry of women into the economically active population is largely possible because *Jefes* recognizes childcare as a socially useful activity that deserves remuneration (more below).

B. Program Design

The Argentinean experience shows that an ELR program can be up and running in a very short period of time. In Argentina, this took no more than five months.¹⁵

¹⁴ Dependency ratios measure the number of family members per employed person in the household.

¹⁵ 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 (see *Decreto N° 565/2002*- Creación del PROGRAMA JEFES DE HOGAR para ser aplicado mientras dure la Emergencia Ocupacional Nacional).

Furthermore, the program has allowed local and municipal governments, who are most familiar with the economic needs of their communities, to administer the program.

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.¹⁶

One advantage of Basic Income programs, which is often emphasized, is its administrative simplicity and transparency (Clark 2002: p. 17). While we agree that ELR programs involve far more complex administration, the Argentinean experience shows that project management and supervision can be simplified significantly and made more transparent. In Argentina, the actual administration of the program is primarily executed by the municipal governments, who are responsible for assessing the pressing needs and available resources of their communities, for evaluating the projects proposed by the local non-profits or NGOs, and for directing beneficiaries to work in those projects that have been approved. For details on the administration of the program, see Appendix I.

C. Response to the Program

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 have them take the necessary vaccinations. These are two added benefits of the program design, made possible by simple eligibility criteria.

¹⁶ For example, the Ministry of Labor collects data on *Jefes* beneficiaries, which is available monthly and lists all workers (by name and registry number) involved in the projects of each municipality.

The response of the beneficiaries to the *Jefes* plan has been overwhelmingly positive. As figure 5 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 6). 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 7). 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 8).

D. Project Success

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 9 shows 87% of *Jefes* beneficiaries work in community projects. These include primarily agricultural micro-enterprises and various social and community services (figure 10). Some specific examples include cleaning and environmental support in the agricultural sector, improving the sewer systems and water-drainage. Much of the community work is performed in local community centers, thus renovation of existing centers or construction of new ones are part of many small *Jefes* infrastructure projects. Examples of community services performed in these centers include food kitchens and 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—for example, how to boil water, 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 11). 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.

E. Other Considerations

There are other documented benefits of the *Jefes* Program.

– Jefes Empowers and Helps Broaden the Meaning of Work

One of the most interesting results of the *Jefes* program is that it demonstrates how a decentralized program can be used to increase political participation and foster grass-roots democracy among groups that had traditionally been marginalized. The decentralized mode of administration, allows the municipalities to determine the kinds of jobs they most desperately need. As explained above, federal government intervention is kept to a minimum. Not only has the program empowered the communities and its members to take greater control and authority over the resources that affect their lives, but it has also recognized various kinds of activities as socially useful that deserve

remuneration, thereby helping redefine the meaning of work. For example, in the past, some people have delivered medicine or read newspapers to the elderly on a 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’ activities 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.

– *Formalizing the Market and Reintegrating 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, the program is able to move people from the informal to the formal sector. Gray economic activities are slowly reduced.

As figure 12 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*.¹⁷ Nonetheless, a significant number of people have moved into the private sector. This implies that efforts to reintegrate *Jefes* workers into the labor market have been successful.

¹⁷ *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 activity that should be remunerated. *PEL* (*Programa de Emergencia Laboral*) is an employment program similar to *Jefes* for those poor who do not qualify for *Jefes*.

The next chart (figure 13) shows the evolution in the ‘insertion rate’ of beneficiaries into the labor market. While more recent official 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. And according to unofficial reports of Labor Ministry officials, the total number of *Jefes* beneficiaries who have found private sector jobs is close to 300,000. The *Jefes* program, therefore, 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 14). 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.

F. Impact of the Jefes Plan

– Indigence and Poverty

Jefes has been very successful in reducing indigence rates among its participants. Indigence is extreme poverty measured as income necessary to purchase the minimum amount of food calories per day. In August 2002, only four months after the implementation of *Jefes*, the indigence rates among participating households had fallen by nearly 25% and among individuals by over 18% (figure 15). 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 (for what amounts to half-time work).

– *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 16). In May 2002, the unemployment rate was a record 21.5%, while in May 2003 it had dropped to 15.6%. Today the unemployment rate stands at 14.8%, 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%, 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 expect.

– *Macroeconomic Stability*

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 bring about 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, price increases 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 has been 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 2.57.¹⁸ Thus the impact of 150 pesos per person per month for 1.8 million people (the number of beneficiaries at the time of these calculations), is an annual addition of 8.327 billion pesos or 2.49% of GDP. (See Appendix II for detailed discussion and calculations).

8. Conclusion: can there be a synthesis?

The Argentinean experience, as a recent example of an ELR, demonstrates that a job creation program can be designed such that it provides a needed social safety net, enhances civic participation, fosters grass-roots democracy, and broadens the meaning of work, without disastrous consequences on the currency. The program's administration has allowed for increased transparency, quick implementation at manageable costs, and

¹⁸ 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.

little intrusive government intervention. All of these are highly desirable goals shared by BIG and ELR supporters alike.

If we can speak of a synthesis at all, the ELR demonstrates how a participation income or civic minimum should be structured. But to the extent that BIG supporters insist on the absence of a work requirement, we object to such proposals on the grounds that they devalue the currency. However, a job guarantee coupled with a basic income for the young, frail, old, and disabled of all ages is a promising policy alternative, within our reach, that can counter many of the modern market and welfare state imperfections.

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)¹⁹, while the local institutions include the municipalities and their municipal consultative councils (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 below). The Ministry of Labor and Social Security, through the Central Executive Branch of 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 MCC, informs the governmental agencies and non-profit, non-governmental agencies (NGOs) of the possibility for developing projects or 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 and 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 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.

