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The Job Guarantee: Lessons from Argentina's Jefes Plan and Its Reform

by

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ABSTRACT: According to current macroeconomic models, there is a need to maintain a natural rate of unemployment to contain inflation. Put simply, unemployment is considered an (inevitable) cost of price stability. Even some Post Keynesian economists believe the so-called balance-of-payments (BOP) constraint imposes a trade-off between inflation and unemployment in developing countries. On the contrary, what has come to be known as Modern Money Theory (MMT), from its inception, argued that full employment and price stability (as defined) can be achieved simultaneously, through a labor buffer stock or Job Guarantee (JG). In addition to the theoretical literature on the JG, there have been a number of "real world" experiences. In particular, Argentina´s *Jefes y Jefas de Hogares Desocupados* program ("Jefes") has been considered, in the MMT literature, as a (limited) JG case study. While the Jefes and its reform have been addressed in the past, this article considers the rationale for such reform within the broader framework of an economic policy based on two fundamental pillars of social inclusion: the expansion of social security and aggregate demand management that would drive economic growth and, thus, job creation.

While both job creation and expansion of social security allowed for a steep decline in poverty and extreme poverty rates during the 2003–15 period, the economy did not reach full employment; in fact, jobs were lost for the less skilled. Not only did aggregate demand management not secure full employment, but it proved to be inherently inflationary. Indexation of public wages, social security payments and virtually every price paid by the government compounded the problem and institutionalized inflation.

After the fall of the currency board in 2002, Argentina defaulted on its foreign currency public debt and implemented the Jefes, which could have been expanded to achieve full employment and an internally stable currency. Unfortunately, the Jefes was gradually faded out, along with the potential benefits of transforming it into a full-fledged JG. It is imperative to retake the road once taken. Labor markets and—more generally—the world economy are going through an unprecedented transformation driven by technological, environmental and demographic changes. In this context, MMT offers practical insights for achieving politically determined goals—for example, sustainable development goals. Specifically, the JG can now deliver employment for all.

KEY WORDS: Job Guarantee, MMT, Argentina, Jefes Program, Economic Policy

"The misery of being exploited is nothing compared to the misery of not being exploited at all" (Robinson, 1962:46)

"I believe we are approaching, or have reached, the point where there is not much advantage in applying a further general stimulus…It follows that the later stages of recovery require a different technique…We are more in need today of a rightly distributed demand than of a greater aggregate demand" (Keynes 1937/1978, 385)

1 INTRODUCTION

According to current macroeconomic models, one way or another, there is a need to maintain a natural rate of unemployment to contain inflation. A pool of unemployed workers is perceived as necessary to discourage wages from rising. Put simply, unemployment is considered an (inevitable) cost of price stability (Blanchard 2018). Even some Post Keynesian economists posit the so-called balance-of-payments (BOP) constraint imposes a trade-off between inflation and unemployment in developing countries (López-Gallardo 2000), i.e., a natural rate constraint imposed by the BOP (Mario 2021; Mitchell & Mosler 2002).

On the contrary, what has come to be known as Modern Money Theory (MMT), from its inception, argued that a currency issuer[1] can achieve full employment and price stability (as defined) simultaneously through a labor buffer stock or Job Guarantee (JG) (Mosler 1995;1997; Mitchell 1998; Wray 1997;1998; Tcherneva 2020). The JG calls for a paradigm shift on how we think about growth and development—one that, by targeting full employment, goes beyond GDP (Mario 2016a, 67; Tcherneva 2008, 177-123). The JG is a jobs-led growth strategy: a bottom-up approach aiming to close the labor demand gap (Tcherneva 2011).

[1] With discretionary non buffer stock item spending. Wray (2022, 149-150) has listed necessary conditions for currency sovereignty: the government i) chooses a money of account and issues a currency denominated in that money unit; ii) imposes liabilities; iii) accepts its own currency in payment of those liabilities; iv) if it issues other liabilities those are payable in its own currency; v) does not promise to redeem its own currency for precious metal or other currencies at a fixed exchange rate. The last condition means intervention (if any) is discretionary. While the first three conditions refer to currency issuers, it is the last two that concern sovereignty. However, if, for example, liabilities are indexed—even if payable in its own currency—spending by the issuer is non-discretionary.

In addition to the theoretical literature on the JG, there have been a number of "real world" experiences (Ginsburg 1983; Mitchell and Muysken 2008; Taylor 2008; Wray 2012). In particular, Argentina´s *Jefes y Jefas de Hogares Desocupados* program ("Jefes") has been considered in the MMT literature as a (limited) JG case study (Kotszer 2008; Tcherneva and Wray 2005a, b, c, d;2007; Tcherneva 2008;2012a, b). While the Jefes and its reform have been addressed in the past, this article considers the rationale for such reform within the broader framework of an economic policy based on two fundamental pillars of social inclusion: the expansion of social security, and aggregate demand management that would drive economic growth and, thus, job creation.

The article is organized as follows. After this introduction, the MMT view of money and taxes is presented; its logical extension, the JG, is then explained as an anchor for the value of the currency (Section 2). We then analyze the Jefes and its reform within the context of the Argentine government's economic policy and social inclusion strategy (Section 3), and evaluate its results (Section 4). We conclude, drawing the main lessons from the experience analyzed.

2 MODERN MONEY THEORY AND THE JOB GUARANTEE

In the MMT view, the state imposes a (coercive) tax liability payable only in its own monetary unit of account. The unit of account will, hereinafter be referred to as "$", thus defined as what is accepted to pay taxes, i.e., a tax credit (Mosler, 1995; 2023; Mosler and Forstater 1999; 2005; Wray 1998).

The tax liability creates a demand for $: at least to pay taxes, users must obtain $—that is, offer goods and services in exchange for $. Therefore, "Taxes Drive Money": a tax liability is sufficient—though not necessary—to create a need for $ and, thus, to give it value. Put differently, taxes (more precisely, a tax requirement) create unemployment defined as people willing to work (i.e., sell labor) in exchange for $ (Mosler 2023).

As the monopoly[2] issuer of $ net financial assets (NFA), the state (including both the treasury and the central bank) must spend before users can actually pay taxes or, equivalently, before the state can collect taxes. The issuer does not need to collect $ in order to be able to spend; the role of tax payments is not (and cannot be) to finance (i.e. make possible) public spending. Tax liabilities create a need for $, that is, they ensure demand for $ insofar as it maintains an incentive to offer goods and services in exchange for $. They function not to collect $ but to mobilize resources by causing them to be offered for sale to the public sector.[3] In fact, a government surplus is simply not possible in a hypothetical "first period" of the economy. In subsequent periods, a government surplus is feasible but its magnitude is limited by the previously accumulated government deficits (commonly referred to as the public debt, the sum of the non-government surpluses). The government deficit equals the non-government surplus; therefore, a government deficit is the only way to satisfy the savings desires of the non-government sector (to not-spend all its income, i.e., to have a surplus). A collective desire to save in the non-government sector can only be resolved by the monopoly issuer of $ NFA (from "outside") (Mosler 1995).

