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**ILO role in economic and financial  
crises: Lessons from the 2002  
Argentine crisis and its aftermath**

Hector Emilio Maletta

ILO  
International  
Programme on  
Crisis  
Response and  
Reconstruction

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## Preface

The primary goal of the ILO is to contribute, with its member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,<sup>1</sup> and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,<sup>2</sup> in the Employment Policy Convention, 1964 (No. 122) and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.<sup>3</sup>

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.<sup>4</sup>

While the main findings of the research initiatives are disseminated through the Employment Working Papers, the *Employment Report* series is designed to consolidate the major evaluations of employment programmes, conclusions and resolutions of workshops and seminars, and other information details that are particularly, though not exclusively useful to the work of the ILO and its constituent partners.

José Manuel Salazar-Xirinachs  
Executive Director  
Employment Sector

<sup>1</sup> See [http://www.ilo.org/public/english/bureau/dgo/download/dg\\_announce\\_en.pdf](http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf).

<sup>2</sup> See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

<sup>3</sup> See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*. "Vision" document, ILO, 2006.

<sup>4</sup> See <http://www.ilo.org/employment>.



## Foreword

The current global economic and financial crisis represents a top priority concern for the ILO, as it brings with it dramatic consequences in terms of employment and poverty. In turn, the gravity of the job situation could trigger serious social and political issues and potential security risks in the worst hit countries and in the most fragile and tense areas.

The Employment Sector is particularly concerned by the current trends and the possible future scenarios. Immediate efforts have therefore been deployed by the Organization in order to make available the relevant expertise and knowledge in support to tripartite constituents worldwide. The ILO strongly recommends that the job crisis is addressed in a comprehensive and globally concerted manner, by strengthening labour markets and social protection systems, and by putting emphasis on interlinked policy responses.

While remaining a major challenge, this global crisis is to be addressed as an opportunity to promote and apply the fundamental principles of the Global Employment Agenda. Over the years, the ILO has developed a solid capacity to address employment issues and related socio-economic aspects of crises and recovery interventions. This capacity has been utilized to address several types of crisis and complex scenarios worldwide, which has allowed for a continuing learning and enhancing of the approaches.

The response capacity of the ILO in crisis-affected contexts has been strengthened throughout the years by its International Programme on Crisis Response and Reconstruction (ILO/CRISIS). Its role has mainly been the one of supporting and building the capacities of field-based structures to set in motion timely and effective crisis responses. The practice on the ground has produced a wealth of significant lessons, thus increasing ILO's know-how in this domain.

We believe that when facing the current challenges of the job crisis, the ILO and its tripartite constituents can benefit from the lessons learnt in the past, and feed them into recovery strategies and plans. Particular reference is made here to those lessons drawn from the response to the Asian and the Argentinean financial crises that occurred in 1997-1998 and 2001-2002. Such a belief inspired the production of a series of reports that, through a description of the lessons learnt, would guide future ILO's action.

The present report reviews the recovery plans and actions set in place by the Organization in response to the Argentinean financial crisis of 2001-2002. Among the lessons drawn from this experience, the following are the most relevant: apply a tripartite approach since the beginning and reach consensus through social dialogue; create foundations for the implementation of the Decent Work Agenda; work closely with constituents and other stakeholders; prefer the immediate deployment of massive response instead of pilot projects; immediately conceive exit strategies for emergency measures; improve information flows; tackle the weaknesses of social security systems.

Alfredo Lazarte-Hoyle  
Director  
ILO International Programme on Crisis  
Response and Reconstruction



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## List of abbreviations

AREA	Programa de Apoyo para la Reactivación del Empleo en la Argentina
CONDIT	Conditions of Work
CRISIS	Programa especial de cooperación técnica en respuesta a la Crisis Argentina
ETMD	Equipo Técnico Multidisciplinario
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IFP/CRISIS	InFocus Programme on Crisis Response and Reconstruction
ILO/CRISIS	ILO International Programme on Crisis Response and Reconstruction
IMF	International Monetary Fund
INDEC	Instituto Nacional de Estadística y Censos
LED	Local Economic Development
MECON	Ministerio de Economía y Finanzas Públicas (Republica Argentina)
Mercosur	Mercado Común del Sur
PYMES	Pequeña y Mediana Empresas
SAFEWORK	Programme on Safety and Health at Work and the Environment



## 1. Summary of main lessons from the Argentine ILO Experience

*Since the beginning apply a Tripartite approach and reach consensus on main actions through social dialogue*

Initial extended dialogue in the "Mesa de Concertación Socio-Laboral y Productiva" from the "Diálogo Argentino" gears to a tripartite agreement signed with the ILO (March 2002) and frame the ILO support to the crisis response initiatives. A monitoring "tripartite" advisory Committee follows the process. Additional tripartite agreements (December 2002 and June 2004) decide on connect crisis response and the development of a "Decent Work Country Programme". An initiative to institutionalize linkages between extended social dialogue and policy reform has been proposed under a format of a "Consejo Economico y Social" (*Council for social and economic affairs*).

*The Crisis Response should create foundations or contribute to move toward necessary policy reforms for Decent Work*

Crisis response programs such as "CRISIS" and "AREA" support the initiation of the process of policy reform, assist in the development of national and local capacities and provide technical expertise to support the design and initial implementation of the Decent Work country programme.

*Flexible and close working relationships facilitate the response to the changes of the needs of constituents caused by the evolution of the crisis*

ILO worked closely with the Government and stakeholders in the development of a comprehensive response from the very start of the crisis. The monitoring "tripartite" advisory Committee has become a powerful consultation forum to propose changes to programmes scope and priorities, following the evolution of the crisis.

*Social Impact requires massive and immediate response, there is no space for "pilot" or "demonstrative" projects*

The Government implemented a massive programme to provide emergency employment and cash transfers, the "Plan Jefes y Jefas de Hogar Desocupados", in a very short time during the immediate aftermath of the crisis. ILO provided valuable and opportune technical support on the design, monitoring and evaluation of the programme. The programme reached 2 million beneficiaries at the end of 2002, with little previous experience in the country and has become a significant success.

*Emergency measures should include exit strategies from their design*

The experience revealed the necessity of foreseeing an adequate exit strategy for emergency cash transfer and employment programmes, to derive long-term structural unemployment cases to other sorts of programme. "Jefes y Jefas de Hogar", didn't include specific exit clauses on their original design, only getting a job or have their children over the benchmark age, implies the end of the entitlements. Through monitoring exercises the beneficiaries of the programme has been appraised under three informal categories: those with appropriate skills to respond to new employment opportunities, those who requires to be (re-) skilled to enhance their employability options, those who become a social case (disadvantage groups such as those with major disabilities, long term unemployed, over

aged people, abandoned women with multiple kids, etc). Solutions for those categories were conceived but time for their design and implementation took longer.

*Improving information flows of Labour Market Opportunities, enabling quick re-skills processes, facilitating Internal labour mobility and promoting decentralized employment creation through Local Economic Recovery Strategies are key strategies to mitigate or compensate job losses*

ILO assisted the Government in developing a wide network of municipal offices for provision of employment services and promotion of local economic development centred on micro and small enterprises support as well an important update of the Skills Training System, including revision of curricula, certification process, monitoring capacities, etc. Improvement of labour mobility has been part of a very challenging process of decentralization of employment promotion and their "articulation" through sophisticated software. A critical alliance has been established with "Italia Lavoro", a decentralized service from the Ministry of labour from Italy well recognized by their successful programmes to facilitate labour mobility.

*Strengthen Social Security services in response to the needs posed by the Crisis. If necessary, proceed to reform, with critical attention paid to the impact on future performance*

ILO assisted the Government in analyzing and restructuring the Social Security System, which was a principal component of the overall fiscal deficit, and was profoundly affected by public debt default. ILO contributed to ensure technical support for a continued and sustainable social protection for the Argentine population.

*Learning and Developing Capacities will contribute to preparedness for future challenges*

Experience gained by the Argentine Government and other stakeholders from responding to the 2002 crisis created an adequate capacity to face possible future crises and give immediate and adequate response

## **2. Objectives and scope of the report**

This paper aims at summarising the main lessons that could be drawn from the experience gathered by ILO from its close participation in the process of social and governmental response to the severe financial crisis affecting Argentina in 2002-2003, the effects of which are still reverberating in spite of several years of economic growth and recovery. The paper was written in early 2009, as the world (including Argentina) is facing a global financial crisis that may create the need for similar responses in many parts of the world, especially in developing countries.

## **3. Background of the crisis**

Argentina has experienced a series of "stop-and-go" processes of growth followed by crises since the 1950s. The process of import substitution that started in the late 1940s under the fixed-exchange-rate regime of the Bretton Woods system (founded on a gold-

backed US dollar and implying restricted international capital flows) soon created imbalances that were accentuated and made much more severe after the collapse of the Bretton Woods fixed-exchange-rate system in 1973, leading to floating currencies which in turn necessarily imposed gradual liberalisation of capital flows and accelerated the GATT process of trade liberalisation, decisively shaping financial and economic globalisation.

