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THE EMPLOYER OF LAST RESORT PROGRAMME: COULD IT WORK FOR DEVELOPING COUNTRIES?

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PREFACE

The UN World Summit in 2005 and the ECOSOC Ministerial Declaration of 2006 stressed the need to place productive employment and decent work into economic policy making, recognizing that employment can no longer be considered a derivative of economic policies. But this is a challenging task given that in 2006 nearly 200 million workers or 6.3 percent of the world's labour force was without work, despite actively seeking.

One straightforward way of ensuring that any person who is able and willing to work can is through an "Employer of Last Resort Programme" (ELR). An ELR is a direct job creation programme that provides employment at a basic wage for those who cannot otherwise find work. It is not meant to be an emergency programme or a substitute for private employment, but rather a permanent complement to private sector employment.

The study examines different ways of designing and administering an ELR programme including the setting of wages and benefits as well as the target population. The study also examines in detail questions of financing and affordability, in both developed and developing countries, including those countries that do not have monetary sovereignty. Much of the analysis is based on a detailed evaluation of Argentina's *Jefes* programme and Maharashtra's Employment Guarantee Scheme. The author estimates that an ELR programme in the United States would cost less than 1% of GDP, similar to estimates of the cost of India's recently initiated National Rural Employment Guarantee Act (NREGA) as well as the cost of Argentina's *Jefes* programme.

The author argues that an ELR programme is more effective and preferable than "Keynesian pump-priming", which tries to stimulate full employment by raising aggregate demand through investment incentives, tax cuts and government spending. With ELR unemployed workers are employed and their spending has multiplier effects on the economy which boost aggregate demand and facilitate their incorporation into the private sector labour market. Because ELR ensures that deficit spending is at the correct level to achieve full employment, there is no risk of inflation. Moreover, because it is an anti-cyclical policy, macroeconomic stability is improved.

I. OBJECTIVES

"Full, productive and decent employment" is a new target within the Millennium Development goals. According to a recent ILO report[1], even though more people are working than ever before, the number of unemployed is also at an all time high of nearly 200 million (up almost 35 million over the past decade). Further, "strong economic growth of the last half decade has only had a slight impact on the reduction of workers who live with their families in poverty...", in part because the growth is fuelling productivity growth (up 26% in the past decade) but is not creating many new jobs (up only 16.6%). "Every region has to face major labour market challenges" and "young people have more difficulties in labour markets than adults; women do not get the same opportunities as men, the lack of decent work is still high; and the potential a population has to offer is not always used because of a lack of human capital development or a mismatch between the supply and the demand side in labour markets." Labour force participation rates have actually fallen over the past decade, especially for youth.

This working paper will explore the significance of employment for promotion of human rights, as well as for poverty reduction. It will be accepted without argument that while economic growth and development are desirable, they do not ensure either full employment or decent employment. Alternative strategies for promoting full and decent employment will be explored briefly. Certainly it is necessary to attack problems of unemployment, underemployment, and insufficient pay using a variety of programs and policies. These should include both private and public initiatives. However, it will be argued that the private sector, alone, will not be able to provide for full, productive, and decent employment for all even with substantial support by government for job creation in the private sector. Hence, an "employer of last resort" (ELR) program will be required—neither as an emergency policy nor as a substitute for private employment, but as a permanent complement to private sector employment. ELR is a direct job creation program that can provide employment at a basic wage for those who cannot otherwise find work. No other program can guarantee access to jobs at decent wages.

The bulk of the paper will examine alternative designs for an employer of last resort program, including different approaches to the setting of wages and benefits, to choosing the target population, and to formulating and administering projects. Program financing will be discussed, with costs and benefits weighed. Argentina's *Jefes* program as well as India's experience with Maharashtra's Employment Guarantee Scheme will be analyzed as examples of employer of last resort programs, with successes and problems identified with a view to creating a better program design. Finally, a section will discuss special considerations for design of such a program for developing countries, with various feasibility issues (affordability, macroeconomic stability, and administrative and supervisory issues) examined.

[1] Global Employment Trends Brief 2007, International Labour Office; results summarized in "Global Unemployment Remains at Historic High Despite Strong Economic Growth", ILO, 25 January 2007, Geneva.

II. OVERVIEW: IMPORTANCE OF EMPLOYMENT

The United Nations Universal Declaration of Human Rights includes the right to work, not only because it is important in its own right, but also because many of the other economic and social entitlements proclaimed to be human rights cannot be secured without paying jobs. (Harvey 2004) Joblessness creates a long list of problems—both for the individuals and for society as a whole: self-pity, self-loathing, and rage at society (Harvey 2002); absolute and relative poverty, damage to social status and self respect, adverse psychological and physical health effects, stress, suicide, crime and other anti-social behavior. (Forstater 2006.) Amartya Sen (1999) supports the right to work because the economic and social costs of unemployment are staggering with far-reaching consequences beyond the single dimension of a loss of income (see also Rawls 1971).

The problem is that market economies do not provide jobs for all who want to work. Indeed, public policy since at least 1960 has often been biased against full employment on the belief it is not consistent with price and currency stability. Previous to Keynes's *General Theory*, unemployment at the aggregate level was seen by many orthodox economists as a temporary deviation from equilibrium—perhaps due to labour market frictions or other market disruptions. Keynes changed the discourse to one that blamed aggregate unemployment (to be distinguished from micro-level unemployment) on insufficient aggregate demand. As will be discussed below in more detail, this led to the belief that "Keynesian" demand management policy was the proper response. However, over the course of the 1960s the supposed Phillips Curve trade-off generated doubt that full employment could be achieved without generating macro instability. Eventually, most of the mainstream rejected demand management and returned to the older pre-Keynesian belief that some level of aggregate unemployment is a) temporary and due to shocks; b) optimal because it is voluntary; and/or c) the necessary cost of promoting stability. While policymakers appear to reject the more extreme claims made by orthodox academic economists, it is clear that they do move toward policy measures that are believed to slow economic growth when unemployment rates decline toward levels thought to be inconsistent with price and exchange rate stability. Hence, while the Phillips Curve trade-off has lost respectability in academia, it still plays a role in policy formation. Ultimately, this means that true full employment *cannot be* a policy goal.