Just as it cannot collect taxes before spending, the issuer cannot "borrow" (i.e. sell bonds) before having spent. In fact, it could only "borrow" up to an amount equal to the public debt (the $ spent by the issuer that has not yet been used to pay taxes). Of course, the issuer does not need to "borrow" to be able to spend, which renders the interest rate exogenous (i.e. manageable via a policy decision). If the issuer does not offer to sell bonds that pay a positive interest rate (or pay a positive interest rate on bank reserves), the risk-free/base (natural) interest rate is zero.

[2] The $ has a vertical (state) and a horizontal component, whose gross expansion is endogenous and nets to zero. Loans create deposits (and reserves if legally required) but credit cannot create NFA (outside money). Net creation of $ is a public monopoly. Bank loans are not limited by deposits. If a bank finds a credit-worthy customer, it grants the loan; if it cannot access the required funds in the banking system, it will be showing an overdraft (a loan) in its account at the central bank, an example of vertical activity. Similarly, because of par clearing, if a cheque is used to pay taxes, the bank which issued the cheque loses reserves, which can also result in an overdraft. As the central bank must act as the lender of last resort, it cannot be "independent" nor exogenously control the money base. Inside money is endogenous and nets to zero, it cannot create $ NFA, that can only come from the government deficit (Mosler and Forstater 1999).

[3] Once the function of tax liabilities is understood, it is easier to see why taxes on assets (with real-estate tax being a straight-forward example) should be preferred. As opposed to pro-cyclical transaction taxes, a property tax would provide a more stable tax collection. "Bads" (i.e. those which are intended to be discouraged) should also be taxed, but note that if fully successful, tax collections on "bads" would be zero (Mosler 2000).

Therefore, the issuer does not "borrow" to be able to spend but to achieve a (positive) interest rate target. Put simply, monetary policy prevents the (base) interest rate from falling to zero-bid (Mosler & Forstater, 2005). While the interest rate determines the distribution between $s that pay interest and those that do not, the government deficit determines the magnitude of the accumulated $ NFA (Mosler and Forstater 1999).

Unlike users of $, the issuer of $ does not have financial constraints in $: it can buy (pay for) all that is denominated in $ (i.e. that has a $ price tag). The purchasing power of the issuer is only limited by what is available for sale in exchange for $.[4] As the issuer of $ does not have financial constraints in $, policy options must be evaluated for their effects in terms of targets, not for increasing (reducing) the deficit (surplus). A deficit (surplus) is not bad (good) in itself; public finance must be functional to policy targets (Lerner 1943; Mosler 1995; 1997; 2010).

Because the economy needs $ to, at least pay taxes, the issuer can set its price (absolute value) exogenously. In a buffer stock policy (i.e. a price-constrained spending policy), the issuer stands ready to buy or sell the quantity the market wants at the exogenous price. A gold standard or a currency board are examples of buffer stock policies. There is full employment of the item of the buffer stock, in that it is always possible to sell it to the issuer[5], and, as long as the exogenous price is not changed, the (absolute) value of $ is internally stable (i.e., stable in terms of the item of the buffer stock). In this sense, the value of $ is a function of the price the issuer pays when it spends. Strictly speaking, there is no inflation (or deflation), but relative prices (and a price index) can change. Since other purchases must be conducted at market prices[6] to maintain convertibility, other spending must be constrained by quantity. That is, non–buffer stock item spending must be discretionary.

[4] Moreover, there could be self-imposed limitations (e.g., legal limits to public spending, deficits and debt, etc.).

[5] In a gold buffer stock, for example, anyone willing to sell its gold can do it.

[6] What is known as the "two-price problem" entails that the government cannot maintain more than one buffer stock, except the exogenously set relative price equals the market relative price; otherwise, the stock of the "relatively cheap" item will be depleted (Wray 1998).

From its inception, proponents of MMT argued that a currency issuer–with discretionary non basic labor spending–can achieve full employment and an internally stable currency simultaneously through a labor buffer stock or Job Guarantee (JG) (Mosler, 1995;1997; Mitchell 1998; Tcherneva 2020; Wray 1997;1998). That is, instead of using gold or a foreign currency as an anchor, the government can use basic labor, funding the hiring of anyone willing and able to work at an exogenously set wage (which becomes, de facto, the effective minimum wage in the economy). By definition, there is full employment (in that anyone who wants to sell their labor time to the issuer can do it) and an internally stable currency (the value of $ is stable "in labor"). The JG acts as an countercyclical automatic stabilizer: when labor demand grows, it sells labor (reduces public spending) to prevent its price from rising, and vice versa. The deficit floats: given non-JG spending and taxes, spending on the JG allows the government deficit to match non-government savings desires (i.e., to sustain full employment).[7] At the very least, the JG should be superior to an unemployed buffer stock, preventing labor from depreciating ("going to waste"), the JG increases employability (i.e. substitutability) (Mosler 1995;1997; Mosler and Silipo 2017).

The JG could also be considered a "structural reform" that promotes efficiency and competitiveness as, for example, it preserves human capital, facilitates the transition to (and from) the private sector and the regular government sector (supporting the structural changes in the labor market aimed at increasing flexibility), and supports the replacement of the "hidden economy" (Mosler and Silipo 2017).

3 THE ARGENTINE EXPERIENCE: THE JEFES AND AFTER

After the December 2001 crisis, Argentina's per capita GDP was falling—in the first quarter of 2002, 16 percent year over year—public debt was in default, inflation was accelerating (and the

[7] The JG allows the government deficit to use the fiscal space opened by non-government savings desires. Given non-JG spending and taxes, the government deficit is market-determined (by the labor the non-government sector is willing to sell at the set minimum wage).

currency depreciating, in 2002Q3 at 258 percent year over year) the employment rate had plummeted, and around 60 percent of the population was below the poverty line.

In that context, in April 2002, Argentina implemented the *Plan Jefes y Jefas de Hogares Desocupados* (Jefes). The Center for Full Employment and Price Stability (CFEPS) advised the Ministry of Labor; in fact, Jefes is considered a case study of the JG (Tcherneva and Wray 2005a, b, c, d; 2007; Tcherneva 2008; 2012a, b). Although technically the fourth phase of the *Plan Trabajar*—implemented since the mid-1990s—Jefes represented a significant change from the social policies that had been implemented until then, especially due to the scale of its coverage. The program's wage was ARS 150 per month (75 percent of the legal minimum wage) to the head of household in exchange for four hours of daily work. It was targeted at households with children under the age of 18, disabled people, and pregnant women.

By May 2003, Jefes reached its peak participation rate: nearly 2 million—11 percent of the workforce and 5 percent of the population. Despite program deficiencies (outlined below), Jefes has been successful in improving living conditions; it was well targeted and, therefore, reduced poverty—especially, extreme poverty—and unemployment. Moreover, Jefes helped to broaden the meaning of work by remunerating useful activities, even if they were not in the realm of private firms (e.g., environmental cleanup, personal services, etc.) (Tcherneva and Wray 2005a).