Like many other countries in Latin America, Argentina was slow in adjusting to the new circumstances of the world economy, characterised by more open economies, increasingly freer trade, and finally liberalization of capital accounts. The country lived through many years of very high inflation, with periodic fiscal and balance-of-payments crises, political instability and wide variation in policies (from short-lived liberalisations to attempted restoration of interventionist-protectionist regimes), while the economy's competitiveness gradually deteriorated: the productivity of the main exporting sector (agribusiness) stalled since the 1950s (in comparison with competitors such as the United States or Canada); industrial development (one of the earliest and strongest in Latin America) never outgrew the infant-industry stage and became increasingly unable to compete in the world market. Imbalances resulting from this process translated into increasing indebtedness. Economic growth stalled completely in the 1980s, the so-called lost decade, and attempts by the government to stabilise the economy and rekindle growth ended up badly in the hyperinflation and hyper-recession bouts of 1989-90.

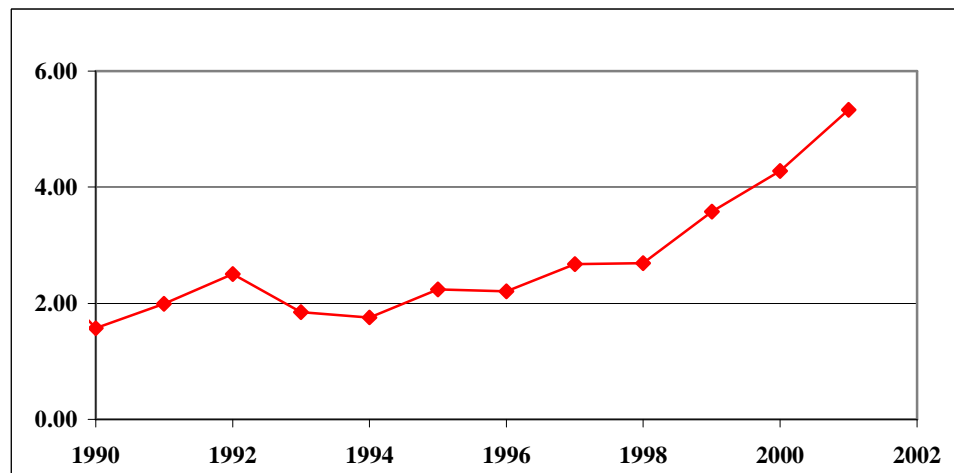
In the 1990s the country started structural reforms, liberalised the economy in real and financial terms, stabilised the price level through a strong dollar peg, entered a regional customs union (Mercosur), privatised most State concerns, and introduced an array of reforms in the tax system, the regulation regime, labour legislation, Social Security and other aspects.

The results of this belated experiment with an open economy regime were in the end disappointing. On the positive side, the country grew strongly in the first half of the 1990s, and survived with few scratches the blast of the 1995 Mexican crisis (which created a run against the Argentine peso in fears it may also collapse), continued growing strongly in 1996-98, and increased significantly its participation in world trade by increasing exports (both agricultural and industrial) by a factor of 2.5 between 1990 and 1998 in spite of poor international commodity prices.

At the same time, the process created an increase in public spending that in turn fuelled additional indebtedness. One factor was the reform of Social Security, whereby a large part of the labour force started contributing to privately-managed capitalisation pension plans, whilst the State faced commitments to existing pensioners with a reduced pool of contributions. Another factor was failure to reform provincial governments, leading to many provinces incurring huge debts in 1996-2001, and some ending up by issuing scrip or quasi-money to face expenditure commitments such as government staff salaries and payments to government suppliers. The central government also incurred in excessive expenditure growth in the late 1990s.

All this led to a rapid increase in fiscal deficits, and consequently in debt service as a percentages of GDP (from around 2% in 1992-96 to nearly 6% by 2001), and finally precipitated a sudden stop of foreign credit (including the IMF) and massive capital flight. In late December 2001 the government announced it would default on its debt to private creditors (\$95bn, the largest sovereign default on record so far).

**Figure 1. Public debt service as % of GDP**



(Source: MECON 2002)

The process of trade liberalisation during the 1990s also created enormous tensions for labour. Unemployment grew steadily as many industries rapidly modernised or suffered from exposure to foreign competition (including from within Mercosur). The panic of the Tequila crisis of 1995 caused a rather mild recession, but during this period unemployment climbed to 18%. It recovered to about 12% in 1996-98, but it became evident that a substantial part of the labour force (previously employed in a bloated State sector or in non-competitive activities) had become harder to employ under the current economic regime. Even with strong growth bordering 8% in 1996-98, one eighth of the labour force remained jobless.

The Asian crises of 1998 generated a new blow: growth stalled in mid 1998 and entered a recession in 1999, aggravated by a Brazilian devaluation in January 1999, while the price level started a process of deflation. The recession and deflation would last until the moment of the crisis in late 2001, as successive administration (the second Menem government in 1996-99, and the subsequent De La Rúa presidency in 1999-2001) failed to find a way out. Unemployment increased again, from 16% in May 2001 to 18% in October, just before the crisis.

In the Parliamentary elections held in October 2001 the Government lost its majority in Congress, and thus ran out of parliamentary support to reduce expenditure and thus shrink the deficit and avoid mounting indebtedness. As capital started to massively flee the country, draconian measures were taken to limit withdrawals from bank accounts, while a strict regime of zero-deficit public spending (i.e. spending only on a cash basis) was enacted by the central government.

During most of the 1990s foreign trade showed a deficit, amply made up by capital inflows. The fact of having a trade deficit is not, as such, necessarily a problem in an open economy, but was a weak point that revealed itself out when capital inflows turned into capital flight. The rigid monetary system enacted in 1991 (including the dollar peg) should have been liberalised by mid-decade, possibly in the recovery that occurred in the wake of the Mexican crisis, but it was not. Thus the Government faced the situation in late 2001 without possibility of using the classic remedy for those situations: depreciating the currency.

In the end, amidst widespread turmoil, President De La Rúa resigned just before Christmas 2001. The interim government declared debt default a few days later, and the

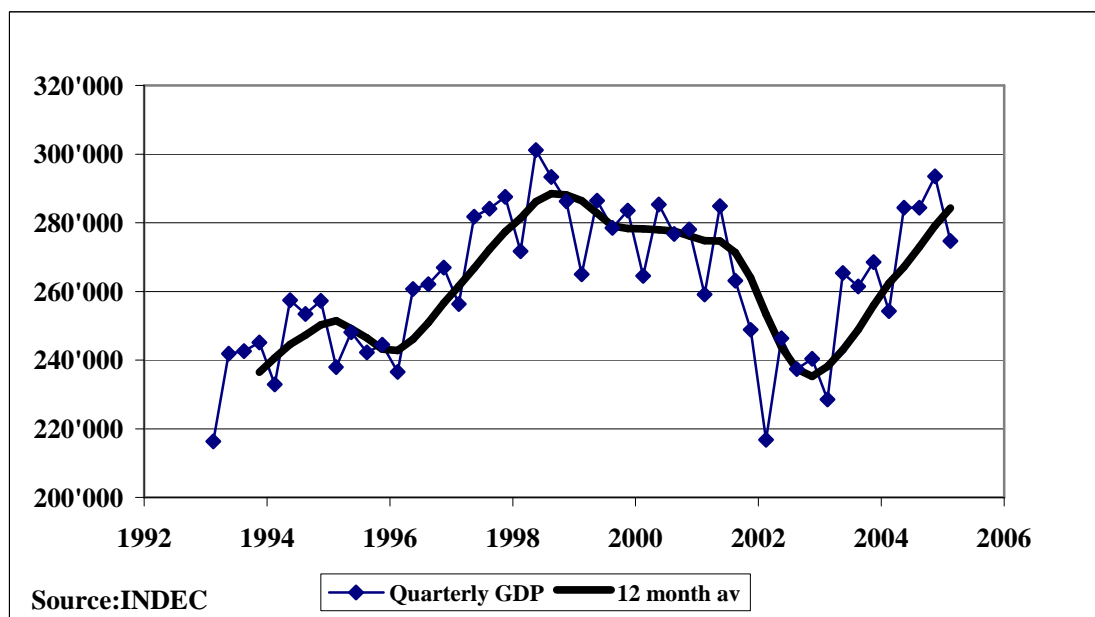
currency system was scrapped at the beginning of 2002. The government tried to fix the exchange rate (formerly one peso per dollar) at 1.40, but the market forced a stronger depreciation, to around 3 pesos per dollar (in fact briefly touching 4 pesos before settling back at 3).

#### 4. The crisis and its social impact

After ten years of stability, prices soared in 2002, and unemployment and income-related poverty mounted to new highs. Joblessness reached 19.8% in the first quarter of 2002, up from 18% in October 2001, and climbed to about 27% in the first quarter of 2003 before starting to recede. GDP, already in slow decline since late 1998, fell precipitously in the last quarter of 2001 and early 2002<sup>5</sup>.

GDP had accumulated a decline of nearly 6% in 1998-2001, and fell by another 16% in 2002. At constant 1993 prices (with one peso worth one dollar), it fell from an annual value over US\$300bn in the second quarter of 1998 to less than US\$220bn in the first quarter of 2002, before bouncing back to around US\$240bn in the rest of 2002. The total fall was about 27% from top to bottom, and most of the fall occurred in the last quarter of 2001 and the first quarter of 2002. Once population growth (about 1.2% per year) is considered, and now in terms of yearly averages, GDP per capita fell by more than a quarter from 1998 to 2002.

Figure 2. Annual GDP at 1993 prices (million 1993 pesos)



(Source: own elaboration based on data from INDEC).