¹⁹ La Generencia de Empleo y Capacitacion Laboral (GECAL)

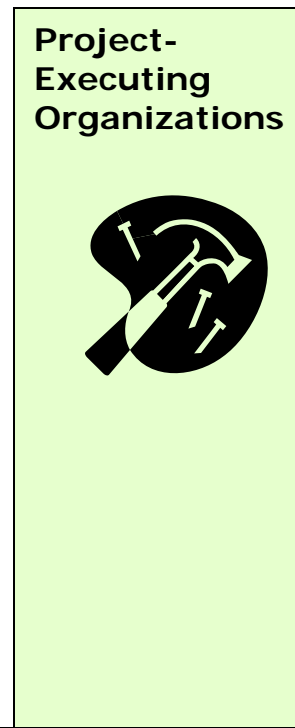
Administration



The Ministry of Labor and GECAL-inform and advise the Municipalities and Communes on all aspects of the program.



The MCC and the Municipality make a diagnosis of the community, identifying its social needs and available resources. They inform government agencies, non-profits and NGOs of the possibility for developing projects and activities, which require the participation of *Jefes* beneficiaries.

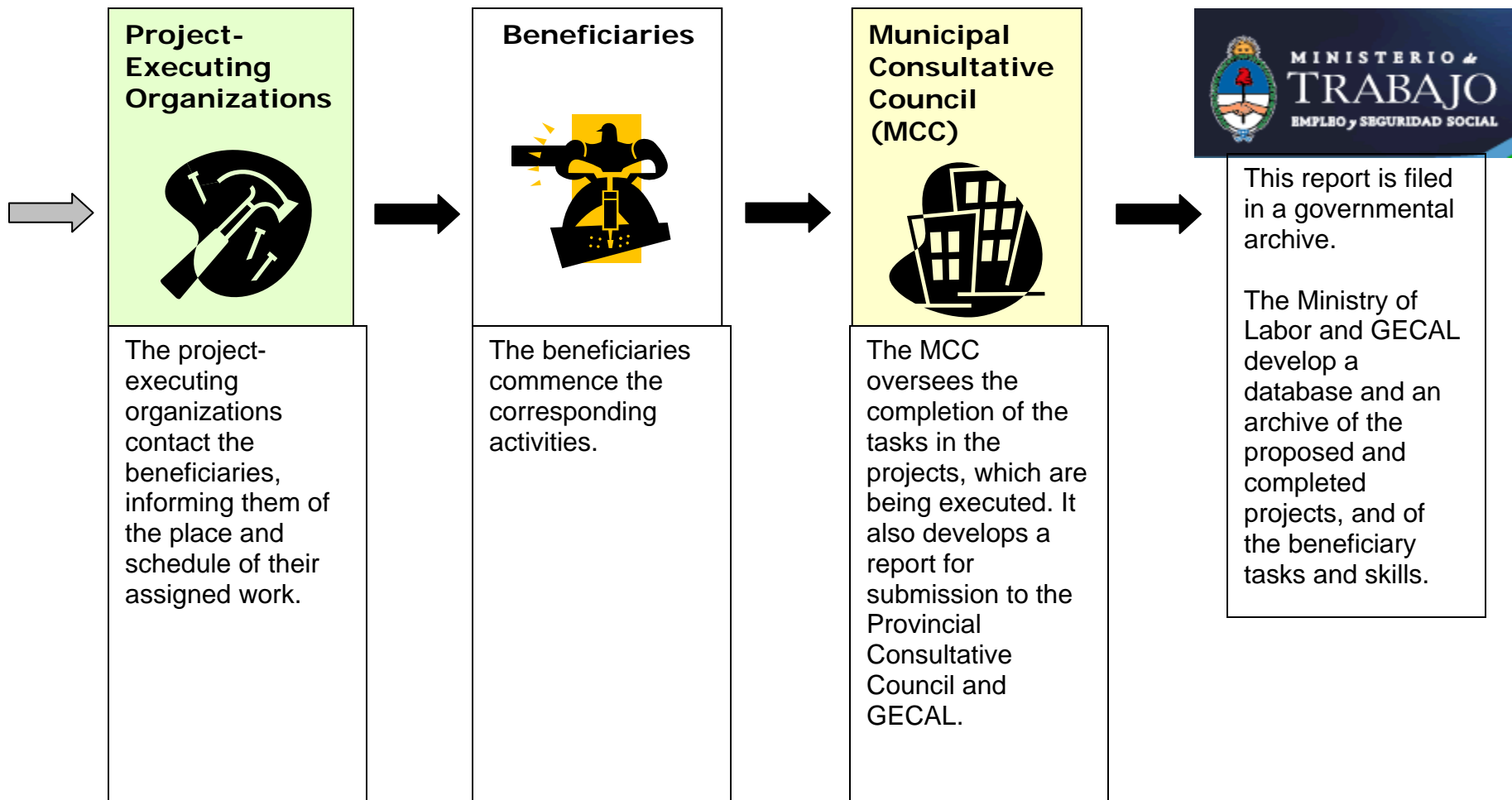


After the diagnosis of community needs, various organizations design proposals of activities and projects, which are then presented to the Municipality and the MCC.



The MCC evaluates and authorizes or rejects the submitted proposals. In either case the decision is archived. The municipality informs the project-executing organizations of their approval and assigns the participating beneficiaries. It then sends to GECAL a summary of the activities to be performed and beneficiaries under its jurisdiction.

Administration (cont'd)



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:

$$\begin{aligned}\text{Multiplier} &= 1 / [1 - 0.9(1 - 0.21) + 0.10] \\ &= 2.57\end{aligned}$$

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 million x 150 x 12 months = 3,240 million pesos annually

Therefore, the multiplier effect is:
3,240 x 2.57 = 8,327 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 x 2.28 = 7,387 million pesos addition to GDP, or 2.21% of GDP.

