ELR as an Alternative Development Strategy

Employment Guarantee Policies: Theory and Practice:
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Traditional UN Approach to Development

- **Constraints to development:**
  - Domestic savings gap
  - Scarcity of domestic resources
  - External resource requirements
- **How to Overcome constraints:**
  - Increase domestic savings
  - Foreign savings -- external resources
    - Official development assistance
    - Private aid and investment flows
- **First Development Decade**
  - One per cent of developed country GDP to be transferred to developing countries to achieve 5 per cent growth of GDP
  - 0.3 per cent private flows, 0.7 per cent ODA

Net transfers of resources

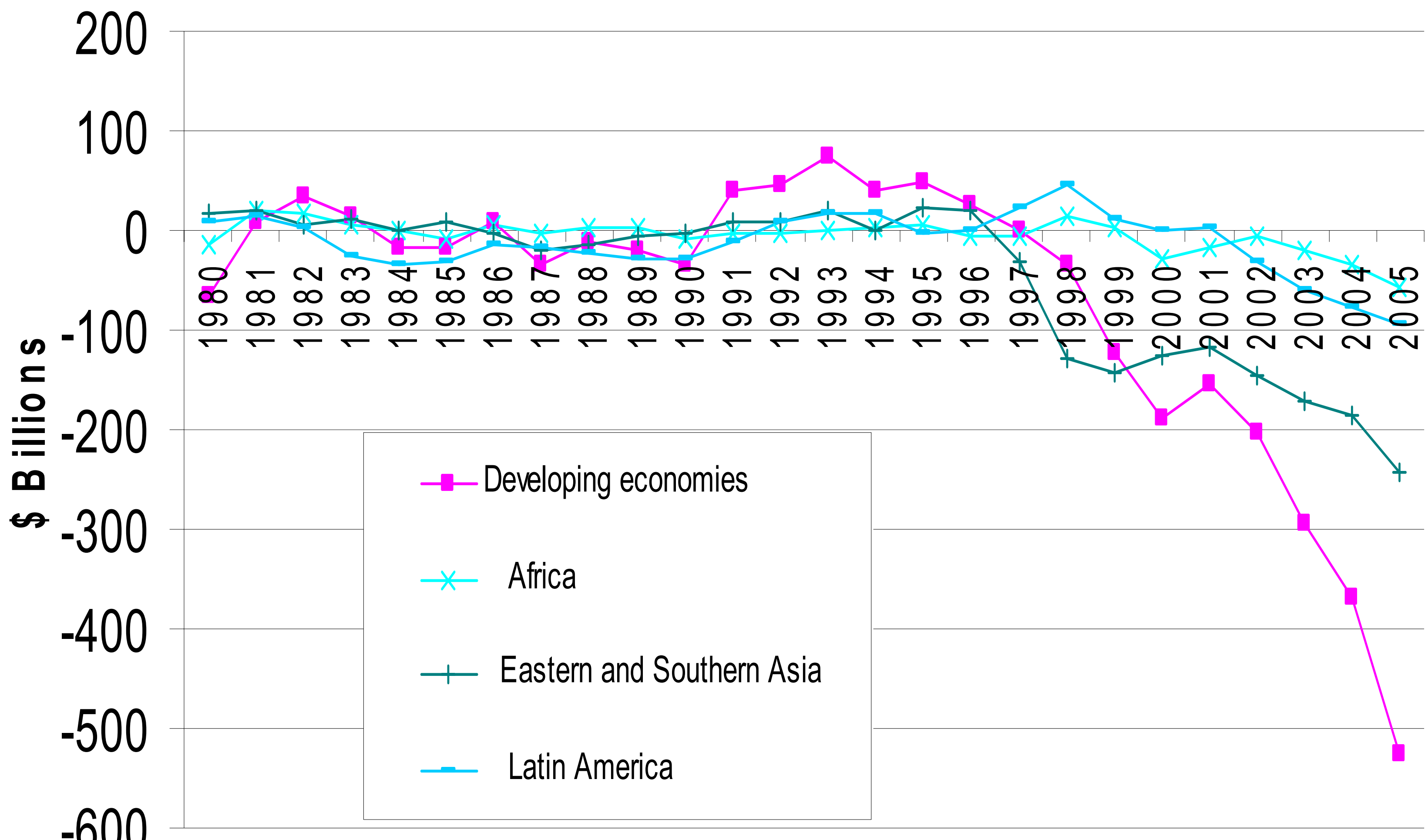
- Success measured by positive net transfers of real resources from developed to developing countries
- For Four UN Development Decades this has been the exception
  - – negative net transfers rule
    - 1960s, lost decade of the 1980s, financial crises of the 1990s
- Led to the creation of the Development Committee of the BWIs in the 1970s
- Private Flows have become dominant
  - Resource flows no longer subject to development needs, but to private incentives

Transfers in First Development Decade under Alliance for Progress

Former Chilean finance minister Gabriel Valdes to President Nixon, June 12, 1969

"It is generally believed that our continent receives real financial aid. The data show the opposite. We can affirm that Latin America is making a contribution to financing the development of the United States and of other industrialized countries. Private investment has meant and does mean for Latin America that the sums taken out of our continent are several times higher than those that are invested. ... In one word, we know that Latin America gives more than it receives."