In practice, however, some did not work (Tcherneva 2008, 297).[8] This was due, among other reasons, to the administrative difficulties associated with the unexpectedly large scale of the program. In fact, one of the most surprising results of Jefes was the large influx of women, who had been largely out of the labor force and, thus, not counted as officially unemployed. Since the program was limited to one person per household, a common strategy was for the wife to enroll in Jefes while her husband remained active (either working or looking for work) in the informal sector. This "reactivation" of women was considered by the authorities to be a negative aspect of

[8] Even if all Jefes' participants had worked, this does not change its main design problem, i.e., entry limits (to be discussed below).

the program. Of course, if they were reactivated, it was because they were hidden unemployed.[9] Furthermore, the fact that not all program participants were working entailed arbitrariness, along with the clientelism associated to entry limits—the program was limited to one member per household and registration had a deadline—undermined the popularity of Jefes (Tcherneva and Wray 2005d).

When a new government took office in May 2003, a different strategy was adopted, one in which the Jefes program would be gradually eliminated. In fact, the number of program participants steadily declined after its peak in May 2003. Part of the decline in the number of program participants was due to beneficiaries transitioning to private sector employment (or "regular" public sector employment). However, a significant number of people migrated to two other programs: the *Plan Familias por la Inclusión Social* (hereinafter, "Familias") and the *Seguro de Capacitación y Empleo* (SCE). The aim was to replace the Jefes program with a combination of unemployment compensation for the "active" population (largely men) and transfers for the "inactive" (mainly women). The SCE would provide limited-time insurance to the "employable," and as the economy improved, beneficiaries would get jobs in the private labor market. The Familias would provide a family allowance to the "unemployable".[10] [11]

The Jefes reform took place in the context of a significant expansion of social security, which, from 2005 on, provided pension coverage to a large proportion of older adults who were not eligible for contributory benefits, and extended non- (and semi-) contributive pensions to people

[9] That is, those willing and able to work if they had an opportunity to do so but not counted as officially unemployed because they are not actively looking for a job.

[10] http://servicios.infoleg.gob.ar/infolegInternet/anexos/100000-104999/100473/norma.htm

[11] Under the assumption that the women participating in the program were "artificially" introduced into the labor force and that their work was not "productive,"— since in many cases their product was not sold on the market—, the diagnosis was that the women in the program were "unemployable" and, therefore, should not work (or look for work), but should return to inactivity, although, of course, now with a family allowance. In addition to reinforcing stereotypes (i.e., men are the ones who should work; women should care for their children) and considering only market-validated activities as productive (Archer 2004), the authorities' diagnosis ignored evidence that program participants wanted to work, regardless of the wage level (Garzón de la Roza 2006; Pastoret and Tepepa 2006). In fact, this effect would have been greater the lower the individual's qualifications and educational level, and the lower the income level of the household to which they belonged. In some cases, a preference was even observed for working over receiving a transfer of the same amount without working.

with disabilities (Rofman and Olivieri 2011). In the same vein, toward the end of 2009, the coverage of the family allowance system was virtually completed through the *Asignación Universal por Hijo* (AUH), a monetary transfer for the children of unemployed and informal workers (Mario 2014; 2015). Thus, in Argentina, at least since 2009, a social security network was established that guaranteed an income to those who could not or should not work.

The strategy for fighting poverty was based, therefore, on two main inclusion pillars: social security and labor markets. For those who should not—or could not—work (i.e., children and adolescents, older adults, and people with disabilities), social security was expanded, guaranteeing an unconditional income. Meanwhile, for those able to work (i.e., the working-age population), a combination of aggregate demand management to promote economic growth and tools to improve employability—such as the aforementioned SCE—was proposed. It was hoped that an expanding economy would eventually generate employment for all.[12]

4 HOW DID THE STRATEGY WORK?

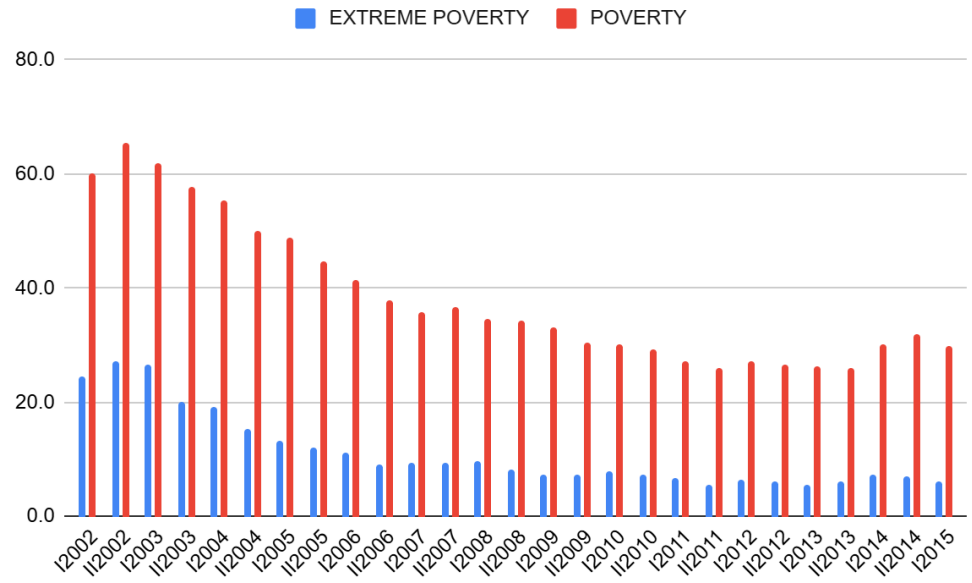
On the surface, the data looked awfully good. Between 2003 and 2015, poverty was reduced by more than half: from 62 percent of the population in May 2003 to 29.8 percent in the first semester of 2015[13]. Even more significant was the reduction in extreme poverty (or indigence), which fell by more than 75 percent—from 26.1 percent in May 2003 to 6.1 percent in the first semester of 2015 (Figure 1). Thus, at least in terms of its effects on poverty, the strategy had positive results. A large part of the poverty reduction can be attributed to the expansion of social

[12] The belief was that growth would, eventually, generate employment for all (at least, those deemed employable) and, therefore, direct job creation was not needed. This is clear from the (very) limited size of the *Programa Ingreso Social con Trabajo-Argentina Trabaja* (AT), created in August 2009, which never exceeded 300,000 workers (Mario 2017a).

[13] Between 2007 and 2015, the government manipulated data from the *Instituto Nacional de Estadística y Censos* (INDEC), especially the CPI (Consumer Price Index)—and, more generally, price indexes. In 2013, the publication of official poverty data (which is affected by the CPI) was discontinued. The INDEC resumed the publication of data on poverty starting in the second quarter of 2016, including methodological changes. Using the microdata of the *Encuesta Permanente de Hogares* (EPH), it is possible to construct a comparable series (see for example, Mario 2017b). However, microdata for the third and fourth quarters of 2015, and the first quarter of 2016 were never made available.

security, discussed above. This can be seen, for example, when considering that poverty and extreme poverty rates fell the most for those over age 65 (Figure 2).