Can Basic Income and Job Guarantees Deliver on Their Promises

By Pavlina R. Tcherneva and L. Randall Wray

May 2005

Figures

Figure 1: *Beneficiaries According to Unmet Basic Needs*

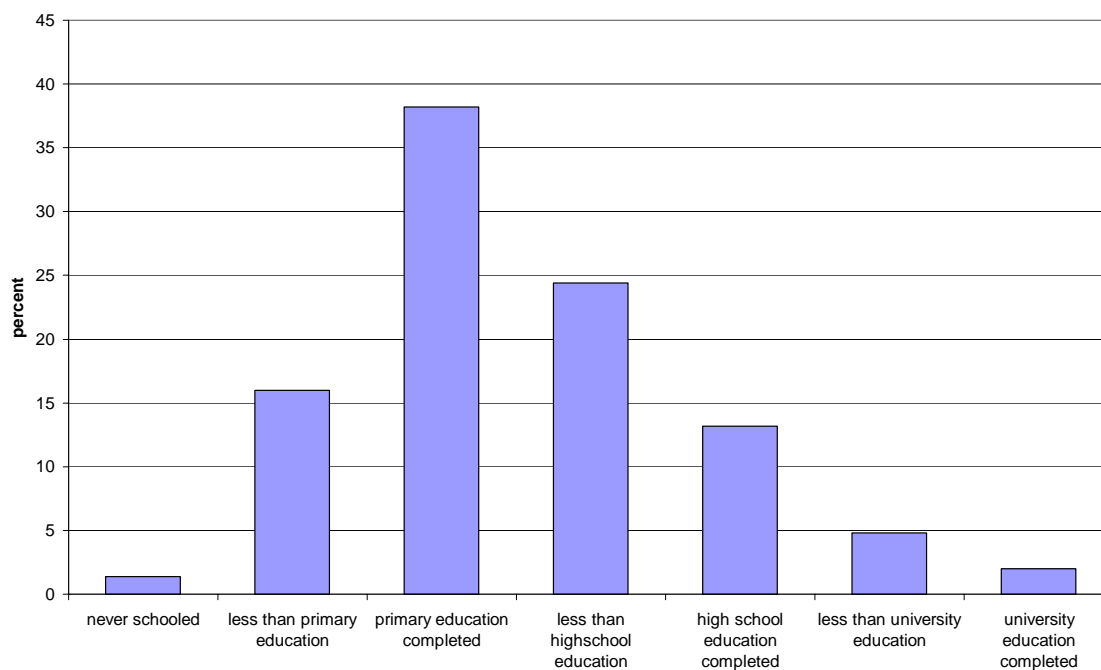
Beneficiaries According to Unmet Basic Needs

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

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

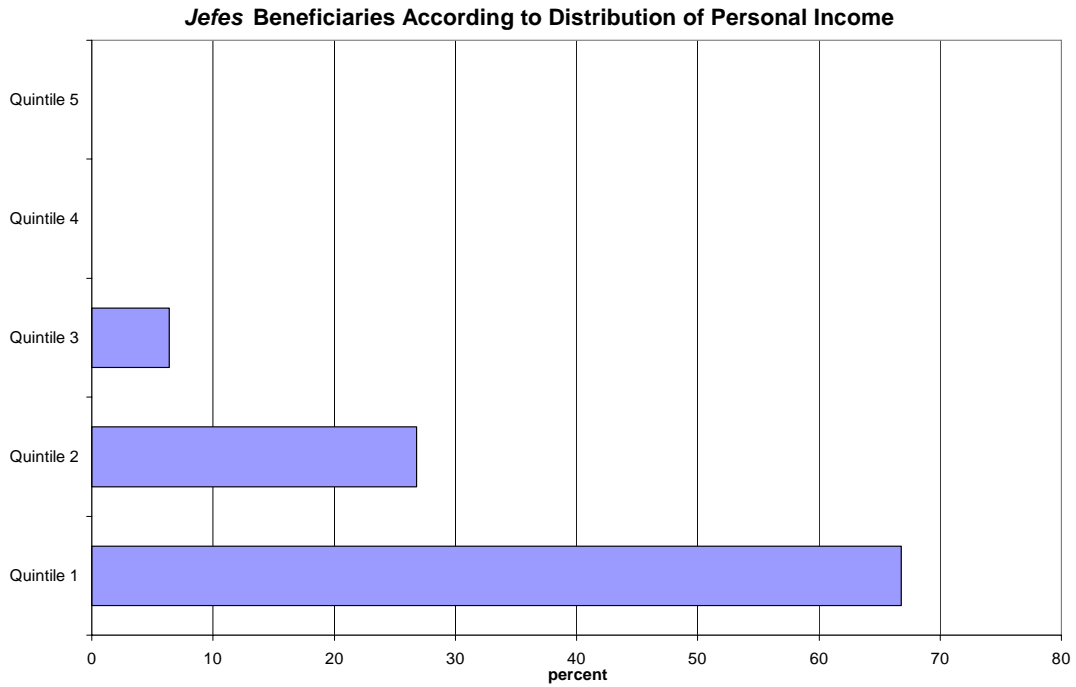
Figure 2: *Beneficiaries According to Educational Attainment*

Jefes Beneficiaries According to Educational Attainment



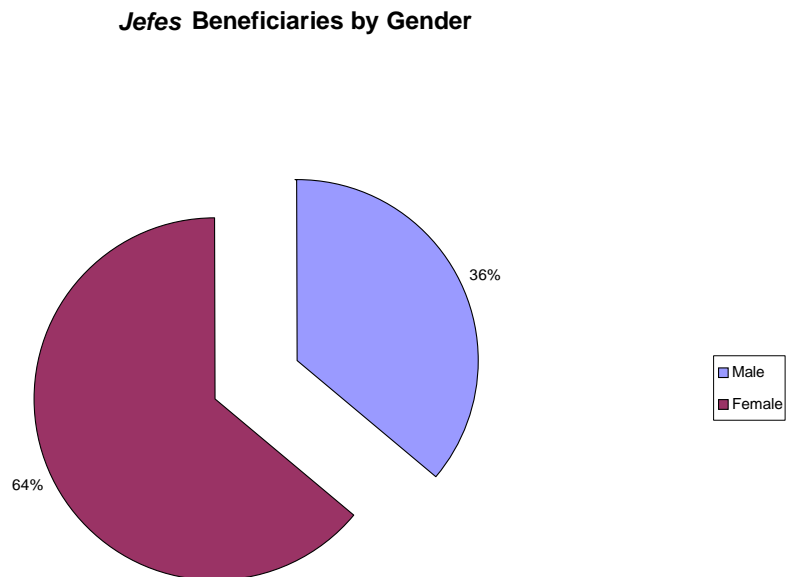
SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 3: *Beneficiaries According to Distribution of Personal Income*