One major problem with such a policy orientation, however, is that joblessness is usually concentrated among groups that suffer other disadvantages: racial and ethnic minorities, immigrants, younger and older individuals, women (especially female-heads of households with children), people with disabilities, and those with lower educational attainment. Lack of employment is highly correlated with poverty and with a higher degree of social isolation. Access to jobs—and especially to formal sector jobs--not only integrates individuals into networks linked to the workplace, but also into the social and political environment more generally. (Harvey 2004, 2006; Mitchell and Wray 2005; Wray and Forstater 2004) Thus, policy that uses unemployment to promote macro stability not only forces those who are already disadvantaged to bear most of the costs, but it also impedes development of social cohesion. In other words, such policy can generate social instability in an attempt to achieve macro stability.

Markets are not necessarily good at securing the economic and social entitlements proclaimed to be human rights in the Universal Declaration. (Harvey 2004) This is why extra-market policy has been used to safeguard a variety of human rights. Unemployment and poverty are generally seen as the necessary cost of maintaining macroeconomic stability—especially price and exchange rate stability. This raises important questions: Should a nation fight inflation by keeping a portion of its population unemployed and sufficiently poor that it cannot afford to consume? Are there other tools available to achieve these ends? If not, should policymakers accept some inflation and currency depreciation in order to eliminate unemployment and poverty? There are strong ethical arguments against using poverty and unemployment as the primary policy tools to achieve price and exchange rate stability—especially given that costs of poverty and unemployment are not shared equally across the population. And even if price and currency stability are highly desired, it is doubtful that a case can be made for their status as a human right on par with the right to work.

Hence, at the very least, safeguards are required to protect the minority that suffers consequences of policy that imposes large concentrated costs on some individuals for the benefits of lower inflation that accrue to society as a whole. Harvey (2004) advocates creation of socio-economic institutions and policies that can secure economic and social human rights at the smallest sacrifice of economic performance. Unemployment as a stabilization tool fails on several accounts: it violates various human rights including the right to employment, and sacrifices economic performance by generating redundant human resources. Indeed, with some notable exceptions, those countries with the highest rates of underutilized labour resources tend to be nations with high poverty rates. It is necessary to adopt policy than can secure the right to a job, but at the cost of minimal undesired impacts on economic performance.

Forstater (2006) has argued that it is difficult to conceive of a policy that secures a greater range of social and economic rights than full employment policy. His "fundamental welfare theorem of political economics" claims that "there is no single policy that carries with it more potential benefits than true full employment, or a guaranteed job for everyone ready and willing to work." Unemployment not only harms individuals, but also families, villages, and communities; employment brings benefits not only for the employed but also for their community as a whole. In addition to income, employment also provides useful production as well as recognition for doing something worthwhile. While economists usually focus only on the "economic multiplier", there are also "social multipliers" associated with job creation—the benefits that include decreased crime and drug use; enhanced family and community cohesion; strengthened security, education, and healthcare; protection for the disadvantaged; environmental protection; improved local and state government budgets; greater equality of distribution of consumption, income, wealth, and power; induced investment in poor communities; and promotion of social and political stability. Forstater concludes that only ELR can ensure protection of the right to employment. (See also Burgess and Mitchell 1998.)

As I will argue in the next section, only government can guarantee the right to a job because no capitalist society has ever operated at anything approaching true, full, employment on a consistent basis without direct job creation on a large scale by government.[2] Further, the burden of joblessness is borne unequally, always concentrated among groups that already face other disadvantages. (Darity 1999) Hence, unemployment should not be used as a policy to protect the value of the currency. Finally, only the government can offer an infinitely elastic demand for labour (offering to hire all who cannot otherwise find employment) because it does not need to heed narrow market efficiency concerns. Private firms only hire the quantity of labour needed to produce the level of output expected to be sold at a profitable price. Government can take a broader view to include promotion of the public interest, including the right to work. For these reasons, government should and must play a role in providing jobs to achieve social justice.

It will be argued that an ELR program can secure the right to work, but with minimal undesired impact on wages, prices, the government budget, and the external value of the currency. In the next section we will compare alternative policy approaches for promotion of full employment. In subsequent sections, we examine the ELR program in detail.

III. Alternative Policies for Promotion of Employment

3.1 Behavioralist, Structuralist, and Keynesian Approaches

There are a variety of approaches to the problem of joblessness, of which the most important are behaviouralist (problems with the individuals who are unemployed), structuralist (for example, skills mismatch), and job shortage.[3] (Harvey 1999, 2000) In the US, with the notable exception of the New Deal experience, public attitudes and policy have generally emphasized behavioural and structural problems. This generates policies that try to motivate and train the unemployed, together with promotion of greater "flexibility" that would reduce labour market "frictions". However, if the problem is a job shortage, all that such policies can do is to redistribute unemployment among the unfortunate, who are blamed for their joblessness. Especially in an expansion, those left behind generally do have characteristics identified with the behaviouralist and structuralist arguments (since employers hire those with the most desirable characteristics first), hence concealing the true problem—a chronic job shortage.