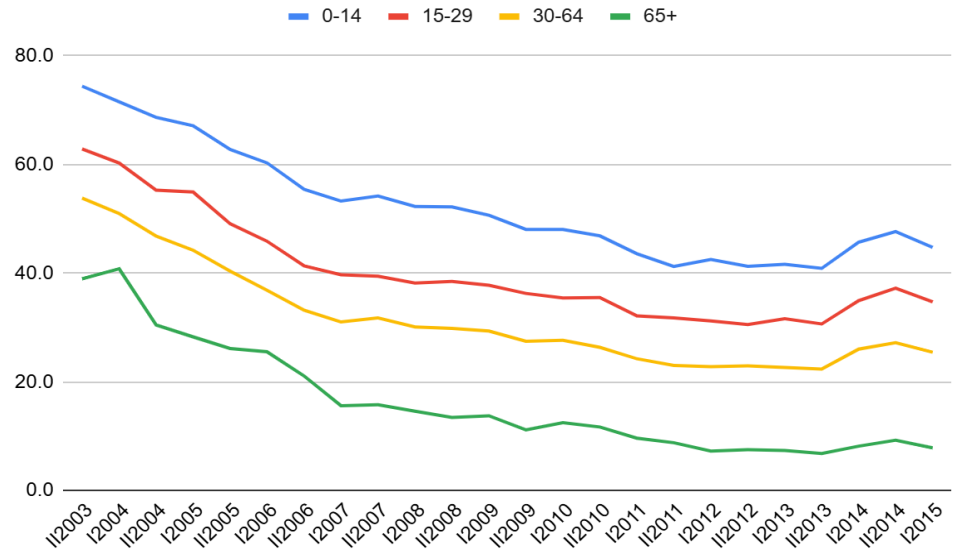
Figure 1 Poverty and Extreme Poverty Rates, Argentina, 2002–15



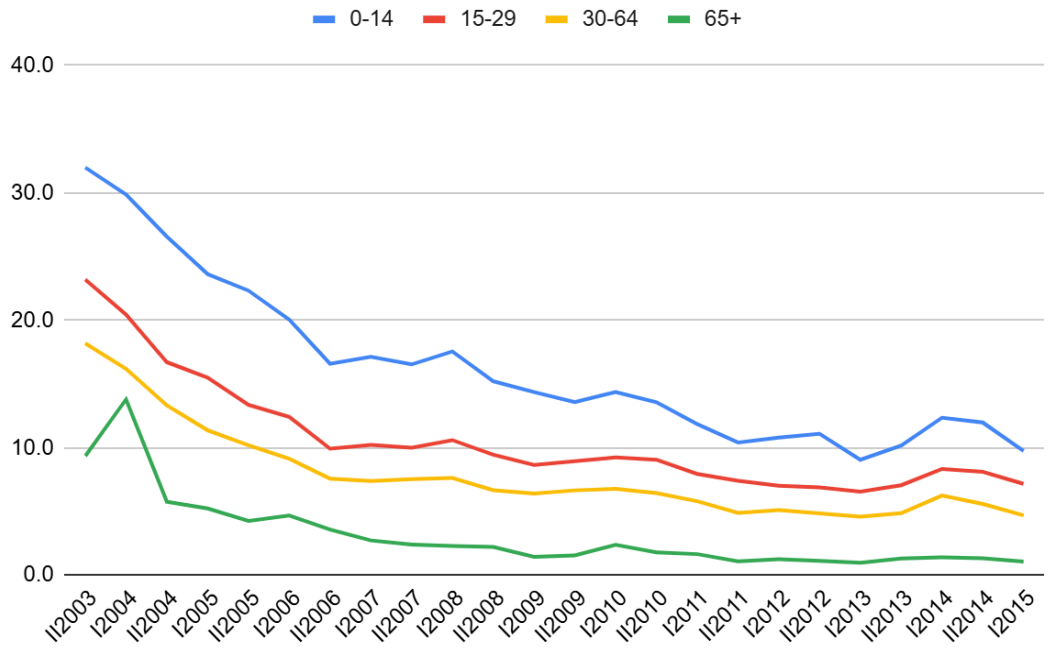
Source: own elaboration based on data from INDEC.

Figure 2. Poverty (Panel A) and Extreme Poverty (Panel B), by Age Groups, Argentina, 2003–15

Panel A



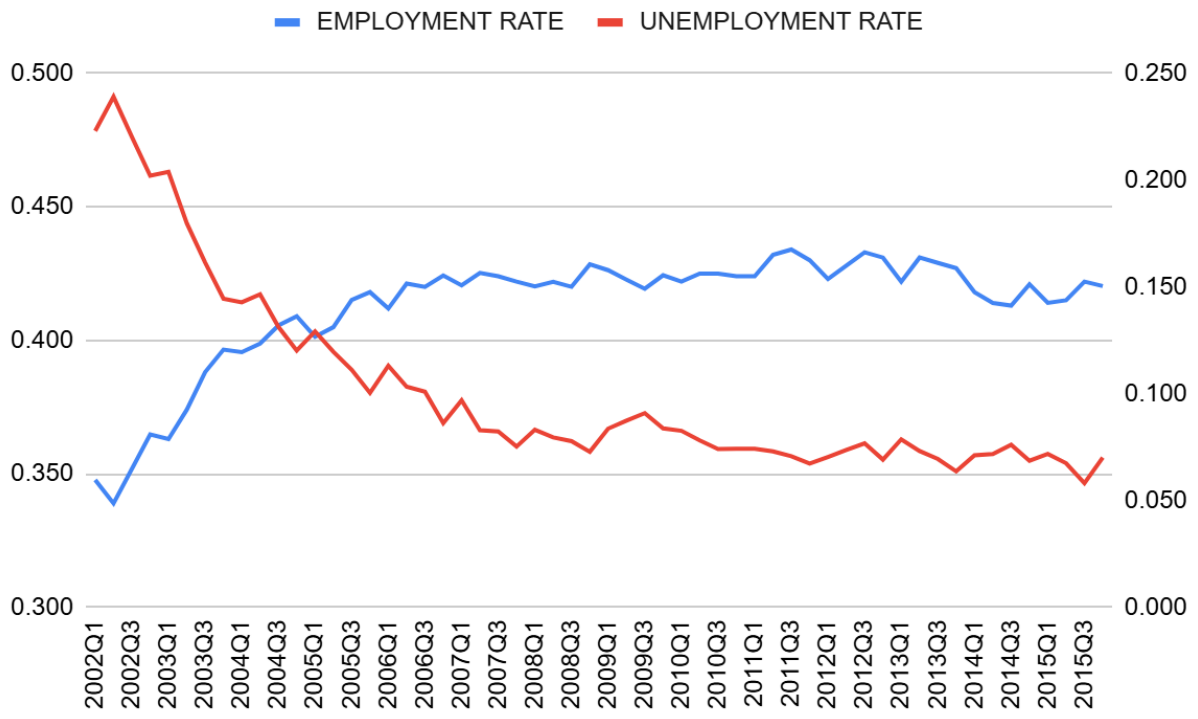
Panel B



Source: own elaboration based on data from INDEC.