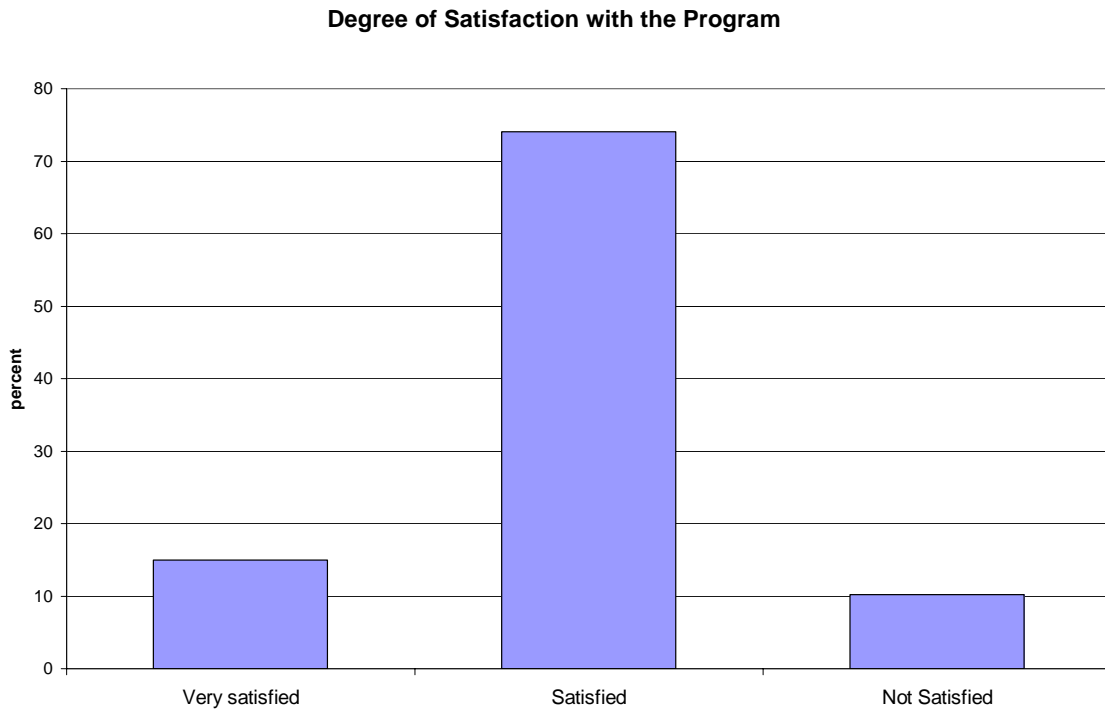
SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 4: *Beneficiaries by Gender*



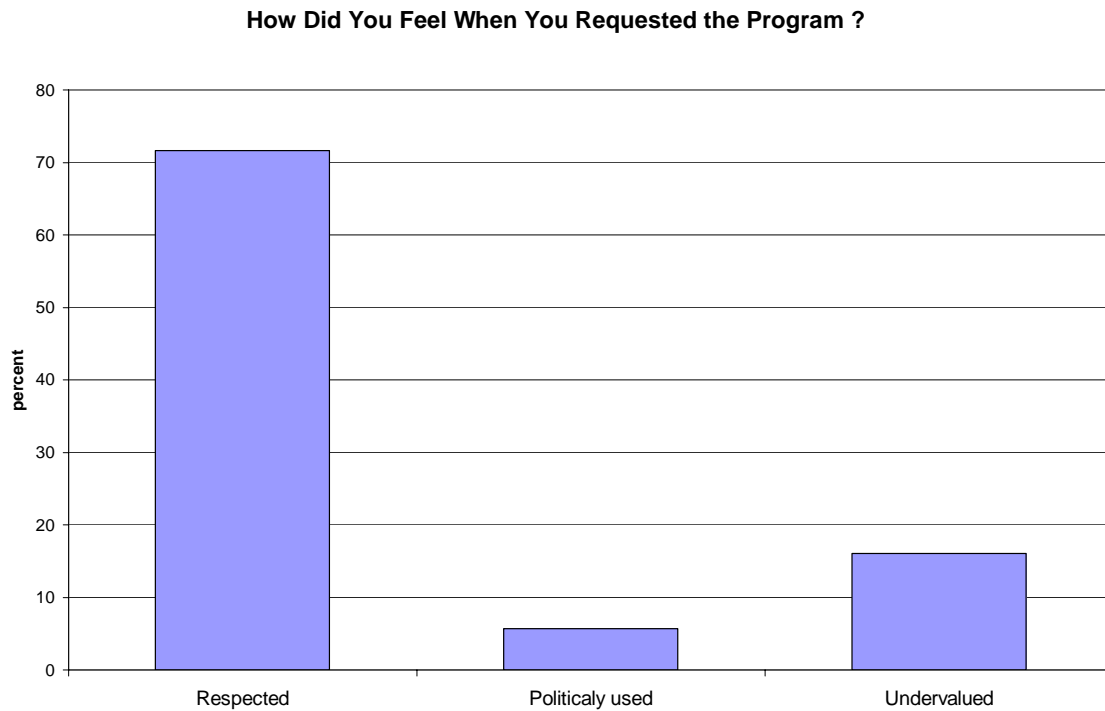
SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 5: *Degree of Satisfaction with the Program*