[2] It should be noted that I do not accept the usual distinction between "market" and "government"; there are no "market economies" without substantial involvement and support by government. My claim here is stronger—that maintenance of anything approaching full employment in a capitalist economy requires government policy that creates jobs for those unable to find work in the "market" economy.

[3] See also Kaboub (2007) for a historical overview of attitudes of economists toward the unemployed, from Petty (the unemployed "ought neither to be starved, nor hanged, nor given away" as they represent a resource that could be used in public employment to enrich the nation) to Beveridge (who wanted full employment, defined as "having always more vacant jobs than unemployed") and to lesser known advocates of employer of last resort schemes such as Pierson and Wernette. Kaboub also surveys employment strategies adopted during the US New Deal, in the Swedish post-war model, in India, in Argentina, and recently by France in a pilot program to create jobs for laid off workers.

Hyman Minsky always argued that public policy that favours education and training over job creation puts "the cart before the horse" and is unlikely to succeed.[4] First, it lays the blame on the unemployed, which can be demoralizing and can validate public perceptions regarding undesirable characteristics supposedly endemic within the disadvantaged population. It tells the poor that they must change their characteristics—including their behaviour—before they deserve to work. However, those without jobs might not view such changes as desirable or even possible. Second, it can require a long time to see results; the "gestational" period to produce a worker is at least 16 years for developing nations and 25 years or more for highly developed nations. Further, as structuralists recognized, a dynamic economy is always leaving old skills behind and demanding new ones. At any point, there will be a permanent, sizeable, pool of those with inappropriate skills and education, even if many individuals are able to transition out of the pool in a timely fashion. Third, as mentioned, there is the danger that the retrained will face a job shortage so that at best they simply displace previously employed workers who will join the ranks of the unemployed. For these reasons, Minsky argued that jobs must be made available that can "take workers as they are", regardless of their skills, education, or personal characteristics. Upgrading of these characteristics would be the second step—with much of the necessary training occurring on the job. The unemployed need jobs, not merely the promise of a job for those who successfully reform themselves. Note also that if welfare (including unemployment compensation) is offered as a substitute for a job, this has negative impacts on self esteem, on public perceptions of the unemployed, and on the human capital that deteriorates through lack of use. For these reasons, Minsky argued that providing welfare rather than work to those who want to work is not only an admission of defeat (the labour market fails to provide enough jobs) but also wastes resources and generates social costs.

After WWII, the notion that "Keynesian" policies could keep aggregate demand at a sufficiently high level to promote robust growth came to dominate western thought. Further, it was believed that high growth would keep unemployment low and thereby reduce poverty rates. Aggregate demand was sustained in the US through spending on defense and public infrastructure investment, and through favourable treatment of private investment. During the early post-war period, economic growth was maintained at an above average pace, and unemployment and poverty rates seemed to fall as a result—apparently validating the "Keynesian" approach. However, closer study reveals that the reduction of poverty rates was mostly among the aged—due to Social Security retirement benefits, rather than due to robust economic growth. (Bell and Wray 2004) Further, wage dispersion (inequality of wages between highly paid workers and low wage workers) actually increased with more robust growth. (Minsky 1973)

By the mid 1960s, the high growth strategy was supplemented in the US by the War on Poverty—a combination of behaviouralist and structuralist labour market policies plus welfare (itself a labour market policy in the sense that one of the goals of programs like AFDC and Social Security was to reduce the size of the labour force). The War on Poverty was deemed necessary because growth was leaving behind pockets of poverty

[4] While Minsky is best known for his work on financial fragility, he also wrote many articles and chapters on employment policy, and was a consistent advocate for ELR. His ELR proposals can be found in Minsky 1965; 1968; 1973; 1975a; 1975b; and in his book 1986.

among disadvantaged groups—with poverty regionally and racially concentrated. Throughout the 1960s and early 1970s, Minsky predicted that these policies would not eliminate unemployment and poverty because they failed to provide job creation as a central feature. At best, they redistributed joblessness. Further, the high growth strategy would actually favour the more advanced sectors of the economy—those with highly skilled and paid workers—increasing income inequality. Finally, he argued that policy that favours high investment would be unsustainable because it would generate macroeconomic instability—evidenced by inflation, currency devaluation, and financial fragility. For these reasons, policy-induced recessions would be required to try to restore conditions favourable to macro stability. Expansions would be curtailed long before a sufficient supply of jobs would be created to bring all out of poverty.

Arguably, Minsky's pessimism proved to be prescient. (See also Brady 2003 for a similar and more recent indictment of strategies pursued in the developed Western nations.) "Keynesian" policy fell out of favour during the stagflationary 1970s, the US was forced off the Bretton Woods system, the various War on Poverty programs were either dropped or under-funded (with President Clinton finally ending "welfare as we know it" in the mid 1990s), and neo-liberalism (called neoconservative in the US) played a growing role both domestically and abroad. Indeed, no long run impact of the War on Poverty can be discerned in the poverty data. (Bell and Wray 2004) Nor did the "Keynesian" high growth strategy markedly improve the jobs picture for disadvantaged groups. While employment rates for married women have increased markedly in the US (and in Canada), the job market situation for disadvantaged males has not improved. In fact, for some groups—such as high school dropouts—employment rates are disturbingly low. For example, just 40% of adults over age 25 and without a high school degree were working in 1998 (during a robust economic expansion); there were nearly as many prime age (18-44 years) black males without a high school degree in prison or jail (estimated at 500,000) as there were employed (about 600,000). (Wray 2000)

Meanwhile, by some measures, income and wealth are now distributed as unequally as they had been in 1929; real wages—especially for lower skilled men—are no higher than they were in the early 1970s. While it is true that racial inequality was reduced after 1965, it is not clear that had much to do with the War on Poverty or "Keynesian" policy, because poverty rates for blacks had already been falling on a long-term trend. Again, most of the poverty reduction and rising equality observed during the first few decades of post-war America had more to do with Social Security pensions (as well as with African American migration to the northern industrial cities, and the civil rights movement) than with structuralist, behaviouralist, and Keynesian policy even as supplemented by increased welfare spending. And neo-liberalism from the mid-1970s has been associated with rising inequality, higher trend unemployment, and no further reduction of poverty.