Inclusion through labor markets also appears to have been successful. Economic growth during the 2003–15 period has been robust. Perhaps most importantly, the expansion appears to have successfully moved the economy toward if not full, at least a high level of employment. The official unemployment rate fell to 5.9 percent in the third quarter of 2015, the lowest level in almost three decades (Figure 3). The long-term trend that began in the mid-1970s of falling real wages had halted. In fact, the purchasing power of the average wage in the Argentine economy rose to levels not seen for at least two decades. Real wages have increased 84 percent since 2003, the longest period of sustained increases since at least 1950 (González 2011). Many economists argued that the economy was at "full employment" (Ferrer 2014; Gerchunoff and Rapetti 2016). For Ferrer, for example, the Argentine economy was, by 2014, close to full employment: “the progressive appreciation of the exchange rate and the injection of public spending into a situation close to *full employment* of productive capacity and labor generated the current scenario of uncertainty and deteriorating expectations. This was reflected in the increase in inflationary pressures” (Ferrer 2014, 7; emphasis added).

Figure 3. Employment (left axis) and Unemployment Rate (right axis), Argentina, 2002–15



Source: own elaboration based on data from INDEC.

In fact, in relative terms, the greater reduction in the unemployment rate among people with low education levels has been used as evidence that the employment situation has improved for all demographics: “The reduction in unemployment has spread to all social strata and groups, even those that, at least in theory, faced greater restrictions on access to employment. It is noted that the number of unemployed with low educational levels... has decreased by a percentage much higher than the average for the unemployed" (MTEySS 2010, 38). Along these lines, a consensus emerged among labor market analysts that informality would be the primary remaining challenge in labor markets. Indeed, the proportion of informal employees in the total of dependent employment, for example, fell by 15.8 percentage points between 2003Q3 and 2015Q2, from 48.9 percent to 33.1 percent. But, while unemployment fell relatively more for the less skilled,

the reduction of informality was relatively greater among the most skilled.[14] In short, the belief was that the problem lay in the quality not the volume of employment.

There are several reasons, however, to cast doubt on this (optimistic) scenario (Mario 2016b). First, between 2003 and 2015, the population aged 25 and over grew by 3.8 million, while the number of employed persons grew by 3.2 million. It is difficult to claim that the Argentine economy reached full employment when the increase in employment was not even enough to offset the population increase. More importantly, we found that, of the 3.2 million new jobs created between 2003 and 2015, 3.3 million were for the half of the population who had at least completed high school, leaving a net loss of 100,000 jobs for the other half of the population who did not complete high school.[15] While the degree of labor force underutilization decreased, it remained relatively high at the lower end of the skills continuum, i.e., those who are typically outside the labor force and therefore not counted as officially unemployed. In Mario (2016b), following the methodology of Wray and Pigeon (2000), we estimated the number of "potentially employable" workers in 2015 at 3.7 million, a figure that several times exceeded the 744,000 officially unemployed in the 25 and over group. Unfortunately, replacing direct job creation—through the Jefes—with a combination of "Keynesian" policies to stimulate demand and policies to improve employability (such as the SCE) did not allow for the expansion of job opportunities for low-skilled workers.

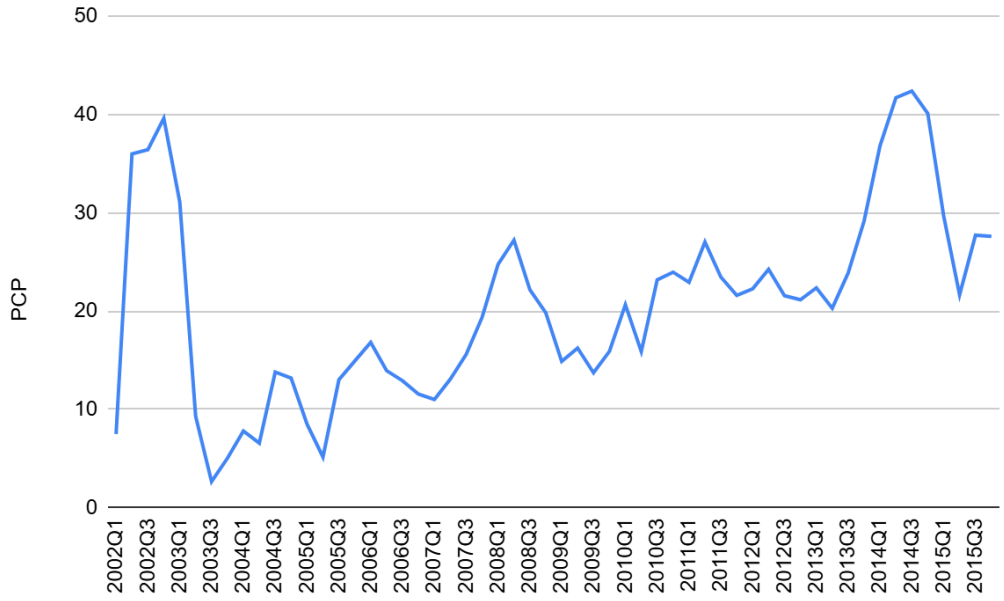
Equally important, inflation became an increasingly serious problem that upset large cross-sections (Figure 4). To understand the inflation problem, we must first consider the workings of the economic policy that began in 2002. After the forced devaluation that put an end to the

[14] Based on data from INDEC, between the third quarter of 2003 and the second of 2015, the unemployment rate fell 61 percent for those without a complete high school education, and 58 percent among those with complete secondary education. For informality rates, these figures are 30 and 32 percent, respectively.

[15] This result differs from that reported by both Damill, Frenkel, and Maurizio (2011), and Beccaria and Maurizio (2012), who find an increase in absolute terms in the employment of people with low educational attainment, considering the employment structure up to 2010. The difference is explained by the fact that the aforementioned authors limit their analysis to what they call "genuine" employment, that is, the employment level net of employment plans (the most important of which was the Jefes program). This reveals that the Jefes program primarily reached groups with low educational attainment (i.e., incomplete secondary education). In other words, the gradual elimination of the Jefes program particularly affected low-skilled workers, who were more likely to be below the poverty line.