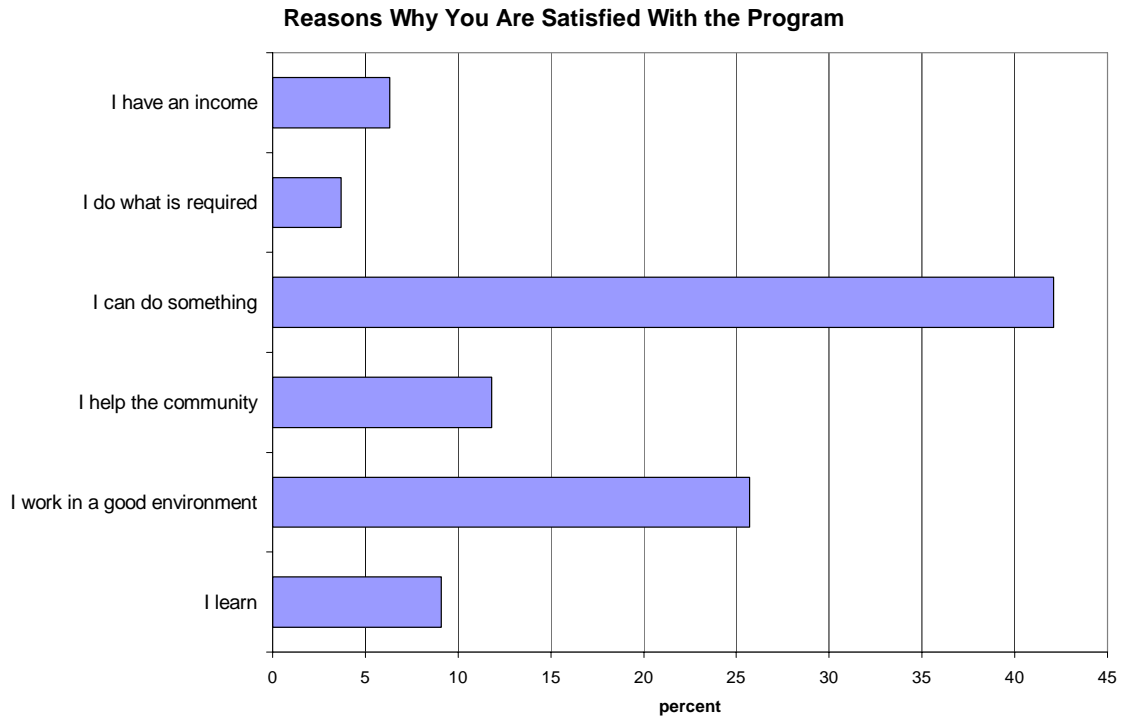
SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 6: *How Did You Feel When You Requested the Program?*



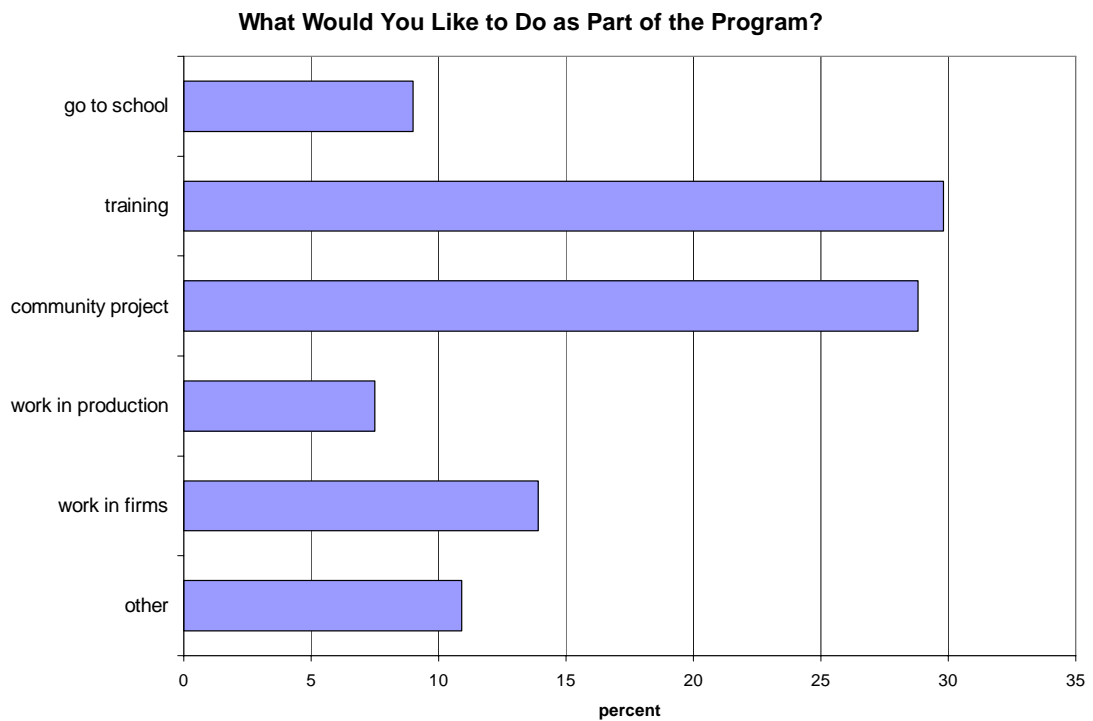
SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 7: *Reasons Why You Were Satisfied*