Finally, as Minsky predicted, recessions and financial crises returned after 1970 as the belief that high growth and low unemployment are inconsistent with price stability came to dominate policy formation. It could be argued that financial fragility has risen on trend, as evidenced by increasingly frequent and severe domestic and international financial crises. Policy makers have turned away from use of fiscal policy to promote growth, relying more on monetary policy. Monetary policy makers, in turn, generally deny responsibility for maintaining high employment and growth, except to the extent that low inflation promotes a strong economy. (Wray 2005) Substantial controversy surrounds all of these issues, but it is commonly accepted that attempts to "fine-tune" the economy through "Keynesian" style aggregate demand manipulation have proven to be largely unsuccessful. Even if these policies had been successful, there is little political will to return to them today. However, the chosen replacement, neo-liberalism, has not succeeded, either.

3.2 Private Sector Incentives

There still remain two main alternatives for promotion of employment: indirect job creation through incentives given to the private sector, and direct employment by government. The US has experimented with both. For example, wage subsidies can be given to private employers for job creation. These can take the form of tax incentives, or sharing of wage costs by government. (Phelps 1997) There are several drawbacks to subsidized employment in the private sector. First, government needs to ensure that firms use the subsidies to create jobs, rather than to reduce private costs of existing employment. In a dynamic economy with jobs continually created and destroyed, this is difficult to police because profit-seeking firms will want to use government funds to subsidize existing jobs, resulting in a "leakage" of public spending. Second, as unemployment is concentrated among disadvantaged workers, the policy should encourage firms to employ individuals they would not otherwise have hired. Again, this is difficult to ensure because firms will want to hire those with the most desirable characteristics allowed by program rules—rather than those with average (or lower) characteristics. Further, there is the danger that firms will hire eligible workers, displacing workers with similar characteristics but that do not quite qualify. Third, there are questions about the time span permitted for eligibility. One goal of the program should be to take workers with little experience or skills in order to prepare them for non-subsidized work. However, if workers are permitted to stay in the program for only a specified period, there is a strong incentive for employers to replace workers at the end of their eligibility with newly eligible and subsidized workers. Workers who are forced to leave the program might not find unsubsidized work.

Fourth, the setting of the wage subsidy is not necessarily simple. The subsidy required to induce firms to hire a new worker presumably varies according to the perceived shortfall of the worker's employability relative to the pool of workers from which the firm normally recruits. A sliding scale subsidy might be most effective, but it could be difficult to establish the proper subsidy rates. The required subsidy will also vary according to the firm's need for new workers—in an economic boom, a small subsidy might be sufficient to induce an employer to hire one more worker than the firm would have otherwise employed. In a deep recession, even a 100% wage subsidy might not induce a firm to hire one more worker. Finally, the payment of wage subsidies necessarily leads to some distortion of the market—some firms will be able to take advantage while others will not; some existing labor will have to compete with subsidized labor while others will not; some lines of production will increase output because of additional workers, while others will not; and so on. While none of these potential problems—even if taken together--necessarily implies that a program of wage subsidies should not be tried, the potential problems would seem to lead to the conclusion that such a program probably cannot by itself solve the problem of joblessness and ensure the right to work.

Of course, private sector subsidies will not work without a private sector sufficiently developed that it is capable of offering employment to a significant portion of the population. In some developing nations, especially in rural regions, such a policy will have limited application. Only direct job creation by government will provide a sufficient supply of non-agricultural work to reduce joblessness and provide a living wage.

3.3 Direct Job Creation by Government

We conclude that raising aggregate demand, increasing human capital, and raising the incentives to private employers will fall short of ensuring the right to work. While each of these policies might be desirable in its own right, they must be supplemented by direct job creation by government. Probably all governments engage in some form of job creation for the purpose of relieving unemployment. This could range from pure patronage (creating jobs for family members of government officials) to maintaining more employees in a government enterprise than necessary for adequate performance (for example, state-run train systems have been accused of padding the employment roles to keep unemployment down) and to formal programs such as CETA in the US (that provided federal funding of employment in state and local government). Arguably, many or most of the European nations that achieved anything close to full employment in the post-war years used a variety of such programs to keep unemployment low. (Ginsberg 1983) Sweden is a good example of a nation that used a variety of active labor market policies to ensure very low unemployment, combined with centralized wage bargaining to minimize inflationary pressures. Sweden even guaranteed a right to work for up to six months in public works to any individual who had exhausted all other employment and training options. (Kaboub 2007)

The remainder of this paper will examine a more comprehensive approach, the employer of last resort program. An ELR program can be a complement to any of the other approaches examined above. By design, it is a complement to private sector employment and to any other active labor market policies, demand fine-tuning policies, and welfare or other social safety nets. A universal ELR program—which takes anyone who is ready and willing to work—is the only type of program that can ensure that the human right to employment is continuously met. If the ELR program wage is a “living wage”, it also helps to ensure that other human rights are met—by providing sufficient income—at least for those who are ready and willing to work. A properly designed ELR program will not only produce socially useful goods and services, but it will also promote feelings of self-worth and accomplishment among program participants. Finally, I will argue that ELR generates full employment, but with the least disruption to markets and to macroeconomic stability.