This regards gross national product. Considering capital flight and net foreign transfers, domestic income per capita fell even more. Use of personal savings to make up for reduced income was precluded by the bank deposit freeze and the forced conversion of dollar deposits to pesos at an unfavourable rate (less than half the market rate). At the same time, wide sections of the population faced joblessness and sudden poverty. Cash scarcity

<sup>5</sup> Data from national accounts, in constant 1993 pesos, provided by the National Statistics and Census Institute and available at <http://www.indec.gov.ar>.

led to the emergence of "barter marketplaces" where people exchanged goods without recourse to money. Many provincial governments were paying staff and suppliers with worthless scraps once their budgets ran out. With assets frozen and devalued, savers were unable to invest or spend, and the general payments chain came to a stop.

Measured by reported income through household surveys, poverty climbed to 53% of the population (in terms of a standard poverty line covering food needs increased to total needs by means of an Engel coefficient). Reported income, it must be recognized, was probably misreported by many households, since large numbers of people had to resort to informal occupations, barter or sale of assets, and the income derived was difficult to estimate. Many non-formal forms of payments were not likely to be acknowledged in full before surveyors from the government Statistics Office. However, even admitting a degree of overstatement in poverty figures, it is evident that a very large share of the Argentine population had lost its livelihood or was in dire straits to make ends meet.

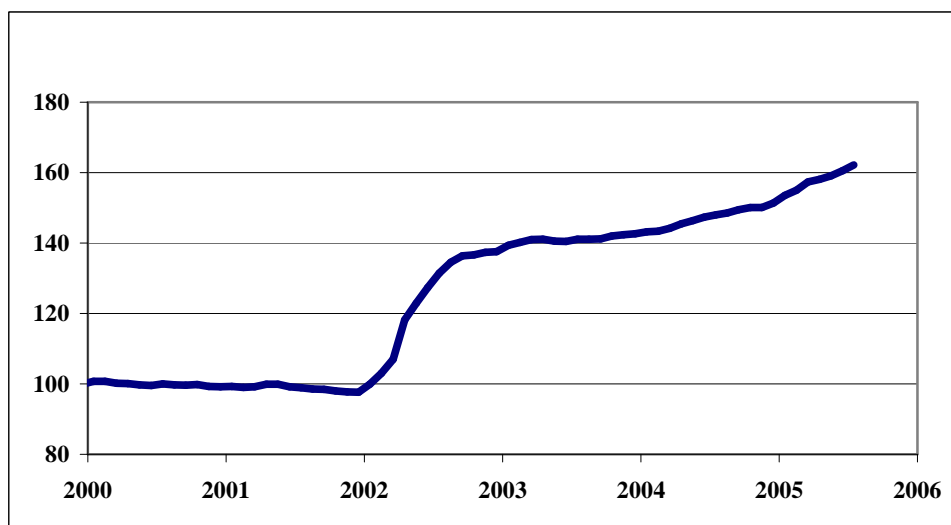
This affected not only the working class but also the middle sections of society; not only those in the informal sector but also many fully integrated in the formal economy. Besides the loss of income, many otherwise solvent people had no access to their money due to the deposit freeze. Exceptions to the freeze were very limited (pensioners, for instance, could withdraw the amount of their monthly pensions), but this was little help to those that needed to use their savings because their income had been lost or severely diminished. All savings were frozen, and many converted to less worthy money. Stiff restrictions were also established on financial movements across borders; family help and remittances were allowed, but increased (and initially cumbersome and confusing) paperwork hampered the flow of income for those depending on remittances.

This hit demand very harshly. Imports decreased by 70% in 2002, and domestic production had also been reduced (as mentioned before), due to lack of demand for consumption and investment. In spite of capital controls, billions of dollars left the financial system in 2002 on top of the heavy capital flight suffered in 2001. Many of those dollars ended up in safe boxes within the country, or flew away through formal or informal channels. Strong demand for US dollars led to the exchange rate climbing to nearly 4 pesos by mid 2002 before subsiding to about 3 pesos per dollar, where it remained afterwards with little oscillation all through the recovery and until 2008 (it climbed back since late 2008, reaching about 3.65 by March 2009).

Inflation, absent for an entire decade, was back with the collapse of convertibility in early 2002. The price level jumped by 40% within 2002 (mostly in the first semester), stabilised for a few months, and restarted growing afterwards, passing an accumulated 60% by mid 2005, when the economy was reaching back its pre-crisis levels.



**Figure 3. Consumer price index (base 1999=100)**



*(Source: own elaboration based on data from INDEC).*

## **5. Overview of immediate response (2002-03): Government, civil society, ILO**

The situation of employment and livelihoods at the beginning of 2002 was extremely grave, calling for immediate action<sup>6</sup>. The enormous social impact of the crisis and the ensuing political transition imposed a joint mobilisation of government, civil society and international organisations to offer immediate response.

Through a process of Social Dialogue, all sectors of society participated in proposing immediate solutions to the pressing predicament of the most vulnerable groups. The dialogue was started by an initiative of the Catholic Church, immediately supported by interim President Duhalde. It included labour unions, employers, NGOs, grassroots organisations, political parties, religious organisations, and all levels of government.

The UN system actively supported the dialogue process, led by UNDP and actively accompanied by ILO. All four sectors of ILO participated from the start in supporting the effort of Argentine society and Government to provide timely and efficacious responses to the crisis challenges. ILO/Crisis prepared an initial proposal of strategic issues, with contributions from the Employment, Social Protection, Social Dialogue, and International Norms sectors of the Office. After initial consultations involving ILO headquarters, and also the regional and country office, a comprehensive list of cooperation activities were identified during a mission visiting Argentina in February 2002, in which the local and regional offices of ILO also participated. This mission coincided with the immediate aftermath of the crisis, and was also simultaneous with the height of the Social Dialogue initiative.

The ILO's institutional response to the Argentine crisis was one of the most comprehensive technical cooperation packages ever enacted in Argentina. It covered every

<sup>6</sup> Among other references from various viewpoints see Berg, Ernst and Auer 2005; Novick *et al* 2007; Marshall 2004; IFP/CRISIS 2003; Maletta 2005, 2007.

dimension of Decent Work, was built on a solid basis of tripartite consensus, and had a deep impact on policies and response programs on a massive scale. This positive evaluation has been repeatedly expressed by the ILO Administrative Council and the ITC. Furthermore, that set of interventions showed not only how to respond to a crisis but also how to build a national Decent Work agenda on the basis of coherent operations in crisis response programs, as was evident during the National Decent Work Programme preparation.

In the wake of the crisis, an urgent intervention of ILO was channelled through "Response to the Argentine Crisis", a Special Technical Cooperation Programme<sup>7</sup>. A larger programme was deployed shortly later: "Tackling the challenges to decent work in the Argentine crisis"<sup>8</sup>. It was eventually extended up to early 2008, and received also substantial funding from the Italian Government. A further programme for reactivation of employment in Argentina received ILO assistance from 2004 to 2007, concentrating mainly in the development of decentralised employment services.

In the following sections, different aspects of this response are analysed in more detail.

## **6. Social dialogue**

### **6.1 The call for social dialogue**

A call to social dialogue by the Catholic Church and interim President Duhalde rallied a wide process of participation by the various sectors of the economy and civil society.

The agreement on the broad lines of a policy response to the social impact of the crisis, achieved under the Social Dialogue process, was crafted as a Socio-Labour-Productive Covenant (Concertación Socio-Laboral y Productiva). The Dialogue process' main goals were to set up a viable framework to reach agreements on policies for economic reactivation, job creation, income redistribution, establishment of employment as an overarching goal of all public policy, and promote restructuring existing labour policies in terms of a stronger role of local governments, decentralisation and participation. Also, to foster cooperation between employer and worker organisations, promote universal Social Security coverage, and improve transparency and efficiency in the management of Social Security policies.

The Social Dialogue process proceeded mostly through three Committees:

- Labour relations and employment creation
- Micro, small and medium enterprises; local and sectoral development
- Social Security

From the Social Dialogue agreements emerged the recommendation of creating a Social and Economic Council. However, this initiative was not carried out at that time. The

<sup>7</sup> March-November 2002, financed with \$150,000 by the ILO Rapid Action Fund

<sup>8</sup> November 2002-January 2006, funded with \$800,000 from the ILO "Special Crisis Reserve" on 2001 cash surplus

initiative has been resurrected by the National Government in 2008-2009, in the wake of another impending crisis, but has not yet been implemented at the time of writing.

## 6.2 ILO support to the Social Dialogue process

The call to Social Dialogue was immediately supported by the United Nations. UN assistance was led by UNDP and especially by ILO in view of the specific orientation of the Dialogue committees. The International Labour Office had already a continuing presence within the Ministry of Labour, and was present from the start in the post-crisis Social Dialogue, helping to draft the blueprints of policy responses in a tripartite context and with ample participation of civil society stakeholders.

Between December 2001 and January 2002 a number of initiatives converged in an articulated effort led by CABINET in the Head Office and by the Regional Office in the field, with active participation of the four strategic ILO sectors, the Buenos Aires Office, the Santiago (Chile) ILO multidisciplinary team (Equipo Técnico Multidisciplinario, ETMD) and IFP/CRISIS. A Crisis Committee was formed in Geneva in permanent contact with a similar committee in the field.