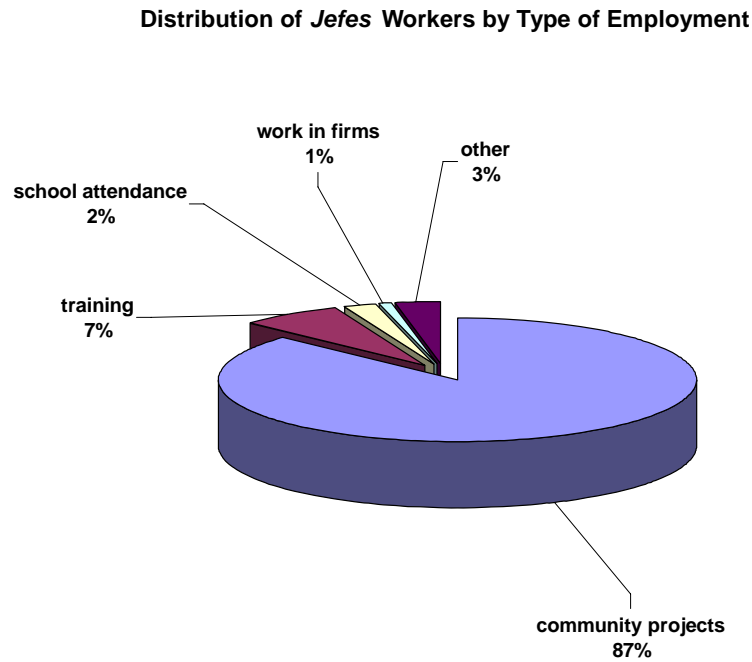
SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Figure 8: *What Would You Like to Do As Part of the Program?*



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

Figure 9: *Project Typology: Distribution of Jefes Workers by Type of Employment*



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

Figure 10: *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%

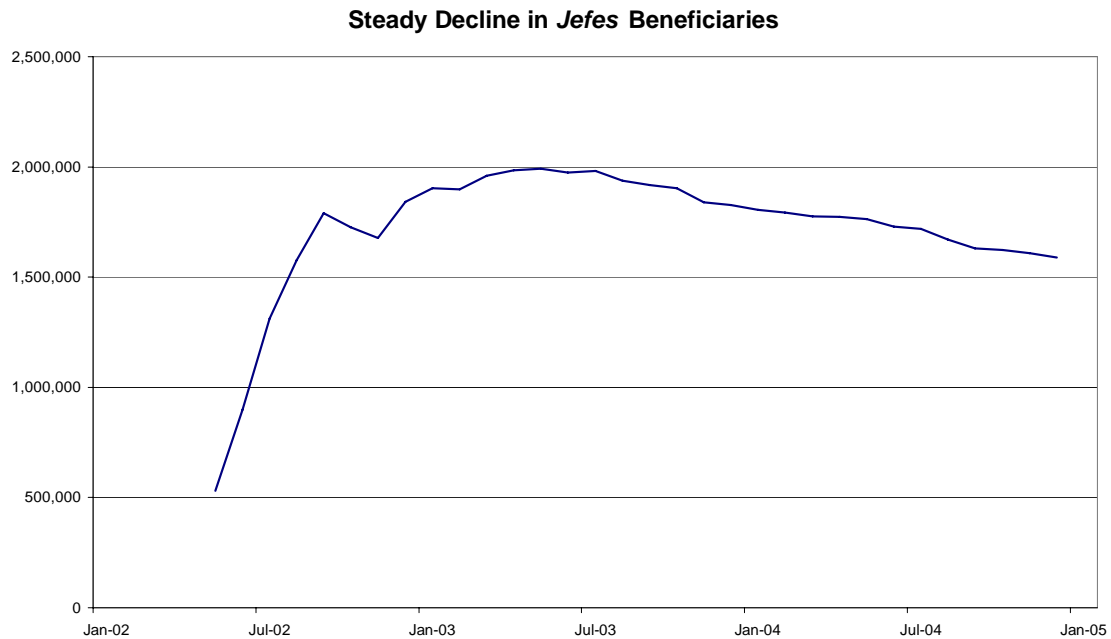
Source: Ministry of Labor, Employment and Social Security, Argentina

Figure 11: 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%

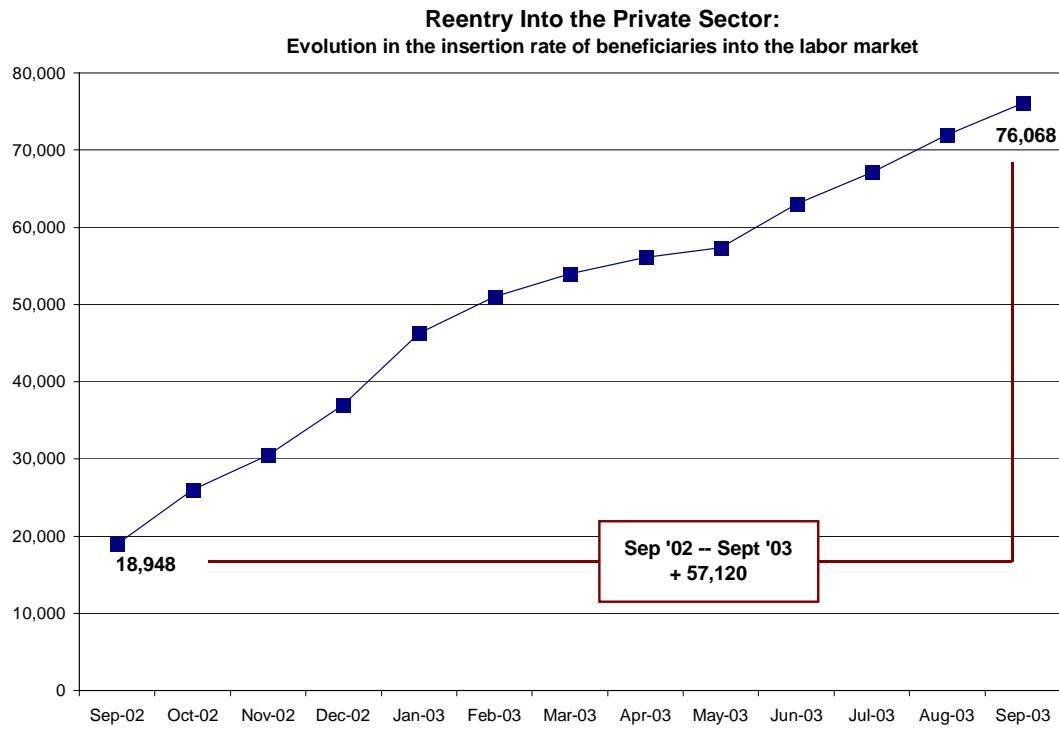
Source: Ministry of Labor, Employment and Social Security, Argentina