The notion of ELR has a long history, and there are many examples of such programs through history and across the globe—although usually on a small-scale or temporary basis. This paper will not explore ELR’s history; readers are referred to excellent analyses by Ginsberg (1983), Harvey (1989), and Kaboub (2007). In the next section we will examine the employer of last resort program in detail.

IV. Employer of Last Resort Program Design and Economic Impacts

4.1 Program Design: target population, wages and benefits, types of projects, management and supervision, costs and budgetary impacts

There are alternative versions of the ELR program. Proposals differ on the setting of wages and benefits, on the target population, on the types of projects to be included, on organization and supervision of the program, and on financing for the program. Some proposals offer a uniform package of wages and benefits, while others provide different compensation based on skills, training, job experience, or tasks performed in the ELR program. Some proposals are universal—anyone who is ready and willing to work—while others are targeted (for example, to heads of poor households). Some proposals impose a specific tax to fund the program, while others advocate general or usual spending by the federal government. Programs can limit time spent in the program, or hours worked monthly. Finally, the types of employment and eligible employers vary from federal government employment to NGOs and to for-profit enterprise.

Harvey (1989) has proposed a universal ELR program, but with wages and benefits paid approximating market-equivalent incomes. For example, compensation of unskilled workers in ELR would only equal a fraction of the compensation paid to highly skilled workers. There are several advantages of such a design. First, when workers lose highly paid private sector jobs, they are able to move into ELR and earn similar incomes so that they can preserve their former life-style. Second, the design allows ELR projects to employ workers with a variety of skills and education, allowing for division of labour. Supervisors of ELR projects could thus be ELR workers, themselves, compensated for their skills and education. Disadvantages of such a design are that workers who had been relatively poorly paid in the private sector remain poorly paid in ELR—perhaps working side-by-side with higher paid ELR workers. This could create dissention and ill-will. It could be argued that the formerly advantaged workers should be able to live on savings while working for a lower ELR wage (if they choose to work). Further, if highly skilled workers received low ELR wages, they would have a greater incentive to move back to the private sector as quickly as possible. Harvey's proposal will probably have higher budgetary costs for two reasons: there is less incentive to move out of ELR, and the wage bill will include some relatively highly paid workers. Private firms will have to compete on the basis of wages and working conditions with the ELR program—but if they bid up market wages, this could cause ELR wages to rise. Finally, it could be argued that supervision of the ELR program might be better accomplished by non-ELR workers—either professional government employees trained to supervise the program, or by non-government supervisors (depending on design of the program—see below). I will examine an alternative to Harvey's proposal—a universal job guarantee with a single compensation package for all participants.

While Argentina implemented a program (*Jefes*) that pays the same compensation to all employees, it limits participation in the program to one head of each poor household with dependent children. Further, Argentina limited hours worked to 4 hours daily, although there is no time limit regarding number of weeks worked. Argentina has allowed a broad range of institutions to participate in the program: state and local governments, neighbourhood organizations, independent activists, cooperatives, and private agricultural enterprises. As we will discuss below, some of the projects in Argentina produce goods and services that are provided free-of-charge to poor neighbourhoods, others provide output on contract to the government, and still others produce goods for formal markets. Interestingly, while Argentina's *Jefes* program provides wages for only 4 hours per day, *Jefes* workers have organized coops so that they can work extra hours, sharing profits from the sale of output produced "after hours". Limiting the scope of the program means that some individuals are excluded and that some in the program must work fewer hours than desired.

India's Maharashtra Employment Guarantee Scheme and the new employment program being created as a result of the National Rural Employment Guarantee Act, which is based on Maharashtra's experience, provide for the right to employment. (Dev 1995; Papola, no date) Like Argentina's program, there are limitations placed on participation in the national program: limited number of days of employment (100 per year), available to only one member of each poor, rural, household. (Papola, n.d.) Unlike the *Jefes* program, however, the wage paid in India's program varies because it is set equal to the local lawful minimum wage—which varies considerably across districts—although the NREGA allows the national government to later establish a uniform wage if it chooses. The NREGA places a number of conditions on participants, including rules concerning registration, application, and reporting for work, as well as minimum number of consecutive days of work. (Papola, n.d.).

The version I prefer follows the proposal of Minsky, which is universal, provides full time work (and part-time work if desired), imposes no time limits, and pays a uniform wage to all ELR workers. The government would offer to provide a job to anyone of legal working age who is ready and willing to work. Minsky noted that only government can provide a "perfectly elastic" demand for labour, hiring everyone willing to work at the program wage. The program would pay a uniform wage and provide a uniform benefit package. As Minsky used to argue, the legislated minimum wage is meaningless if there are unemployed individuals, because their wage is zero. Only in combination with a job guarantee does a minimum wage become effective. Hence, the wage paid in the ELR program would become the effective minimum wage; it would have to be matched by all other employers (with some exceptional cases in which workers would voluntarily accept a lower wage—perhaps in the arts). Similarly, the package of benefits offered would set a standard that normally would be matched by other employers. It could include healthcare, childcare, sick leave, vacations, and contributions to Social Security so that years spent in ELR would count toward retirement. Of course, the wage and benefit package will vary by country according to its productive capacity and acceptable living standard. Ideally, it should be a "living wage", determined by local conditions.