Net Transfers of Resources



No Fifth Development Decade: Millennium Declaration

- Reduced emphasis on resource transfers
- A directed aid strategy
- Designed to meet time-bound, measurable Social Development Goals
- Goals are symptoms of underdevelopment
- Still requires external resources:
  - $100 billion per year to 2015
  - What happens after 2015?

2002 Financing for Development: Global Development Partnership

- Developing countries responsible for their own development
- Primary source of development finance is Mobilising Domestic Resources
- Developed countries to provide additional resources required to support sound national development strategies

What are the available domestic resources?

- Most developing countries have abundant natural resources
- But all have unemployed, underemployed or under qualified domestic labour
- Increasing employment presents the greatest unexploited potential for mobilising domestic resources

Recognised in2005 Summit Outcome

Employment

47. We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals.

Employment joins MDGs

- High-level segment of the 2006 substantive session of the Economic and Social Council Ministerial Declaration reinforced the 2005 World Summit position
- Make full and productive employment and decent work for all, including for women and young people, a central objective of relevant national and international policies and national development strategies and to be part of efforts to achieve the internationally agreed development goals, including the Millennium Development Goals.

Full and Productive Employment

- New Goal of full mobilization of domestic labour resources requires
  - suitable employment opportunities
  - provision of adequate basic education
  - vocational and occupational training to improve skills and productivity
  - unemployment benefit scheme that avoids moral hazard and fraud
  - migration policy - remittances

Traditional Approach undermines Domestic Mobilisation

- External resource transfers fill resource gap
- Private flows and Official Aid create debt service obligations
- Earnings of foreign currency needed to meet debt service
  - External surplus = negative net resource transfer
  - BWI Structural Adjustment Program
    - Reduce domestic level of activity to free resources to meet debt service
    - External surplus produced via fiscal surplus
    - Reduces domestic absorption and resource utilisation
    - Creates unemployment
    - Absence of Social Safety Net creates social marginalisation

Domestic Policy Space requires Fiscal Sovereignty

- Is fiscal surplus sound resource mobilsation policy?
  - **Government spending creates private sector assets in the banking system**
  - **Taxation creates private sector debts to the government that must be financed with those assets**
  - **If taxes exceed government spending the private sector is in net deficit, i.e. insolvent**
  - **If the private sector holds assets for other convenience purposes financial stability requires a government deficit over time equal to the private sector's demand for money balances**

Domestic Policy Space requires Monetary Sovereignty

- Government spending increases unborrowed bank reserves
- Excess reserves drive interbank rates to zero
- To keep interest rates positive the government must borrow
- As borrower of last resort it can fix the interest rate
- Interest rates are thus not constrained by private sector willingness to buy government debt or the size of the deficit
- The government does not have to borrow or issue debt in order to deficit spend
- It follows that the government can always set the short term policy interest rate independently of the size of the deficit -- viz. Japan

How to use policy space to support mobilisation of domestic labour resources?

- If private sector demand is insufficient to provide full employment
- Government takes responsibility to provide employment to all those willing and able to "work" at or marginally below the prevailing informal sector wage
- Increases flexibility in the labour market by creating a ready supply of labour to meet demand

What does "work" mean?

- Different according to level of development
- Primary goals:
  - Maintain and improve skill level of the labour force – basic educational skills
  - Provide social safety net – income maintenance
  - Provide social inclusion for the unemployed/unemployable – social services
  - Meet the needs of female heads of households to combine work with family responsibilities
  - Improve the well-being of society – useful public works

Can it be done?

- Argentina experience – Jefes programme
  - Education an integral part of the programme – primary to occupational
  - Interministerial cooperation – Labour, Eduction and Social Development ministries cooperated in providing educational programme
  - Promotes work practice and experience
  - Provides vocational skills
  - Improves marginal communities
  - Provided 500,000 workers to meet demand in the recovery

Is Jefes a relevant example?

- Verified examples of success
- Verified examples of fraud and corruption
- Depends heavily on local government for implementation
- Depends heavily on individuals
- Depends on Federal government for financing
- Constrained by government budget goals – but need not be given monetary and fiscal sovereignty that Argentina currently possesses

Jefes is not ELR

- The Jefes programme was close to the ELR proposal but was an emergency response to the crisis
- A suitably designed ELR can build on the success of Jefes
- It can be designed to integrate the MDGs as well as the other Internationally Agreed Development Goals to be included in the National Development Strategies mandated at the 2005 Global Summit

ELR as an MDG programme

- A suitably designed ELR programme to provide employment can also be designed to satisfy:
- MDG Goal 1: Eradicate Extreme Hunger and Poverty
- MDG Goal2: Universal Primary Education
- MDG Goal 3: Promote Gender Equality and Empower Women
- MDG 4 and 5: Reduce Child Mortality and Improve Maternal Health

Will it create external constraint?

- Does not depend on external financing
- No external debt service
- External constraint may arise for other reasons –
  - Monocommodity economy
  - Inappropriate structure of production
  - Lack of technological development