## 6.3 ILO proposals for the Social Dialogue

As a result of this effort, the crisis team produced a set of strategic sectoral issues in the form of proposals to be discussed by Argentine social actors, and as elements to be considered eventually in an ILO assistance programme. These proposals may be summarised as follows<sup>9</sup>.

### *Proposals from the Employment sector*

- Support to employment protection policies and programmes, centred on Small and Medium-sized Enterprises (PYMES in the Spanish acronym), including for instance selective subsidies for personnel training and compensations for reductions in hours of work. Besides, programmes for improvement of productivity and efficiency for firms that accept keeping all or part of their staff.
- Support to employment creation programmes, including short term emergency employment (especially in labour intensive public works requiring little capital investment), and promotion of local employment opportunities, pointing especially to the development of micro and small enterprises in areas affected (or expected to be affected) by high unemployment, using well known ILO tools such as LED, Start Your Business, Improve Your Business, support to microfinance services and others.
- Support to employability programmes, promoting training and apprenticeship activities in established enterprises oriented to the unemployed, especially the young, and also supporting labour market intermediation.
- Support design of financial mechanisms to stop rapid loss of capital in micro and small enterprises, especially through purchase and re-leasing of their equipment and other liquidity creating mechanisms.

<sup>9</sup> A more detailed account of these sectoral proposals can be found in ILO/CRISIS 2004, Vol.1 (pp.25-29) and Vol. 2, *passim*.

- Promoting associative initiatives and co-operative enterprises, as well as consumer associations and consumer co-operatives oriented to bulk purchases and consumption cost reduction.
- Assistance to the development of programmes of "debt for work" swap programmes.
- Assistance to microfinance services to improve efficiency and coverage.

#### *Proposals from the Social protection sector*

- Urgent evaluation of the crisis' impact on the Social Security System, and design of long and short term strategies for its strengthening, following recent recommendations of the 2001 International Labour Conference which were the most updated tripartite framework in the matter.
- Support to the preparation of an Emergency Social Accounting System to simulate and analyze the impact of proposed measures to be adopted during the crisis and its immediate aftermath
- Support to the design of an impact evaluation system for policies and strategies against socio-economic insecurity
- Support to the extension of coverage of health care services to vulnerable groups affected by the emergency and not previously covered
- Facilitate connection of emergency intervention with ongoing actions in work accident prevention (SAFEWORK), working conditions (CONDIT) and AIDS (ILO/AIDS). Also, special focus on the impact on migrants and women, and the design of appropriate policies.
- Collaborate in the preparation of tripartite agreements on Social Protection as a response to the crisis.

#### *Proposals of the Social Dialogue Sector*

- Support to the formation of Tripartite Social and Economic Commissions or Councils

#### *Proposals from the Norms Sector*

- ILO support to ensuring enforcement of acquired rights regarding unionisation freedom and collective bargaining. Especially, the Sector recommended that any modification to existing legislation (Labour Reform Act 25,250 promulgated in May 2000) should not be to the detriment of unionisation freedom, in view of certain calls to reform existing legislation made by unions in the wake of the crisis.

### **6.4 ILO assistance to the Social Dialogue process**

The multidisciplinary technical team mission that visited Buenos Aires in February 2002 worked in close relation with the ongoing Socio-Labour-Productive Roundtable within the Argentine Dialogue, which was already being followed by the Country and Regional Offices. Based on the Social Dialogue deliberations the mission identified and proposed a number of activities that in fact delineated the ILO assistance programme to

Argentina in the following years. This included proposals to the three Social Dialogue committees: Labour Relations, Employment, and Social Security<sup>10</sup>.

The most outstanding results of this close and early collaboration can be summarized as follows:

- Tripartite ownership of the programme
- Incorporation of ILO priorities into the programme
- Wide social and political support for the programme
- A wide and comprehensive ILO technical cooperation programme supported with strong tripartite and political consensus.

## **6.5 The initial Crisis Technical Cooperation Programme**

The initial phases of ILO cooperation with Argentine post-crisis recovery operated through a Special Technical Cooperation Programme enacted since the beginning of 2002, funded by the IFP/CRISIS Programme, after guidelines drafted in a memorandum of understanding between ILO and the Argentine Labour Ministry, signed by the Argentina Labour and Employer representatives to the ILO Administrative Council.

As a result of the initial activities undertaken by the Special Programme in the first months of 2002, the Administrative Council approved the new programme with funds remaining from the 2001-02 budget. Implementation began in February 2003 and was to last until January 2006 but was eventually extended until early 2008. It had a substantial funding from the Italian Government. The immediate objectives of the Programme were as follows:

- Support of private and public actors for the formation and strengthening of territory-based networks for local economic development, utilization of local resources and development of micro, small and medium-sized enterprises.
- Improvement of employability and integration of workers into the labour market through a network of employment services oriented to local productive profiles.
- Strengthening and improvement of the employment policy process.

## **7. Mass workfare for unemployed household heads**

### **7.1 The Jefes and Jefas Programme**

The most outstanding policy response implemented in early 2002, largely as a result of Social Dialogue recommendations with active ILO involvement, was a massive programme to provide basic employment and income to families with unemployed household heads. It was enacted in March 2002 through an Emergency Executive Decree. The programme,

<sup>10</sup> A detailed account of these recommendations can be found in ILO/CRISIS 2004, Vol.1 (pp.29-42) and Vol. 2.

known as 'Jefes y Jefas de Hogar desocupados' (henceforth Jefes y Jefas) was addressed to unemployed household heads (and spouses) having children under 18 or with disabilities (or with a pregnant household head or spouse), and provided 150 Argentine pesos per month (about US\$50) to beneficiaries, mostly with an obligation to work (chiefly in labour-intensive public works, some labour-intensive public services such as street cleaning, and services related to other social programs such as manning school diners and soup kitchens). The programme was financed by the World Bank, but initial funding came from the Government budget.

Implementation was organized through Provincial and Municipal Governments, with provisions for the formation of Consultative Councils at the local level (but these were generally not formed until later). More than 3 million applications were received during the application window, of which more than 2 million were approved, and then applications closed. The number of beneficiaries amounted to about 13% of the labour force, of which about 80% (i.e. about 10% of the labour force) faced work obligations.

The programme was intended to benefit the unemployed, but many applicants were not previously employed or presently seeking work: a large number of non-active persons (chiefly housewives) also applied and got approved. They were regarded as eligible as long as the household head and spouse were jobless. At the early stages of implementation, it has been found that a number of wives with employed husbands also received programme benefits, for which they were not technically eligible; but later (starting in mid 2003) more careful screening and cross checks with Social Security contributions led to the cancellation of benefits for many such beneficiaries. Nonetheless, non-active spouses in common-law couples with an employed partner could obtain benefits and go undetected, as well as legally married people whose spouse was only informally employed and not making Social Security contributions. These "undetectable" cases, however, are estimated to be a minority (probably no more than 5-8% of the beneficiaries). In the long run, however, they might constitute a larger proportion of the participants remaining in the program, as explained below.

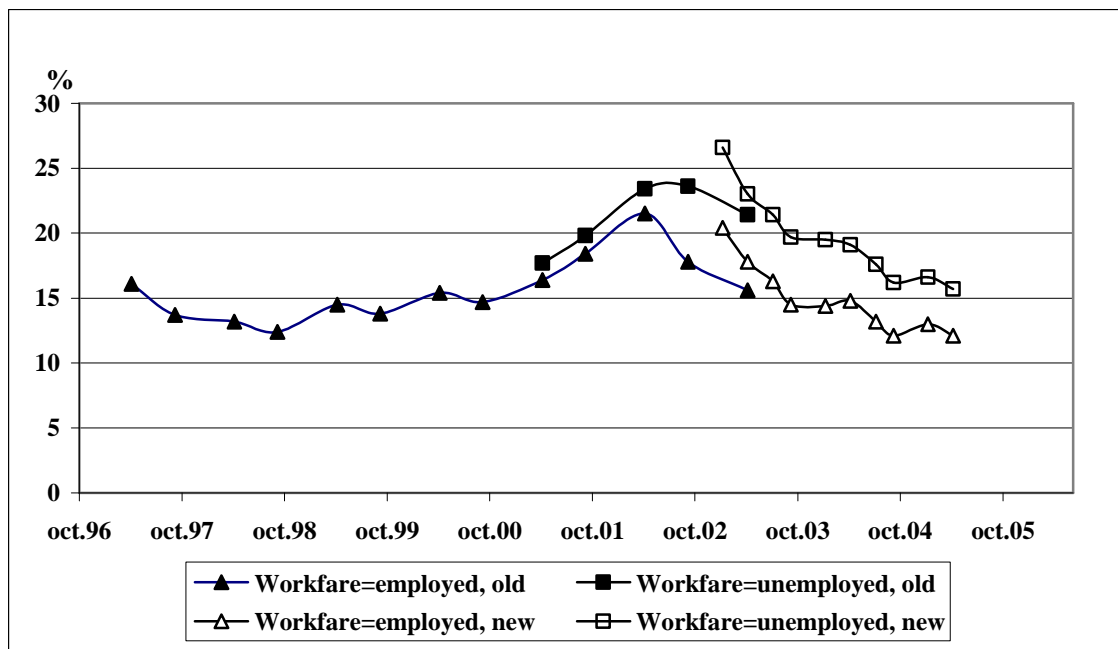
The sum paid by Jefes (150 pesos per month) was not intended to replace normal income: it represented at the time about 28% of the average salary (535 pesos/month in May 2002), and was lower than the cost of a basic food basket for a family of four (187 pesos in December 2001 rising to 346 pesos by October 2002), and also less than the official poverty line comprising the cost of food and other basic items (461 pesos in December 2001 and 716 pesos by October 2002). However, it represented a crucial contribution to the loss of income caused by unemployment and loss of livelihood as a result of the crisis for low-income households. Two million beneficiaries amounted to a monthly injection of 300 million pesos (US\$100 m) of additional income going mostly to low income or no-income households. The total yearly amount (about US\$1.2 bil) represented about 0.5% of GDP, concentrated (albeit not exclusively) on the lower rungs of the income distribution<sup>11</sup>.