As we will explain below, by offering a uniform compensation, the ELR program provides an anchor for labour costs. This is an important part of the proposal because it helps to produce macroeconomic stability. In this version, the compensation would not be indexed to a measure of the price level—it would be "fixed but adjustable", with periodic increases to catch up to inflation, much as the legislated minimum wage is occasionally increased in the US. Finally, workers would do something useful, but with an ultimate goal of preparing them for work in non-ELR jobs. ELR must "take workers as they are", so there must be ELR work for anyone "ready and willing" to work, regardless of level of education, training, or previous work experience. However, the ELR experience should better equip workers for post-ELR work, so training would be a part of every ELR job.

This policy will as a matter of logic eliminate all involuntary unemployment, defined as workers ready, willing and able to work at the going wage but unable to find a job even after looking. Certainly there will still exist many individuals—even those in the labour force—who will be voluntarily unemployed; there will be those who are unwilling to work in the program, those who are unwilling to work for the program wage (for example, because their reservation wage is too high), those who are between jobs and who would prefer to look for a better job while unemployed, and so on.

The ELR could be simply added to the existing safety nets to give workers who have lost their jobs more choices. In the US well under half of the officially unemployed qualify for unemployment compensation, in any case. The point is that no matter what social safety net exists, ELR can be added to allow people to choose to work over whatever package of benefits might be made available to those who choose not to work. Obviously, generous benefits to those who do not work can affect willingness to work. The ELR benefit and wage package should be set higher than the benefit package given to similar individuals who do not work, but even this is not absolutely necessary. If ELR enhances one's access to desirable private and public sector (non-ELR) jobs, then some individuals will choose to work in the ELR program even if this means no additional compensation. However, if society values work, it seems far more reasonable to reward ELR workers with a better pay and benefit package than they would receive if they did not work but were capable of working.

Unlike the existing programs in Argentina and India, I would not place restrictions on participation—there would be no "means test" so that any individual legally able to work could self-select to work in the program, whether rich or poor, whether employed or unemployed, and whether or not other members of the household already participate. As I will discuss, this helps to reduce (but not eliminate) administrative burdens (less screening is required), potential for patronage (anyone can participate), and stigma (self-selection rather than a targeted anti-poverty program).

I prefer a highly decentralized form of administration. Below I will discuss how Argentina designed a decentralized and democratic program that ensures local control but with federal funding of wages and a portion of other costs. Here, I will discuss such issues in more general terms. The Federal government would simply provide as much funding as necessary to let every state and local government, as well as qualifying non-governmental non-profit organizations, such as Americorps, VISTA, the Student Community Service Program, the National Senior Service Corps, the Peace Corps, the National Health Service Corps, school districts, and Meals on Wheels, hire as many new employees as they desired, with only two constraints: these jobs could not replace current employment, and they could provide only the fixed, basic, ELR compensation package. One might even consider the Phelps proposal to subsidize private employment, offering firms a subsidy, but this raises the problems discussed above (such as substitution) and it will require that the federal government stand ready to hire those the private sector doesn't want.

There will still be some potential for substitution of ELR workers for government or NGO employees. Mitigating measures can be taken, such as requirements that government employee organizations (unions, associations) be involved in planning for all ELR projects undertaken by state and local governments. Presumably, social service organizations that are already going concerns will be somewhat less likely to want to substitute existing employees with lower-paid ELR workers. Further, if skills and experience are valuable for at least some positions in a social service organization, it is not likely that compensation could be reduced to the ELR rates (which by design are set at the lowest rates consistent with compensation for unskilled labour). Finally, orthodox economics would argue that if existing government or NGO employees could be replaced by unskilled ELR workers at the ELR wages, then existing employees are enjoying unnecessary economic rents and are probably working below skill level. While that extreme position can be taken too far, there is probably a grain of truth in such arguments. The understandable fear is that in the absence of a wage anchor, subsidized workers could displace existing workers, with competition pushing wages ever downward. However, the ELR wage sets a floor to wages effectively eliminating the low wage option. As will be discussed shortly, with a wage anchor in place, "market" wages will be set above the floor according to productivity differentials, bargaining strength, shortages, and other labour "market" phenomena.

In addition to labour costs, the federal government would also offer to fund a portion of supervision and administration costs (for example, by providing such funding as a fixed percentage of the ELR wage bill), as well as materials costs (perhaps on a matching basis, or, again, as a fixed percentage of the wage bill). Because the primary purpose is to create jobs, federal funding of non-labour costs should be kept relatively small. A large number of small projects is probably preferable over a few large projects, to keep supervisory needs small. For example, if every local government and local not-for-profit service organization added a small number of employees to expand and enhance existing community services, millions of jobs would be created with little additional supervision or materials required. As a rough indication of such costs, the New Deal's WPA program incurred non-labour costs equal to 25% of its budget. Projects included large scale infrastructure development with fairly significant equipment costs. (However, it should be noted that India's employment guarantee schemes use a wage to materials ratio in public works of sixty to forty. This is probably due to the relatively low rural minimum wage paid. Papola n.d.) Hence, supervisory, administrative and materials costs should be kept well below a fourth of federal government spending on the ELR program, with state and local government and NGOs absorbing some portion of such costs.

Each nation will choose a format for the ELR program that is most consistent with its own situation. In nations like the US in which federal government programs are generally less politically popular than local government programs, decentralization makes sense. In other nations that have a stronger central government, it may be best to have administration at the national level. Nations that place greater reliance on “free markets” (such as the US today) will choose to have the hiring done by non-governmental institutions; nations that place greater trust in government might choose to have the hiring done by government.

Let us address several questions related to program administration.