Figure 12: Steady Decline in Jefes Beneficiaries



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

Figure 13: *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 14: *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 15: Decline in Indigence and Poverty of Jefes Beneficiaries

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

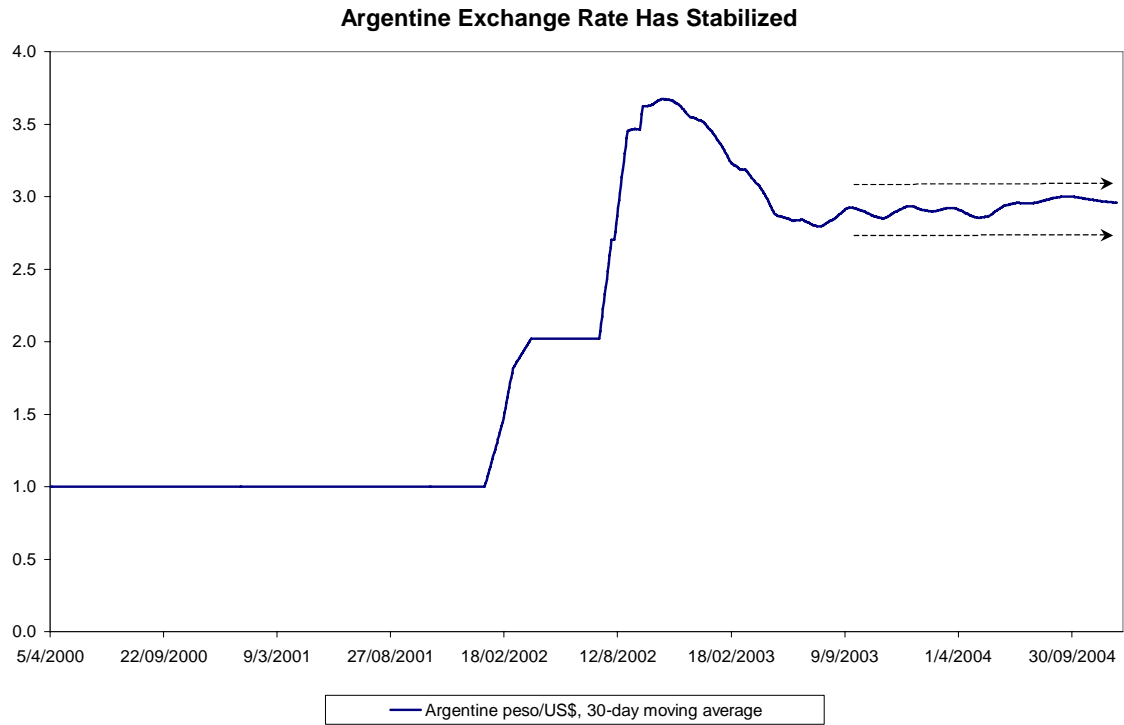
Individuals	% of individuals below the line of indigence and poverty		percent change
	without <i>Jefes</i>	with <i>Jefes</i> (Aug 2002)	
indigence	87	68.6	-18.4
poverty	98.6	96.7	-1.8