Unemployment was already high at the time of the crisis, after three years of relatively mild but protracted recession, and was rapidly climbing. Pre-existing workfare programs (Plan Trabajar) were already attributed to about 1-2% of the labour force. Including people with workfare benefits, joblessness was 19.8% in October 2001, almost 24% by mid 2002 and was highest at about 27% in the first quarter of 2003 before economic recovery gradually brought it down.

<sup>11</sup> According to Galasso and Ravallion (2003, Table 7) 52.5% of beneficiaries came from the bottom quintile of the population in terms of per capita household income. Another 31.7% of beneficiaries came from the fourth income quintile. A further 13.4% belonged to the central quintile, and the remaining 2.5% to the top two quintiles of the income distribution (net of the programme's transfer).

The following chart shows the course of (urban) unemployment and the impact of workfare programmes<sup>12</sup>. The higher lines represent total joblessness, including workfare beneficiaries (i.e. considering workfare beneficiaries as unemployed); the lower lines show only the unemployed not working for a workfare benefit; these cases may have some benefits but no work obligation. Up to late 2001 the difference was about 1-2 percentage points, but in 2002 and 2003 the proportion of the labour force covered by work obligations in the Jefes y Jefas programme increased greatly, reaching about 8% of the labour force<sup>13</sup>.

Figure 4. Unemployment and workfare coverage, 1997-2005 (old and new household surveys - % of labour force)



(Source: own elaboration based on data from INDEC).

In a country without a generalised unemployment insurance system (only formally employed workers in certain branches of activity had one), reaching such a large section of the labour force with a newly-implemented programme was a remarkable feat, especially because it was achieved within a few months of the crisis' start. The following figure shows the evolution of open unemployment, counting and not counting workfare beneficiaries as unemployed, in the old and new household surveys administered by the National Institute for Statistics and Censuses, INDEC (<http://www.indec.gov.ar>). The old survey was taken

<sup>12</sup> There was a change from periodic to continuous employment surveys at the start of 2003, causing a discontinuity in the series which is discernible in the chart. The highest point in unemployment, about 27% of the labour force if workfare beneficiaries are counted as unemployed, seems to have been in February 2003, a period covered only by the new (continuous) survey. By March 2003, when data from the two surveys are available, both nearly coincide (although the new one applied an enhanced questionnaire that tends to capture an additional fraction of the unemployed, resulting in a slightly higher rate).

<sup>13</sup> The number of beneficiaries fulfilling working obligations as estimated from surveys is lower than the number of such benefits accorded, suggesting some people (probably ineligible in the first place) choose not to report the benefit in the surveys, or did not actually work. Benefits granted with work obligations amounted to about 11% of the labour force but only 8% got reported in surveys at the beginning of 2003. By 2009, among the remaining 500,000 beneficiaries, the percentage with work obligations has fallen to about 70% (information provided by the Secretariat for Employment and the Jefes Programme Management).

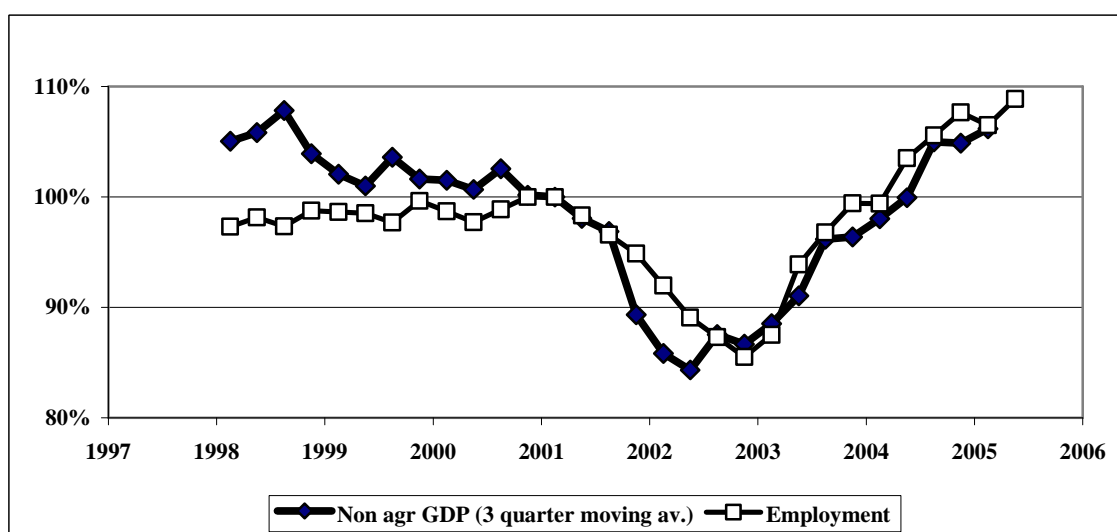
twice a year (in May and October). The new one is continuous, and produces quarterly estimates, which in this figure appear centred at each quarter's midpoint.

This chart, with data extracted from household survey tables available at the INDEC website, (<http://www.indec.gov.ar>) shows unemployment peaking at the beginning of 2003. The new survey is better designed and catches more employed and unemployed people, hence the new series (clear markers) is higher than the old ones (dark markers). At the same time, INDEC includes working obligations in social programmes as a form of employment, which allows for two definitions of unemployment. The lower series represents unemployment rates when beneficiaries with work obligations are considered as "employed"; the higher curves count these beneficiaries as "unemployed" even if they have work obligations. The high point, measured by the new and better-designed survey, was the first quarter of 2003, when the unemployment rate reached 27% (including beneficiaries as part of the unemployed) or 20% (if those beneficiaries are excluded from the rate of joblessness). After the first quarter of 2003 the unemployment rate started a long decline that extended for several years.

At the high point of the series, beneficiaries with work obligations made up about 7% of the labour force. Some of them were new recruits into the labour force (e.g. housewives not formerly employed) whilst others were unemployed workers. This gives an idea of the maximum magnitude reached by the programme in terms of coverage of unemployment and labour force (this does not include beneficiaries without work obligations or beneficiaries who chose not to declare their benefit as a form of employment).

The main factor behind the decline in joblessness was not workfare but growth. Under the new conditions of the economy after the devaluation of 2002, many labour-intensive activities could again grow without being hindered by foreign competition. Also, money not paid to foreign creditors during the default, as well as increased tax revenues from newly-imposed export duties, were used to expand public expenditure, thus fuelling aggregate domestic demand. As a consequence, employment grew strongly as output increased back to its former levels. The following figure shows the close correlation between non-farm output (GDP at constant 1993 prices, National Accounts) and urban employment (as measured in household surveys), both provided by the National Statistics Institute (INDEC, <http://www.indec.gov.ar>).

Figure 5. Non agricultural output and urban employment, 1998-2005 (base 2001-Q1=100), workfare excluded



(Source: own elaboration based on data from INDEC).



The dynamics of output and employment before and after the crisis is not without interest. Notice that in 1998-2001, GDP was falling but employment (in absolute terms) was not (it actually grew slightly along that period), though the unemployment rate did increase in those years (see previous chart) because of population growth and increases in labour force participation. Most of the falling output in 1998-2001 translated into a worsening in the quality of employment, an inability to absorb the yearly increase in available labour, and (as other statistics show) a shift from formal wage jobs to informal self-employment. The severe fall in employment in late 2001 and 2002 followed the collapse in economic activity with a lag of about two quarters, and then both recovered in tandem (with employment slightly ahead) in the vigorous rebound that started in 2003.

On the other hand, the redistributive impact of economic recovery and employment growth (with concomitant reductions in unemployment and poverty) was not entirely sustained over time. A recent analysis of the period 2002-2007 published by ECLAC found that the initial reduction in inequality later stalled and was partially reversed: lower-income households faced increasing difficulty finding jobs, found themselves at a disadvantage regarding integration in the labour market, and received lower pay, whilst inflation continued at an increased pace. Gini and Theil inequality indices decreased until late 2005 but started increasing again in 2006 and 2007; the rate of unemployment gradually fell but levelled off from late 2005 through 2007, although real labour income continued to grow (Groisman 2008).

In the meantime, *Jefes y Jefas* beneficiaries were gradually diminishing in number. *Jefes y Jefas* applications were closed within 2002, but the programme has no clear exit clause. Eligible beneficiaries may, in principle, remain in the programme as long as desired unless they become ineligible (e.g. by taking formal employment, getting a pension, or ceasing to have children under 18). In early 2009 there were still 500,000 beneficiaries under *Jefes y Jefas* despite unemployment having now officially descended to about 7%.