What kinds of work can ELR workers perform? One obvious thing that can be done—especially in a developed nation such as the US—is to increase the supply of public services. A partial list of such services includes (see Wray 1998):

*Companion for senior citizens, the bed-ridden, mentally or physically disabled

*Public school classroom assistant

*Safety monitor for schools, parks, eighbourhoods, playgrounds, subway stations, street intersections, or shopping centers

*Neighborhood cleanup/Highway cleanup

*Low income housing restoration

*Day care assistants for children of ELR workers

*Library assistants

*Environmental safety monitors

*ELR artist or musician

*Community or cultural historian

Obviously, this list is only suggestive of the many jobs that could be done by ELR workers. Other jobs could include restoration of public infrastructure (patching holes in city streets, repairing dangerous bridges), provision of new infrastructure (highway construction, new sewage treatment plants), and expansion of public services (new recycling programs) that might reduce private costs and increase private profitability. Developing nations probably will focus more on creation of small-scale public infrastructure (wells, sewage ditches, gravel roads), provision of food, clothing, and shelter, public health, tutoring for children and learn-to-read programs for adults, and so on.

Note that some types of projects will need to be provided on a continuous basis once they have begun. For example, tutoring of children or a public health campaign will need ELR employees on a continuous basis. Other types of projects can be “off the shelf”—undertaken when there is a sufficient supply of ELR workers to finish the project. A water well, or patching a stretch of road, can fit into this category. This will allow the ELR program to weather fluctuations of employment. When the economy is growing robustly and creating a lot of jobs, ELR employment will decline and “discretionary” projects can be postponed. In recession, ELR employment will rise, and projects can be taken “off the shelf”. While fluctuation of employment will pose a challenge to ELR administration, it will not be insurmountable because even in the best of times, there will be a residual population that can find employment only in the ELR program. In the US, the employment swing between boom and bust typically does not exceed 3 million workers; if ELR in the US averages somewhere around 8 million workers, it will be able to accommodate such swings—because over 6 million workers will remain in ELR even in a boom.

If a substantial portion of ELR employment is accomplished through non-profit community service organizations, questions about "what will the workers do?" should become far less important. These organizations are already providing the kinds of services that communities need, and have a very good idea of labour needs to increase services to fulfil unmet needs. Furthermore, this sort of decentralization should tend to reduce fears of corruption as the public (at least in the case of the US) places greater trust in non-profit service organizations than it does in government or for-profit firms. Should a scandal result, it may also help to have the program decentralized in order to contain the inevitable backlash to the specific non-profit that has behaved improperly—rather than tainting an entire government-run program. While fears of corruption are always raised in discussions of such programs, actual experience indicates such problems are relatively unimportant. For example, Dev (1995) reports that Maharashtra's EGS is better run and has less corruption than other anti-poverty programs in the state. The US's New Deal was virtually free of corruption (although there were problems of discrimination by race and gender). Argentina's program design helps to reduce corruption, and while the popular media as well as government officials favour tales of corruption, my visits and discussions with program participants and their supervisors convince me that problems are overstated by the program's opponents.

What can be done with belligerent/anti-social/lazy ELR workers? Discipline would be maintained primarily by the promise of promotion to more desirable ELR jobs, and, eventually, to private sector employment. In the worst case, some workers might be so irresponsible that their employment would be day-by-day, or even hour-by-hour. ELR workers could be fired from their jobs for just cause with conditions placed on re-hiring. ELR cannot substitute for all anti-poverty programs, nor eliminate the need for other social safety nets. It can only provide jobs for those ready and willing to work. However, this, by itself, will eliminate most poverty in the sense of raising family income above official poverty lines—as demonstrated by Minsky (1965) and Bell and Wray (2004).

What effect will ELR have on unions? On one hand, ELR removes the fear or threat of unemployment, but on the other, it creates a pool of employable labour. Thus, it is not clear that ELR is biased in favour of workers or employers. At the same time, it establishes a true, universal minimum wage and can set a universal minimum package of benefits. Unions would negotiate additional benefits. It is important, however, to ensure that ELR employers do not replace existing, unionized (or otherwise) workers with ELR workers. In the case of direct employment by government, this could be ensured by placing union workers on all boards or committees that are in charge of administering ELR employment in the public sector. Non-profits that proposed to hire ELR workers would have to show that such hiring was in addition to existing employment. Again, some "leakage" (ELR workers substitute for existing workers) is inevitable. However, by keeping the ELR wage at the socially-established minimum wage, by ensuring that work must be done to earn the wage, and by allocating jobs on a self-selection basis, the "cost" of the "leakage" is minimal to the extent that the national government is paying a minimum wage to obtain some socially desirable outcome. Further, because the job guarantee is universal, any worker displaced by an ELR worker will in the worst case scenario obtain (another) ELR job. Unlike job subsidy schemes, displaced workers do not end up unemployed.

Won't participation in ELR lead to stigmatization, as welfare does? This is potentially a real problem; however, the danger can be reduced through creative action. ELR can be promoted as a universal "Americorps" service. In nations with a national service requirement, ELR can substitute for military service. We can rely on persuasion: universities could favour applications from prospective students who have served for a year in ELR or could offer "junior year programs" in ELR as an alternative to "junior year abroad" programs. Corporations could allow leaves of absence to professionals and executives to work in the ELR program as a community service. In any case, it is difficult to believe that one would be as stigmatized by participation in ELR as one would be by enrolment in a welfare program. So long as ELR is a *universal* program, in which all participants *self-select* to *work* on projects, many of which have easily identifiable social benefits, the stigma of participation should be lower than is the case with participation in other, targeted, anti-poverty programs.

Let us turn to the budgetary impacts and to an analysis of the impact of the program on the economy.