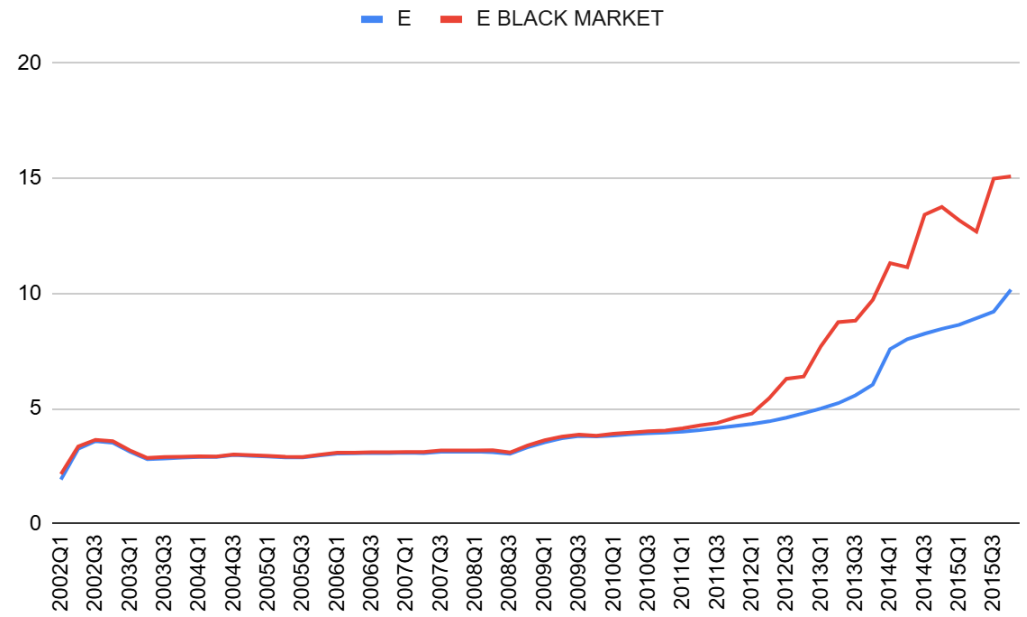
currency board, the government adopted what can be considered a fixed exchange rate policy (although only de facto). Instead of one to one like during the "Convertibility Law" of the 1990s, the government stabilized the exchange rate at about three pesos per US dollar (Figure 5). The government would buy dollars to avoid its price from falling, increasing peso spending, which was both expansionary and inflationary. The default on the US dollar public debt (in early 2002) and the historic debt relief, which cleared the payments schedule until 2005 and eased it from then on, was key to this policy. This allowed the central bank to accumulate US dollars, even while cancelling the total debt with the IMF in 2006 (approximately 10 billion US dollars) (Figure 6).

Figure 4. GDP Deflator (y/y percentage change), Argentina, 2002–15



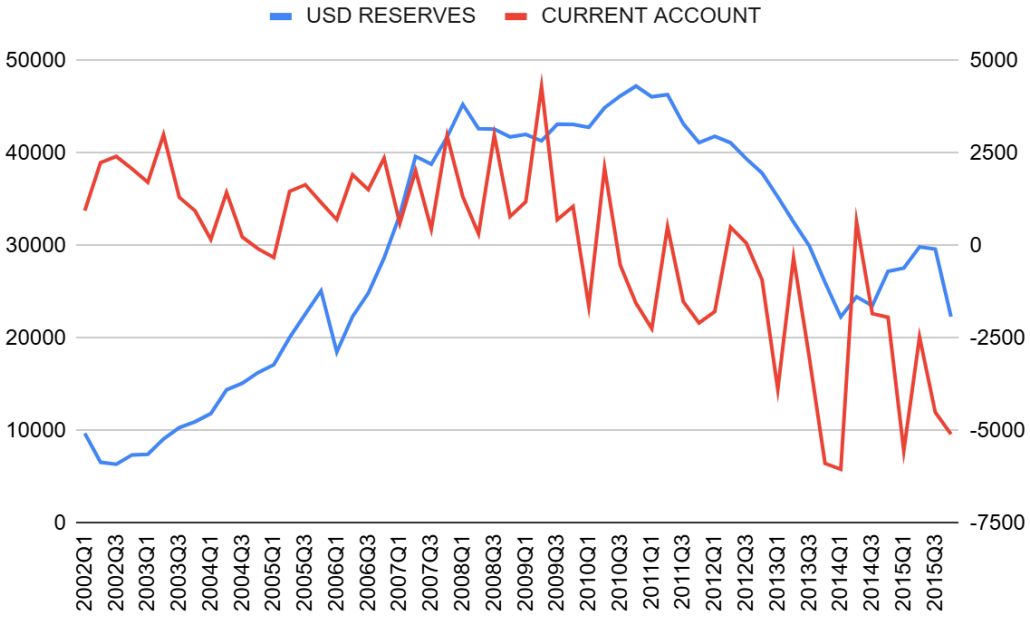
Source: own calculation based on data from INDEC.

Figure 5. Nominal Exchange Rate (ARS/USD), Official and Black Market, 2002–15



Source: own elaboration based on data from IFS-IMF and Ámbito Financiero.

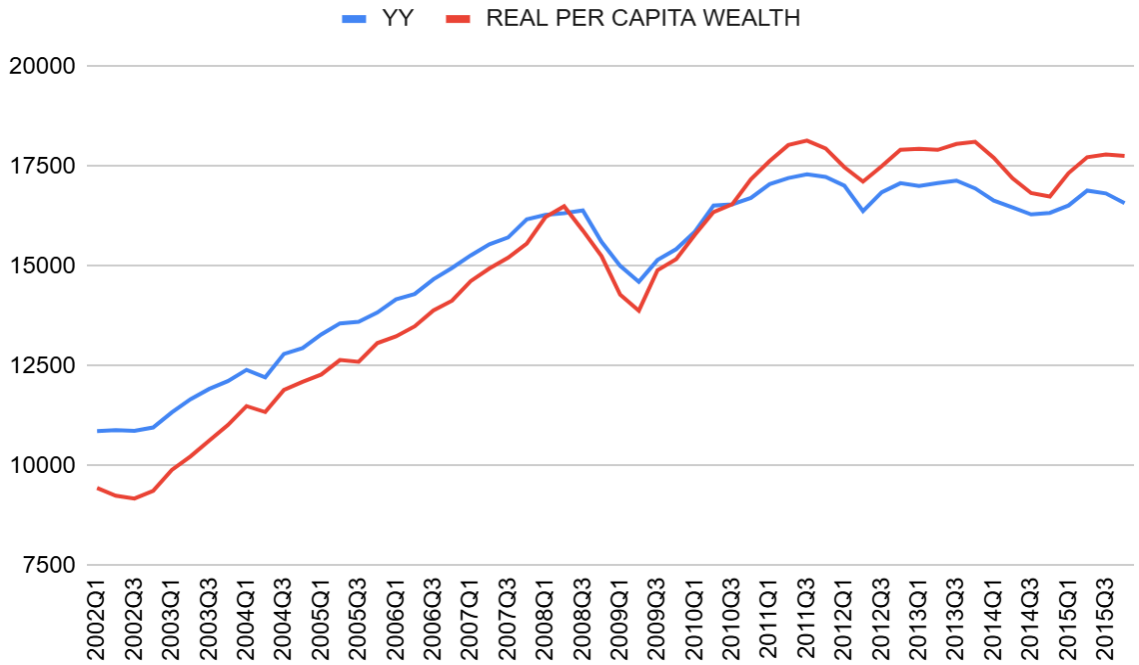
Figure 6. International Reserves (Left Axis in Millions of USD) and Current Account (Right Axis, in Millions of USD), Argentina, 2002–15



Source: own elaboration based on data from INDEC and BCRA (*Banco Central de la República Argentina*)

Between 2002Q1 and 2011Q3, per capita real GDP grew 59.2 percent (Figure 7). Contrary to the twin surpluses (public and ROW) narrative, growth was driven by off-balance sheet deficit spending by the public sector; more specifically, the central bank spending pesos to buy dollars—which is often hidden because the net purchase of US dollars is not considered public spending-.