Most beneficiaries that left the programme (some 600,000) did so after finding formal employment and were consequently discharged from the programme payroll. Others exited gradually upon becoming ineligible for a variety of reasons, e.g. when their youngest child turned 18. Some were discharged upon retiring and receiving a pension. Non-workfare cases amounting to some 350,000 cases (especially pregnant women and mothers of young children), were transferred to the *Familias* programme at the Ministry of Social Development. About 100,000 cases became eligible for a newly developed unemployment insurance scheme (previous unemployment insurance did not cover them).<sup>14</sup> A large number of cases were taken out in 2003-2004 after cross-checking revealed their ineligibility (e.g. wives of formally employed husbands, people getting double benefits, and other irregular situations).

The monetary amount of the *Jefes y Jefas* benefit has not increased since 2002, in spite of more than 100% accumulated inflation. The benefit represented 28% of the average wage at the beginning but only one tenth of that today, due to the combined effect of inflation and rises in the average real wage. Work obligations, when they exist, require a half-day commitment and are therefore compatible with some other (informal) jobs. In the remaining pool of about half a million beneficiaries, about 70% face work obligations.

Of those exiting because of finding a formal job, data shows that one half were previously unemployed and the other half were previously non-active, mostly women (see

<sup>14</sup> Information gathered at the *Jefes* Programme administration, from Mr Enrique Garrido (*Jefes* Programme Manager), the Secretary of State for Employment Mr Enrique Deibe, and Ms Claudia Berra, Senior Advisor to the Secretary. Also data from the Ministry of Social Development, Monitoring and Evaluation System (SIEMPRO).

Galasso and Ravallion 2003). The programme, in this sense, may have contributed to the entrance of a previously inactive section of the potential labour force into the labour market.

According to available evaluations of this programme, and direct information from the Argentine Ministry of Labour, the programme had a number of strong and a few weak points.

### *Strengths of the programme*

- Emerging from Social Dialogue. The programme was a key recommendation from the Social Dialogue process. The programme thus enjoyed wide social support from the start. UN agencies, including ILO, lent support to the Social Dialogue under UNDP coordination.
- Rapid and massive response. The programme was organized and launched in a very short time, covering a large section of the labour force, at a time where timeliness was of the essence.
- Provided effective social protection for beneficiaries. According to World Bank evaluations, beneficiaries suffered only one half of the income reduction suffered by non-beneficiaries of similar background, and the programme also helped maintain social cohesion in a time of acute crisis.
- Good targeting. Operated by self-selection (given the obligations and the amount handed out per month, mostly needy people applied). At the beginning the programme attracted (and accepted) a number of ineligible beneficiaries, but the programme's administration was later able to cross information with Social Security and other information and screening systems to "clean" the list of beneficiaries. One half of beneficiaries came from the (pre-crisis) lowest quintile of the income distribution, and most of the other half from the next one up. This also shows that the programme was able to reach not only the previously marginal or poorest households, but also other sectors hit hard by the crisis, including the large lower-middle class of Argentina.
- Work component. Most beneficiaries engaged in work, in various (mostly public) activities. The most frequent were labour-intensive public works and public services, as well as staffing other social programmes, such as soup kitchens.
- Gender. Most beneficiaries (70%) were women. About one half of them were previously non-active; many (and most of the previously active) were household heads with no husband present. Mothers with young children, not eligible for work obligations under Jefes y Jefas, were later adopted by the Familias Programme.
- Training. An important proportion of beneficiaries replaced work obligations with engagement in training programmes. A large number of people received training in various trades and skills, both manual and non-manual.
- Promotion of entrepreneurship. A sub-programme facilitating and supporting the start of micro-businesses by beneficiaries allowed some to leave the programme and become micro-entrepreneurs.
- Social participation in implementation. Consultative bodies were established in townships and cities to lend advice to local authorities about the allocation of benefits to local applicants. Governmental and non-governmental organisations, as well as employers, unions, churches and other social institutions, participated in these Consultative Councils.
- Capacity building. The Ministry of Labour has developed an extraordinary capacity to deploy and manage, for the first time, such a large programme, and may utilize again such

capabilities if the need ever emerges. No previous experience of this kind was available when the programme started.

### *Weaknesses and challenges*

- Absence of exit clause. The rules of the programme, established by Presidential Decree, did not contemplate enforced exit or a statute of limitations in benefits. Only those enrolling in formal employment (when their Social Security contributions started being received), those getting a pension, or those whose children surpassed the age of 18 were discharged from the programme. People practicing informal employment were not required to exit. As the amount of the benefit does not cover even minimum food needs, most remaining long-term beneficiaries (half a million by early 2009) are in households engaged in some form of informal employment.
- Enrolment of non-active beneficiaries. Intended for the unemployed only, the programme ended up enrolling a large number of previously non-active persons. The reported labour force (employed + unemployed + beneficiaries) increased significantly during the first year of the programme, especially women. By September 2002, among the 834,000 beneficiaries captured in the national household survey, of which 69% were women, and part of which had been already interviewed in October 2001, 42% of female beneficiaries had been previously inactive (versus only 8% among male beneficiaries): see Pautassi 2003. Typically, the non-active spouse of an employed person may initially apply and frequently get the benefit. Later, women formally married to an employed husband were removed, but those in common-law marital arrangements were not easy to detect. Besides benefitting the non-active in general, this loophole enabled the entrance of some beneficiaries from households neither poor nor unemployed. Most of these problems were greatly reduced after better monitoring of targeting started in 2003. On the other hand, other indicators (education, living conditions, etc.) indicated generally good social targeting.
- Scarce participation in private employment. Recommendations of Social Dialogue included working with the private sector, but most beneficiaries worked only in public employment. Very few were directed towards temporary private jobs with a possible prospect of remaining there.<sup>15</sup> No apprenticeship or internship programme in private companies was enacted. No particular incentives were established for private employers hiring a beneficiary (such as continuance of the benefit as a wage subsidy for a while). At the very start, the private sector was actually shedding workers and in no position to hire many beneficiaries. But as the recovery process started, private employment sparked growth, and many beneficiaries passed into private employment. However, the programme did not provide (in most cases) a standard way for this passage, as it may have done through agreements with specific enterprises requiring (mostly unskilled) workers, possibly on a temporary basis, at the beginning of the recovery. The lack of a bridge towards private sector jobs may be seen as a weakness of the Jefes y Jefas programme, but may also be considered as a strong point of the Argentine recovery process in the sense that private employment recovered on its own, without recourse to beneficiary's "cheap labour". However, the lack of linkage between the programme and the private labour market can mostly be seen as a shortcoming.

<sup>15</sup> There was a case, for instance, of a number of beneficiaries allocated to work as such in blueberry farms in the Province of Entre Rios, where there was a temporary shortage of manpower (the usual blueberry workers were mostly short-term immigrants, deterred that year by currency devaluation affecting their take-home income). Some of the beneficiaries working temporarily in the blueberry harvest were later employed on a more permanent basis in blueberry farms, thus exiting the programme.

- Unintended incentive to remain informal. Anybody taking a formal job would lose the benefit, but those entering (or keeping) an informal employment would not. No mechanism existed, as explained before, to ease the passage into formal employment, or for allowing the benefit to remain in place during some transitional period. This may have enhanced the propensity to accept informal wage employment.
- Reduced training coverage. Only a small fraction of beneficiaries received training under the programme. This training was not usually linked to private enterprise or job opportunities in a direct way. Again, training was probably not a priority in the immediate aftermath of the economic collapse, but it became increasingly important in the months and years that followed.
- Limited employment services. A few years after Jefes y Jefas began, a programme offering employment information and placement services was enacted. Jefes y Jefas, as such, offered limited facilities for beneficiaries to find permanent employment. However, many beneficiaries did find formal employment (345,000 up to mid 2004, about 600,000 up to early 2009) due to the rapid economic recovery.
- Bulk allocation of benefits. At the start, local politicians (especially but not exclusively those in executive office, such as mayors and provincial governors), union leaders and organisations of the unemployed (piqueteros), as well as churches and NGOs, were allotted benefits in bulk to allocate among their clientele. Participatory consultative councils were often non-existent or very weak at the beginning of the programme. This was one of the factors distorting targeting in the programme's first year, a problem corrected later (since mid 2003) through careful sifting of beneficiaries, implementation of Consultative Councils and cross checks with other databases. Probably inevitable given the urgency of deploying the programme, but a weakness nonetheless.

## 7.2 ILO participation in Jefes y Jefas

In the case of the Jefes y Jefas programme, ILO first facilitated the social dialogue process, out of which the programme emerged, as an urgent move to ease the frustration of millions of Argentine workers.

During the implementation of the initial "Crisis" programme, ILO also started collaborating in the design and implementation of the main emergency response programme, the workfare scheme for unemployed household heads with children under 18. This programme started at the beginning of 2002, reached one million beneficiaries in May, 1.8 million in October, and peaked with more than 2 million by the middle of 2003 when applications closed. More than 3 million applications were received, although one third did not meet eligibility criteria.

Aside from the social dialogue process, ILO also provided other forms of assistance, such as supporting the government in raising the legal minimum wage, restructuring the public Social Security system; helping private and public actors form and strengthen territory-based networks for local economic development, utilization of local resources and development of micro, small and medium-sized enterprises; improving employability and integration of workers into the labour market through a network of employment services oriented to locally productive profiles; and strengthening and improving the employment policy process. All sectors of ILO participated in the process through a special task force under the coordination of the Crisis Unit.