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

Figure 16: Unemployment Rate

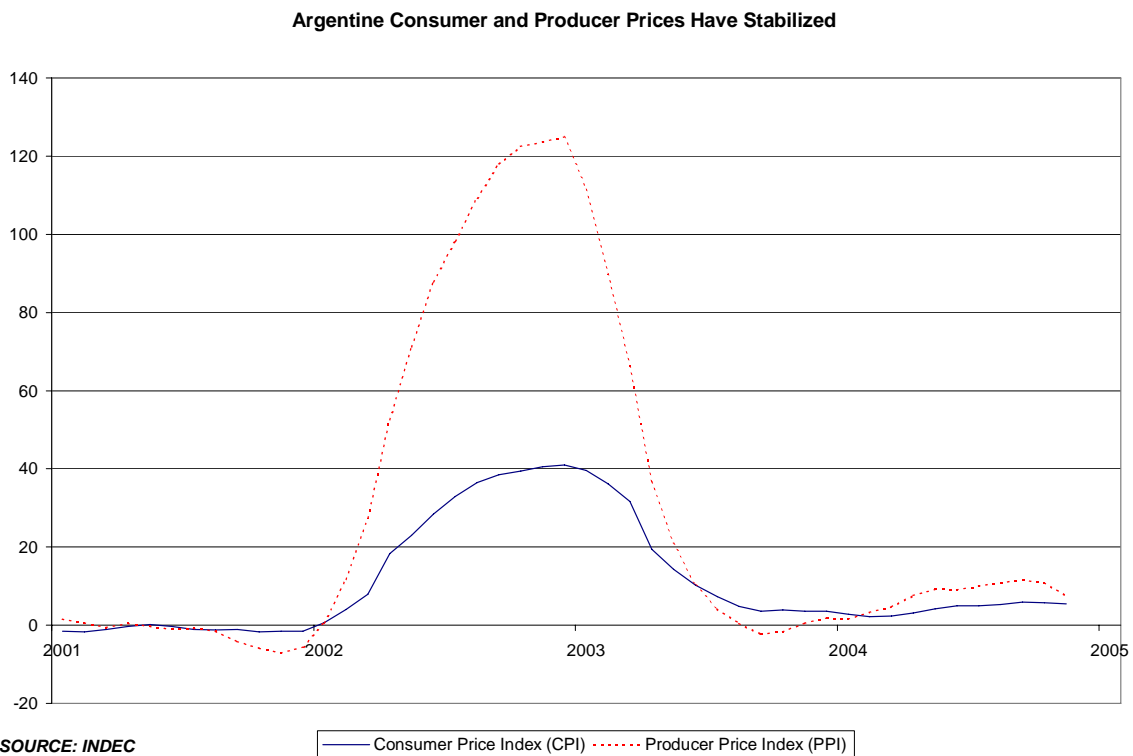


Figure 17: *Argentine Exchange Rate Has Stabilized*



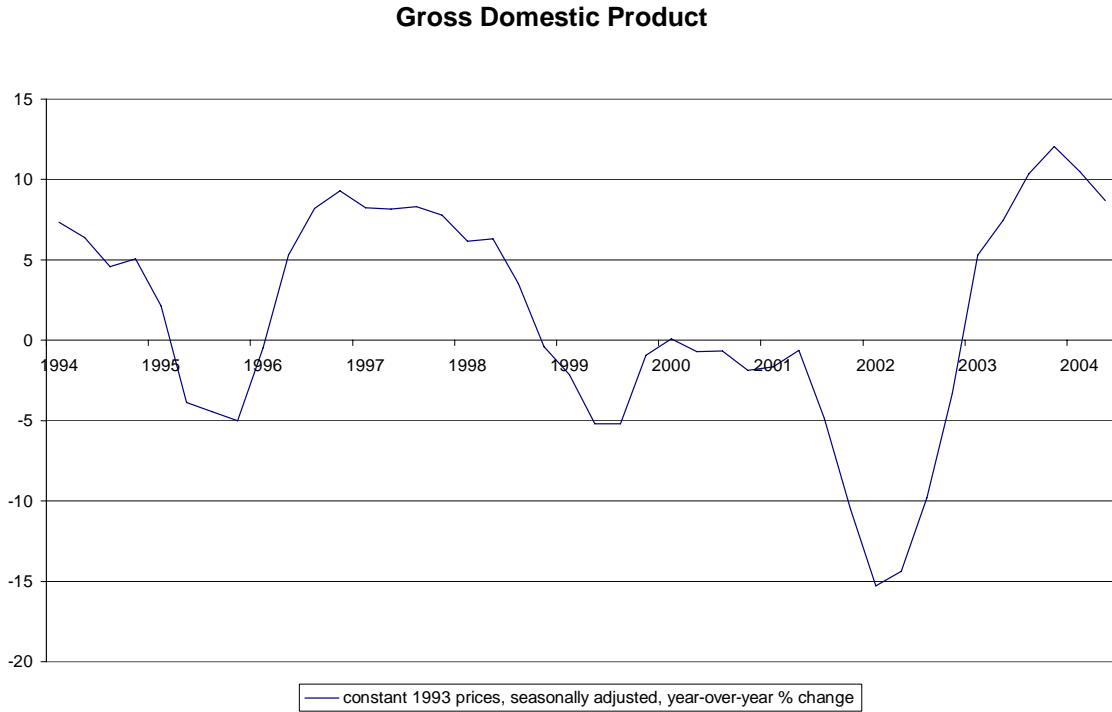
SOURCE: INDEC

Figure 18: *Argentine Prices Have Stabilized*



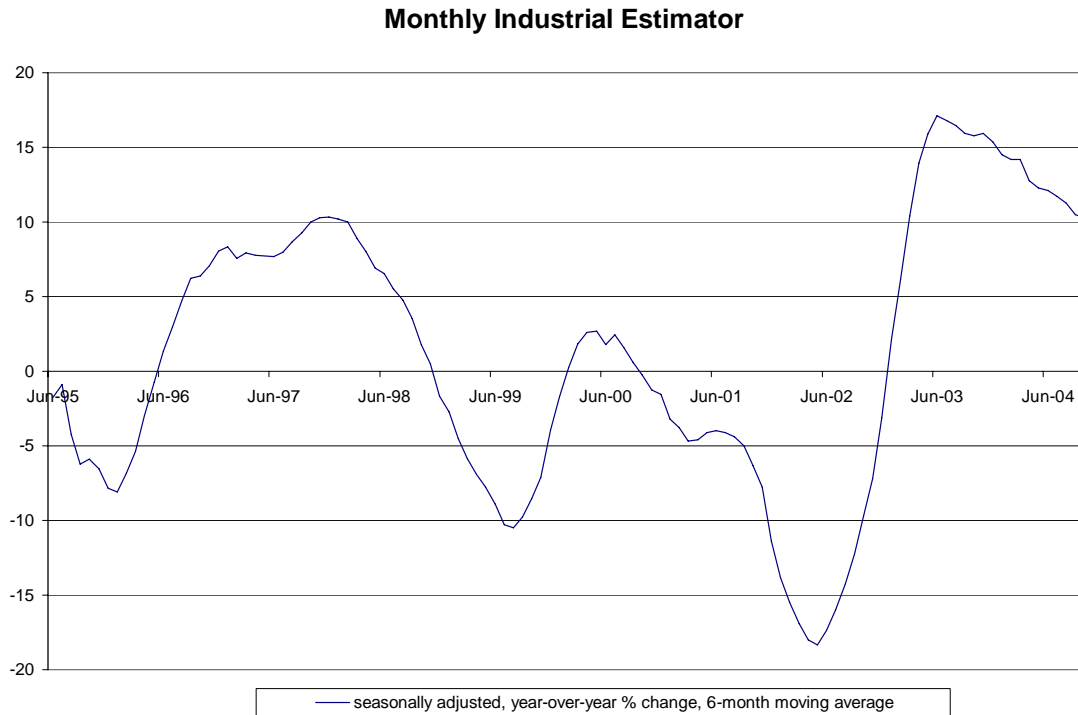
SOURCE: INDEC

Figure 19: *Gross Domestic Product*



SOURCE: INDEC

Figure 20: *Monthly Production Estimator*



SOURCE: INDEC

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