Figure 7. Real Per Capita GDP and Real Per Capita Wealth (in 2004 ARS), Argentina, 2002-2015



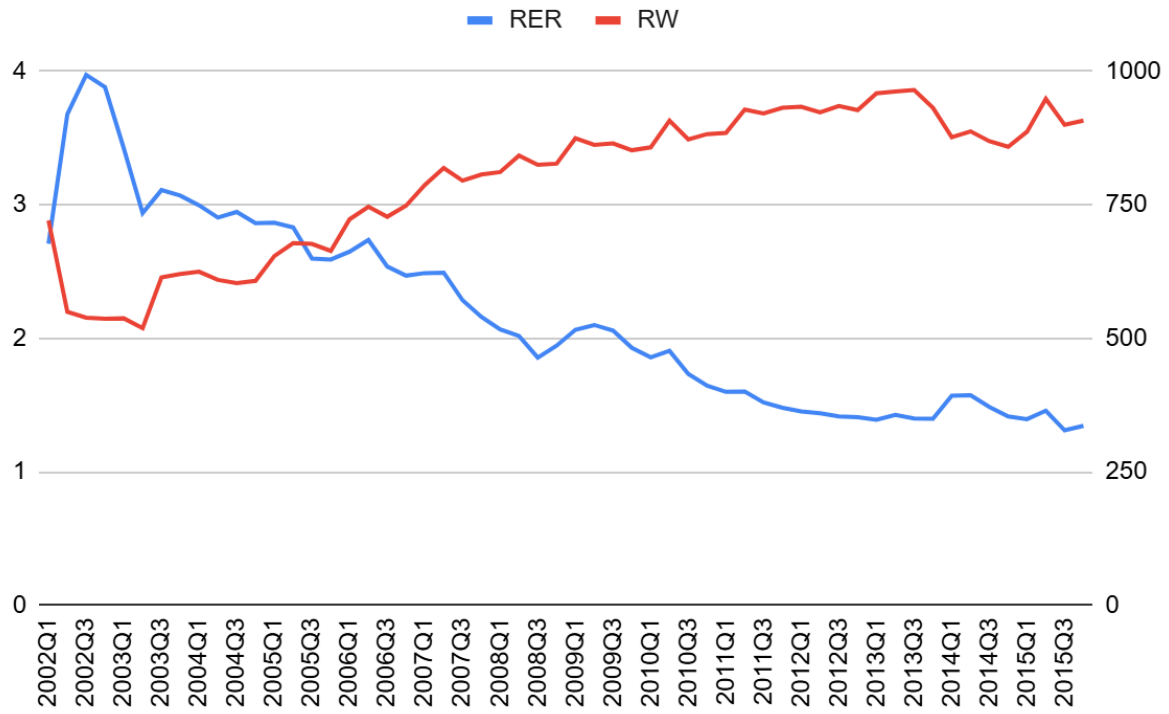
Source: own elaboration based on data from INDEC.
Note: real wealth is defined as GDP + imports – exports.

An undervalued currency means low real wages (Figure 8). Wages (and prices) began to rise, appreciating the real exchange rate (RER).[16] The forced devaluation that put an end to the currency board by definition increased the peso price of imports and (although mitigated, to some extent, by an increase of the tax rate on exports) exportable commodities (i.e., tradable commodities). On top of that, international prices of imported goods were also rising. More

[16] Much the same way an overvalued currency imparts a deflationary bias to the economy, an undervalued currency is, in itself, inflationary. There is an asymmetry, though, in that if relative prices do not adjust, overvaluation ends up in forced devaluation as evidenced, for example, by the end of the currency board in Argentina.

importantly, as MMT authors have long claimed, aggregate demand management promote "hiring off the top,"[17] creating labor market bottlenecks and putting pressure on the wages of high-skilled workers (Tcherneva 2007; Wray 1998).

Figure 8. Real Exchange Rate (Left Axis) and Average Real Wage (Right Axis, in 2004 ARS), Argentina, 2002–15



Source: own elaboration based on data from INDEC.

Market prices tend to change continuously: markets allocate by price the changes in supply and demand. When a price changes, there are basically two possible outcomes: the first is to be kept as a relative price change—even if a price index increases—and the second is to get passed through to other prices and turned into a "generalized" inflation. Of course, the government plays a role: if, as happened in Argentina, the government, de jure or de facto, indexes public wages—and mostly every price it pays—to a price index, it is effectively institutionalizing inflation. By definition, every time the government pays a higher price for what it buys, it is redefining the

[17] There is an essential difference between, on the one hand, paying a wage high enough to hire a given number of workers and, on the other hand, offering an exogenous wage and hiring all those willing and able to work.

value of its currency downward; it is not necessarily a bad policy, but it is necessary to understand where the inflation—in particular, its inertial component—came from.[18]

By 2010, the government was no longer accumulating international reserves (Figure 6). In this context, the recently re-elected government implemented, by the end of 2011, capital controls (i.e., restrictions on domestic conversions from peso to dollar holdings). Strictly speaking, it applied rationing to the foreign exchange market arguably to avoid a devaluation that would have hurt (the then higher) real wages, and to stop losing international reserves. That is, for social equity reasons (among others), it was considered desirable to ration the foreign exchange market using a non-price mechanism. Unfortunately, enforcement costs are usually significant, and the emergence of black markets, inevitable. As is always the case when a single commodity has more than one price, there are strong incentives to buy at the low price (from the government) and sell at the high price (in the black market). All in all, rationing did not prevent the depletion of international reserves (Figure 6), nor official exchange rate devaluation, which, in early 2014, had its first discrete jump since 2002 (not to mention the widening of the gap between the official rate and the black-market rate, and the fall in real wages) (Figures 5 and 8). As a matter of fact, improvements in living conditions halted around 2013—while it is technically possible to increase real wages without growth, the political feasibility is more complicated because it can only be done at the expense of another´s situation.

Inflation (strictly speaking, an increase of a price index) is a distributive problem, in that it does not necessarily shrink the economy. In a sense, it does not matter what one peso can buy but what "all the pesos" (i.e. per capita real GDP) can buy.[19] As a matter of fact, economies usually grow with inflation. Inflation has, however, distributive effects: when relative prices change, there are winners and losers depending on whether they can pass-through the increase to others. As classical economists were well aware, the labor market is not a fair game as—people need to

[18] While backward-looking adjustments cannot accelerate inflation, they institutionalize it and prevent its reduction/elimination.