## **8. Public debt and Social Security**

### **8.1 Reform and sustainability of Social Security**

The State-led Argentine Social Security System entered the 1990s in very bad shape after a long history of fiscal plundering of its funds for other purposes. The system constituted a large portion of total fiscal deficit. An ageing population indicated that the problem would become more severe in the future.

In 1993, Argentina enacted Social Security Reform legislation, giving workers the option of either staying in the traditional contributory pension system, or passing to a mixed system composed of a basic guaranteed payment from the public Social Security system plus revenue from a privately-managed capitalization fund. A number of Pension Management Funds were created, and a majority of active workers opted for the new system, especially younger workers. By 2002, more than 80% of contributing workers, both autonomous and dependent, were in the capitalization system.

As a result, the contributory system, which was already in deficit, was left with an even larger deficit than before, as the majority of its contributions were now derived from privately-managed funds while still paying existing pensions plus the pensions of newly retired people who had remained under the contributory system. The deficit was covered by the public sector by issuing new debt, partly absorbed by the pension funds themselves. Some of these bonds were denominated in dollars and some in pesos, while the monetary system (Convertibility) ensured a minimum value of one dollar per peso and fully backed the entire peso monetary base with Central Bank foreign currency reserves.

This system collapsed in the aftermath of the debt default declared in December 2001. The Convertibility Law of 1991 was scrapped, and all dollar liabilities were forcibly converted into pesos at a fixed rate of 1.40 pesos per dollar, while the market exchange rate continued rising to 3 pesos and more. The pension funds were left with about 40% of their assets in the form of defaulted (and devalued) government bonds, while the State system was still making a large contribution to the public deficit.

### **8.2 Public debt and Social Security: the ILO role**

One important contribution of ILO in 2002 and 2003 was its assistance in the adjustment of Social Security finance as related to the public debt default and the collapse of the previous monetary system.

ILO actively assisted the Government in dealing with the problems inherent in the Social Security system (see for instance OIT 2002, OIT/SOC-FAS 2003, 2004). The financial solutions worked out by the Government ensured (a) the sustainability of the State-managed sector of the Social Security System, and (b) the restructuring of privately-managed pension funds<sup>16</sup>.

<sup>16</sup> The privately managed pension funds, which held large amounts of public bonds, participated in the debt-restructuring process carried out in 2005. They were finally taken over by the public system in 2008, thus reunifying the system on a contributory basis and abolishing the capitalization system created in 1993. ILO did not have major role in these processes as a technical assistance agency.

## 9. The minimum wage as a reactivation tool

In 2002, ILO assisted the Government in raising the legal minimum wage in the wake of the inflationary shock following the currency collapse. This was a rather bold move in the face of mounting unemployment, since a higher minimum wage could entail a disincentive to the demand for labour. However, several arguments pointed to the opposite conclusion. A document produced under ILO assistance (Forstater & Kregel 2002) urged such an increase and the Government agreed. After a protracted recession coupled with deflation for more than three years (since the second half of 1998) culminating in a deep depression with high inflation, low liquidity and depressed demand in the early months of 2002, the increase in nominal wages (plus the increase in cash transfers from the Jefes y Jefas project and other social programmes) greatly contributed to resurrecting aggregate demand and starting economic recovery.

## 10. The National Decent Work Programme (NDWP)

One of the main outcomes of the ILO-Argentine collaboration during and after the 2002 crisis was a full incorporation of the Decent Work Agenda into Argentine labour policies and later into important labour legislation.

This development started during the initial Crisis programme, and took a further step when, during the 92nd ILO Conference of 2004, a separate series of meetings was held, culminating with the drafting of a Memorandum of Understanding between the ILO Director General, the Delegates of the Argentine Government, and the Delegates of Argentine Labour Unions and Employer Organizations, for the development of a National Decent Work Programme in 2004-2007. An implementation plan was completed in February 2005.

The Programme was organized around two main principles:

- Integration of labour and employment policies with other policies has major impacts on the quantity and quality of jobs.
- Institutionalized integration of relevant social and economic policies.

This approach is entirely consistent with several important international directives and concepts articulated in the Decent Work Agenda, including the Director General's Report to the World Commission on the Social Dimensions of Globalization.

Since the inception of the national response to the crisis, with active ILO support, activities were carried out that led to the enactment of a National Decent Work Programme. In September 2002, a Panel for the Promotion of Decent Work was established at the Labour Ministry, including representatives of trade unions, employer organisations, and provincial labour offices. In December, the parties to the Panel signed a Memorandum of Understanding establishing guidelines for a National Decent Work Programme. In 2003, the Argentine Government, in agreement with the UN system, incorporated the promotion of decent work into the Millennium Development Goals for Argentina. The specific goals for 2015 were set up as follows: reduce unemployment to single digit rates; reduce informal employment to less than 30%; increase social protection to at least 60% of the unemployed population; reduce to less than 30% the proportion of workers earning less than the legal minimum wage; and eradicate child labour.

In 2004, Act No.25.877 on the Labour Legal Regime was approved by Congress, setting forth in article 7 that the Ministry of Labour will promote the inclusion of the

Decent Work concept in national, provincial and municipal public policies. The ILO country office collaborated in the wording of the bill.

These strong commitments culminated with a Memorandum of Understanding signed by the Argentine Government representatives, the representatives of unions and employers, and the ILO Director General, in June 2004, for the implementation of a National Decent Work Programme.

The programme comprised two main parts. The first regards the integration of economic and social policies, giving priority to objectives associated with the creation of Decent Work. The second part concerns the Ministry of Labour in five policy areas:

- Active employment policies
- Policies encouraging the transfer of workers from informal to formal employment
- A National Programme for the Eradication of Child Labour
- Policies for the improvement of labour income, through the strengthening of collective bargaining, increase of the minimum wage, and better income distribution.
- Policies for the expansion of Social Protection and unemployment insurance, as well as policies concerning adaptation of the pension system.

In 2008 the Government, as well as the main labour and employer organisations and the ILO country office signed a new memorandum of understanding extending the National Decent Work Programme for 2008-2011. Its priorities are:

- Articulation of the national labour policies with other policies affecting employment.
- Improving conditions of employment and employability, emphasizing promotion of Decent Work for the young and Local Economic Development.
- Contribute to the prevention and eradication of child labour.
- Enlarge the coverage of social protection.
- Strengthen effective social dialogue
- Contribute to the reduction of the informal economy and unregistered employment.

A detailed list of actions is foreseen to implement these priorities.

## **11. ILO Support to the NDWP: The AREA Programme**

The main channel of ILO assistance for implementing the transition between the Crisis response interventions and the National Decent Work Programme was the AREA project, supported by the Italian agency Italia Lavoro, operating from 2004 to October 2008<sup>17</sup>.

<sup>17</sup> see MTESS/AREA 2008

In practice, however, the preparation of this programme began from the very aftermath of the crisis, in terms of ILO's contribution to policies for employment reactivation, and matured during 2002 and 2003. Initial activities were launched under the initial Crisis programme, and later consolidated into the AREA programme. In fact, the memorandum of understanding signed in 2004 between ILO and tripartite Argentine representatives, establishing the NDWP agenda, largely emerged from the process of preparing the AREA programme.

The programme was implemented under the responsibility of ILO's country office, with technical support from IFP/CRISIS, regional and sub-regional specialists, INTEGRATION and other departments at the Head Quarters Office. A Coordination Committee was formed with participation of the Ministry of Labour, the ILO country office, and Italia Lavoro. The process enjoyed intensive tripartite follow-up through a Consultative Committee, which included the members of the Coordination Committee, plus representatives of labour unions and employer organisations, the ILO Regional Office and the Head Office's IFP/CRISIS<sup>18</sup>.

The AREA acronym stood for Apoyo a la Reactivación del Empleo en la Argentina (Support for Employment Reactivation in Argentina). The objectives and components of the AREA Project can be summarized in an overarching objective: Contributing to the improvement of employment conditions and employability. Its three main components were centred on lending support to the Labour Ministry in three distinct fields:

- Proactive and innovative employment policies.
- Improvement of employment services and worker training.
- Implementing a local economic development strategy, with emphasis on micro and small enterprises.<sup>19</sup>

AREA applied a territorial and participative approach derived from ILO ideas about Local Economic Development, and the experience of Italia Lavoro in employment services, emphasizing participation of local public and private actors in the design and implementation of employment policies and initiatives.

An independent evaluation of the AREA programme undertaken in April-May 2008 drew positive conclusions, in the sense that the Programme had achieved most of its stated goals. The independent evaluation regarded the programme as extremely successful. Most targets had been achieved or surpassed, and all stakeholders considered the programme an asset. (Querenghi and Schneider 2008).

One of the main components of AREA is the development of a decentralised network of municipal employment offices. According to the project's final report (MTESS/AREA 2008), 170 such offices had been created at that time (beginning of 2008), and actions had

<sup>18</sup> Later became ILO/CRISIS.

<sup>19</sup> These objectives are the result of a reformulation implemented in 2005. The original formulation included four development goals, mostly overlapping with the reformulated version. One goal related to possible exchanges and training in Italy (through *Italia Lavoro*) was dropped.



been initiated in a total of 178 municipalities<sup>20</sup>. However, only parts of these offices are fully functional<sup>21</sup>.

Some offices have sustainability problems, especially in smaller towns where the municipal government cannot fund the office on a permanent basis. The national Labour Ministry has been contributing to the operating costs of many municipal offices, paying for part of the staff salaries and also lending support to information systems and equipment. However, this is something that probably will not go on forever or expand much further across the territory.