[19] Inflation acceleration can be contractionary (and vice versa): if the real public debt growth decelerates due to increases in the price level, real savings desires cannot be achieved, as then evidenced by unemployment and excess capacity in general (i.e., a recession).

work to eat while employers only hire if they expect to make a profit; so, without an institutional structure that prevents it, real wages tend to gravitate toward subsistence levels.[20]

Despite economists not finding large negative effects of inflation, it should not be downplayed: there are reasons why people do not like inflation (not to mention capital controls). Therefore, a low and stable inflation is desirable, even if it is only to limit the purchasing power losses that take place between changes of nominal wages. Achieving an inflation target means controlling the distributive conflict: a JG can be instrumental to that goal.[21]

5 POLICY LESSONS: THE ROAD ONCE TAKEN

The Argentine government that took office in May 2003 thought the Jefes had undesirable effects (particularly, the so-called "re-activation" of women) and, thus, sought a reform that would, eventually, eliminate it. Social inclusion would rest on two pillars: an expansion of social security, and labor markets under the belief that aggregate demand management would, eventually, provide employment for all. In effect, a social security safety net was created that guaranteed an income for those who could not or should not work, an unprecedented historical milestone. Both job creation and expansion of social security allowed for a steep decline in poverty and extreme poverty rates, reversing the increasing trend of the 1990s. However, and while unemployment did go down, the economy did not get to full employment; in fact, the less skilled lost jobs. Not only aggregate demand management did not secure full employment, but—just like an undervalued currency policy—they proved to be inherently inflationary. Indexation of public wages, social security payments and virtually every price paid by the government compounded the problem and institutionalized inflation.

[20] This should not be interpreted as the real minimum wage being exogenous (a policy decision); for the unemployed, the real minimum wage is a "subsistence" level; a JG, by making the unemployed a (better) alternative for non-JG employers, can increase the relative value of the minimum wage.

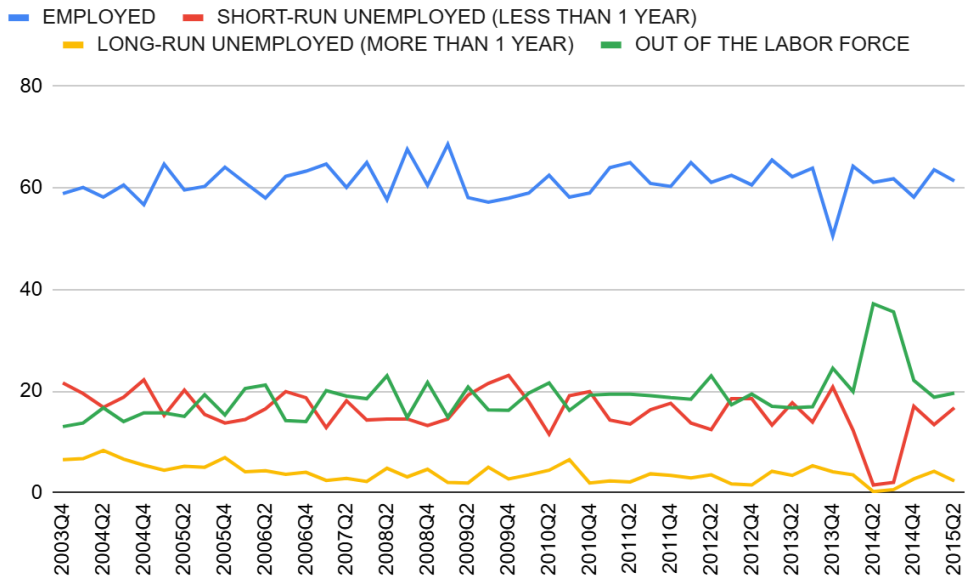
[21] A JG wage increasing at the inflation target plus productivity gains (if any), so that real relativities (i.e. the wage share) does not change, could help discipline other wages and, thus, prices. However, "We make no claim that this ELR [JG] policy will stabilize the overall price level, thus, it is not a close substitute for an ´incomes policy´…" (Wray 1997, 24). An income policy can complement the JG (Mitchell 1998, 548).

The Jefes had limited entry both because it established a registration deadline and it was limited to one member per household—precisely, the head or *Jefe*.[22] As expected, entry limits opened the door for cases of favoritism, discrimination, clientelism and corruption. Even if many Jefes workers transitioned out of the program, entry limits set the wrong incentives as there were good reasons for not wanting to leave a program it was, for all practical purposes, impossible to re-enter. More importantly, and related to the inflation problem, entry limits severely constrained the potential stabilizing (countercyclical) properties of the program, as flows from and to the program were restricted by design.

Another lesson we can learn from the Argentine experience with the Jefes and its reform relates to "the mark of unemployment" (Tcherneva 2017). Unemployment, especially long-term, reproduces unemployability; that is, it is more difficult to reverse the longer it lasts. Put simply, employers mostly hire those who are already working (Figure 9). This is not commonly considered: much the same way analysts thought only the officially unemployed would join the Jefes back in 2002, they tend to believe transitions into the employed come from the previously unemployed. Of course, boosting aggregate demand through “Keynesian” policies will not solve this problem.

[22] Similar programs that came later—*Argentina Trabaja* (2009–15), which became *Hacemos Futuro* (2016-2019), *Potenciar Trabajo* (2020–3) and *Volver al Trabajo* (since 2024)—never reached the size of Jefes and all had (and currently have) entry limits.

Figure 9. Activity Status in the Previous Quarter of the Employed in a New Job, Argentina, 2003Q4–2015Q2



Source: own elaboration based on data from INDEC.

If the unemployed have no value (to the private sector or to the production process), unemployment can no longer be reduced: increases in aggregate demand will only increase the wages of the employed as employers compete for scarce skilled workers. In short, the unemployed, and particularly the long-term unemployed, do not constitute, below a certain level of unemployment, an alternative for the private sector (they are not substitutes). Therefore, they do not serve as a buffer stock (i.e., a reserve army of the unemployed). This is also why it is not possible to achieve full employment using only increases in government spending and/or tax cuts (i.e., aggregate demand management). If we were to implement a buffer stock of gold (i.e., a gold standard), we would ensure that it was kept in good condition. In this sense, public policy must strive to prevent the unemployed from depreciating. A labor buffer stock should, at the very least, improve workers, so they are a (better) alternative for non-JG employers (increase their substitutability) and, thus, a better anchor for the value of the currency.

Downplaying the inflation problem (not to mention manipulating inflation data) opened the door for significantly worse policies after 2015. From 2016, Argentina greatly increased its USD-denominated public debt, leading in 2018 to the return of the IMF. The record-high 57 billion USD loan imposed severe conditionalities for economic policy that, even if only partially

fulfilled, worsened virtually every economic indicator; inflation accelerated to levels not seen since before the currency board in the early 1990s. Of course, that inflation worsened later does not mean it was not a problem at the time.

After the fall of the currency board in 2002, Argentina defaulted on its foreign currency public debt and implemented the Jefes, which could have been expanded to achieve full employment and an internally stable currency. Unfortunately, the Jefes was gradually faded out, along with the potential benefits of transforming it into a full-fledged JG. As if this were not enough, Argentina is now no longer a "sovereign" currency issuer. It is imperative to retake the road once taken.

Labor markets and, more generally, the world economy is going through an unprecedented transformation driven by technological, environmental, and demographic changes. In this context, MMT sheds light on monetary operations and the workings of the economy and, as a logical extension of that understanding, offers practical solutions for achieving politically determined goals—for example, sustainable development goals. Very especially, the JG can deliver full employment (for all) now.

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