The municipal employment offices have access to an interconnected database of labour supply and demand. In some municipalities the system only provides information about local employment opportunities. This was originally just a technical glitch, but it is also something that some municipal authorities approve of, with the desire of discouraging emigration of workers from their towns. This poses important challenges for the future. This sort of "migration protectionism" deprives both employers and workers of gains from labour migration. This problem, which exists only in some municipal offices, is now being eliminated by widening connectivity access, making available the full array of labour supply and demand information in the database according to reports obtained at the Labour Ministry, though some resistance remains. The Labour Ministry has installed broadband dedicated connections in many offices greatly facilitating fast connectivity, especially in remote locations where broadband connectivity is scarce or nonexistent. However, other types of constraints have not been removed and access to information needs to increase within and across municipalities.

Besides offering employment opportunities, the offices also participate in programmes providing support to entrepreneurship and local economic development. Actions in this regard improved capacity for intervention in local economic development in 120 municipalities, of which 89 were on a regular basis through technical assistance and training. About 4,500 people were trained, including public officers, university teachers, and NGO officers, through about 250 courses and other training events. Some 190 productive projects were evaluated, and those funded received a total of approximately one million US dollars. The project also produced a series of training documents on enterprise formation, market analysis, management, associative strategies and others. Sixty percent of the 89 municipalities developed a LED strategy plan, and almost all have a territorial LED proposal.

Professional training in 170 municipalities reached nearly 21,000 people through 842 courses. Also, the project implemented 84 projects to strengthen productive networks of enterprises, and 54 projects for municipal capacity building.

A new programme for training young workers (18 to 24 years old) has started recently, operated through the municipal office network. About 18,000 young workers have been so far registered, although only some of them have so far received training. Some of these young are children of former Jefes y Jefas beneficiaries that made 18.

Besides job opportunities, the municipal offices offer a menu of options for potential beneficiaries, including various Government programmes for vulnerable families such as the Training and Employment Insurance scheme, the Family Programme, special

<sup>20</sup> According to updated information collected from the Secretary of State for Employment, employment promotion activities of various sorts have been initiated in about 260 municipal districts as of February 2009, though not all have as yet an employment office.

<sup>21</sup> According to the independent evaluation of the AREA programme, only 41 offices out of 170 were operating with adequate quality standards by mid 2008 (Querenghi and Schneider 2008, p.23

programmes for work-challenged workers, and training of various sorts. The offices are also outlets for the Unemployed Household Heads Programme (Jefes y Jefas), monitoring the remaining beneficiaries and trying to derive them towards more sustainable solutions.

These offices also provided better opportunities to the unemployed and underemployed with micro, small and medium-sized enterprises, by improving the scope of labour market information and assortative matching of workers with job opportunities.

## **12. Main lessons of the Argentine experience**

### **12.1 Tripartite approach and social dialogue**

The Social Dialogue called for by interim President Duhalde and the Catholic Church in January 2002, backed immediately by the United Nations, played a crucial role in rallying the various sectors of civil society, and the forces of capital and labour, to the rescue of the economy. ILO and UNDP took leadership in the international effort to support the Social Dialogue which allowed for important concepts on the international agenda, such as Decent Work, to be immediately inserted into the Social Dialogue and become part of the recovery programme. ILO was the leading agency providing technical assistance to the Government and social organizations for the main component of the Dialogue and the Labour and Production Roundtable, devoted to employment reactivation.

### **12.2 Decent Work in the national agenda**

An important product of the joint ILO-Government experience in the Argentine crisis is the prominent placement of Decent Work in the national agenda, including the drafting of crucial labour legislation, and reiterated commitments by successive administrations (Duhalde, Kirchner, Fernández de Kirchner) to the Decent Work Principles and a National Decent Work Programme. Argentina is thus one of the relatively few countries fully committed to the implementation of the ILO-inspired Decent Work Agenda.

### **12.3 Working relationship Government – ILO**

ILO had been a constant presence within the Ministry of Labour for many years and had worked with both the main labour union confederation (CGT) and the main employer organisation (UIA) over many years. Furthermore, a significant number of the top staff in the Ministry of Labour in the interim government of President Duhalde (2002-03) and later in the Kirchner administration (2003-2007) were former ILO national or international consultants or specialists. Most were very familiar with ILO principles and values which resulted in close integration between ILO and the Labour Ministry even in the early days of the crisis<sup>22</sup>.

<sup>22</sup> One important officer of the Ministry of Labor, asked about the importance he attributed to ILO's contribution in the aftermath of the crisis, told the author of this report that it was difficult to distinguish between Government and ILO contributions, because both were closely integrated and based on the same principles.

## **12.4 Massive and immediate response**

The massive and sudden impact of the crisis called for a massive and rapid response, and this was achieved effectively, especially through the Jefes y Jefas programme. This was made possible by quick assistance from ILO IFP/CRISIS (using emergency resources remaining from the 2001 budget) in the design of the programme, and quick financial assistance from the World Bank. It was also made possible by the energetic response of the government and its conviction that a massive response was urgent and necessary.

The urgency and the fact that no previous similar experience existed caused many mistakes in the initial implementation of the project, but all told it was undoubtedly a success.

## **12.5 Exit strategy in emergency employment programmes**

Jefes y Jefas lacked an exit clause. This at the time did not seem to be of capital importance, but it was in the long term, as was recognized in hindsight: there are still half a million beneficiaries in 2009, and no legal way of putting an end to their programme membership. Many of them may have structural employment problems, but the unadjusted 150-peso subsidy will not solve those problems at the current price level. Others should have left the programme long ago. All these long-term beneficiaries should have been offered an exit strategy through training, apprenticeships, early pensions or other ways, and the legal possibility of remaining forever in the programme should not have existed in the first place.

The lack of an exit strategy in the Jefes y Jefas programme mirrored a deeper and parallel feature in the Government's recovery programme. Keynesian policies to face financial crises are based on Government intervention to resurrect domestic demand, but they are essentially short term solutions. After the economy is again on its feet, those policies should give way to policies emphasizing fiscal restraint and fostering private investment, in order to avoid inflationary pressures and ensure sustainable growth. In the case of Argentina, the interventionist policies of 2002-2003 were mostly maintained and even strengthened in later years. Moreover, the emergency power granted by Congress to the Executive to take urgent measures during the crisis have been renewed year after year up to 2008 and are in force in 2009. Thus it is not surprising that emergency programmes such as Jefes y Jefas are still working with hundreds of thousands of beneficiaries, even after several years of energetic economic growth. One lesson to learn is that emergencies (and emergency programmes) should come to an end.

## **12.6 Decentralised employment services**

The AREA programme, emerged in the context of the National Decent Work Programme, assisted in the creation of employment offices in more than 260 municipalities across the country. These offices are also delivery points for local development promotion and social programmes, besides offering information about job and training opportunities. The main positive lesson to be extracted is that this kind of development is essential. Other lessons, however, are less positive: many municipalities lack the financial means to man the offices and rely on non-sustainable central government resources to make the offices function; many are limited to the local labour market, in the sense that they try to offer only jobs located in the same district, thus depriving local workers of knowledge about job opportunities elsewhere. Thus instead of facilitating circulation of labour across regions of the country the offices may contribute to the geographic segmentation of labour markets. As a final observation, it should be remarked that only a quarter of such offices are actually working reasonably well.

## 12.7 Social Security in crisis

ILO assisted the Government in analyzing and restructuring the Social Security System, which was a principal component of the overall fiscal deficit and was profoundly affected by public debt default. ILO contributed to ensured continued and sustainable social protection for the Argentine population.

ILO cooperation on Social Security in the aftermath of the crisis was oriented not only to ensure social protection, but also to address pressing problems related to the financial sustainability of the Social Security System and to public indebtedness. ILO role in revising the situation of the Social Security System, in its public and private components, including actuarial analysis and long-term projections, greatly helped the country in the aftermath of the debt default that triggered the crisis.

## 12.8 Capacity building and preparedness

One of the main results of the experience of Government, social actors and ILO in responding to the crisis was the capacity that process built into the Ministry of Labour to respond rapidly with employment and social protection solutions in times of emergency. The experience gained by the Government and civil society, and by ILO, during the 2002 crisis is of crucial importance for the next episode the country may be face in the current global crisis. The Labour Ministry and the entire Government (central and local) have all the instruments in place to rapidly deploy emergency programmes, to generate short-term employment, transfer cash, and organise a network of solidarity to respond to the victims of such an event. This is perhaps the main and most valuable result of the great crisis of 2002.

<b>LESSON LEARNED</b>	<b>KEY REFERENCES</b>
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Put Decent Work in the national agenda	ILO/CRISIS 2004. Novick <i>et al</i> 2007. MTESS/AREA, 2008.
Working relationship Government – ILO	ILO/CRISIS 2004.
Rapid massive response – Emergency cash transfers (mostly with work requirements)	Galasso & Ravallion 2003. Novick <i>et al</i> 2007. Pautassi 2003. Annex 3 (Working papers).
Exit strategy for emergency programmes	This report, section 7.1.
Sustainability of Social Security	OIT/SOC-FAS 2003, 2004. ILO/CRISIS 2004.
Decentralised employment services	MTESS/AREA, 2008.
Build capacity and preparedness	MTESS/AREA, 2008. Novick <i>et al</i> 2007.

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