4.2 Impacts of the program on the economy: costs, aggregate demand, wages, and inflation

In previous work done in 1998, I assumed the ELR wage would be set at $6.25/hr, or $12,500/yr. (Wray 1998) Taking the then current number of unemployed (conservatively estimated at about 8 million in the USA—including some who were not counted in official unemployment statistics), as well as the cost of various programs (most importantly, unemployment benefits) that could be reduced if ELR were adopted, and projecting the cost of ELR and potential savings, I concluded that the net (direct) cost of ELR to the federal government would fall between $25 billion and $50 billion for 1998—on the order of half a percent of GDP. Note that these estimates did not include supervision or materials costs. As discussed above, some of these costs should be absorbed at the local or state level. Some would be covered by reducing administrative costs of other programs that could be curtailed as ELR reduced the need (for unemployment compensation, for example). If we add a federal subsidy equal to 10% for supervision and 15% for materials costs, the total net direct cost still remains at much less than 1% of GDP. On reasonable assumptions regarding reduced crime rates and improved health that can be attributed to higher employment, I concluded it is conceivable that ELR would actually "pay for itself".

Gordon (1997) independently came up with a figure of about $40 billion for a US ELR program in the mid 1990s, while Harvey (1989) came up with a figure of an annual average cost of $22 billion for the decade ending in 1986 for a more expensive program that would pay "market wages" to ELR workers. In Harvey's estimate, the number of ELR workers ranged from a low of 7.4 million to a high of 13.6 million over the business cycle. He used an average wage of $6.29 per hour for workers who entered ELR after losing a job, and $4.63 per hour for others who accepted ELR work. For comparison, the legislated minimum wage was $3.35 per hour over that period. For his cost calculation, he included wages, payroll taxes (paid to Social Security), health care, and materials and facilities costs. (A suggested above, he used the WPA's figure of 25% of the budget devoted to non-labor costs). From these costs, he deducted federal income taxes that would be paid by ELR workers, arriving at a total "net cost" of the ELR program to the federal government that averaged $94 billion annually (higher in recession and lower in expansion). However, once he deducted from these net costs the anticipated savings to other programs (cash aid, medical care, food aid, housing and energy aid, jobs and training programs, education aid, and other social services), the impact on the budget would have amounted to only $218 billion over the decade, or just $22 billion yearly. Again, it should be emphasized that Harvey's estimates were for a very big program (up to more than 13 million workers) at relatively high wages (well above the legislated minimum wage), with a net cost that is well under 1% of GDP.

Papola (n.d.) has calculated the costs of an employment guarantee for India, based on the Maharashtra EGS and the NREGA provisions, except that the program would be universal for all rural areas. Papola used data from Maharashtra's program to calculate how many rural workers would participate (if restrictions were lifted), and how many hours per year they would choose to work. This led to projected employment in the program equal to 2.6% of India's labour force. Papola then used a uniform wage rate and set the wage to material cost ratio at 60:40. Total program cost was estimated at about 0.6% of India's GDP. Note that these calculations did not include any cost savings to other programs, hence, overstate net government costs. Argentina's *Jefes* program spending peaked at about 1% of GDP, before deducting budgetary savings for other social programs or calculating reductions of social costs of unemployment. Developed countries in the west typically spend up to 3-4% of GDP on social welfare programs, so even the direct costs (ignoring savings elsewhere) of an ELR program would appear to be relatively small compared to GDP and to spending on other social welfare programs. At a direct cost of less than 1% of GDP, ELR appears to be "affordable" on the basis of conventional measures. Below we will explore a more unconventional approach to the issue of financial affordability.

An important question, however, concerns the impact this program would have on aggregate demand: is full employment going to increase aggregate demand sufficiently that accelerating demand-pull inflation would follow? It is commonly believed that full employment will be destabilizing, for if unemployment falls below NAIRU, inflation results. Thus, it might appear that an open-ended promise to employ anyone who wants to work would not only raise demand to inflationary levels, but also would expose government to runaway budget deficits. However, the ELR program is designed to ensure that the deficit will rise only to the point that all involuntary employment is eliminated; once there are no additional workers willing to accept ELR jobs at the ELR wage, the deficit will not be increased further. Thus, the design of the ELR guarantees that the deficit will not become "excessive", that is, it will not increase aggregate demand beyond the full employment level. As discussed, net government spending on the program will increase by something less than 1% of GDP; further, the spending will be highly countercyclical so that if implementation of ELR does boost aggregate demand and cause the economy to grow quickly, ELR spending will automatically fall sharply (even as government tax revenue grows). The "open-ended promise" to employ those willing to work at the ELR wage *cannot* cause government spending to grow without limit for the simple reason that ELR *cannot* grow without limit; indeed it will *fall* as the economy gathers steam and pulls workers out of ELR.

Note how different ELR is from "Keynesian" pump-priming--which tries to get to full employment by raising aggregate demand through investment incentives, tax cuts, or military spending. In effect, such policy promotes "hiring off the top", largely stimulating spending on output from the more advanced sectors--taking the most technically proficient workers away from other work, and hoping that some jobs might trickle down to the least skilled workers. How many missiles would the government have to order before a job trickles down to Harlem? With ELR in place, when private aggregate demand is not sufficient to employ all resources, the ELR program kicks in at just the right level to employ workers and raise aggregate demand. Minsky called ELR a "bubble-up" program because jobs are offered to workers at the bottom, whose spending then induces firms to increase production of consumer goods—creating new jobs, some of which can be filled by recruiting out of the pool of ELR workers. Once full employment is reached, ELR directly raises aggregate demand no further. At that point, if private demand were to rise, ELR spending and employment automatically fall as workers are pulled into the private sector. Further, Minsky (1968; 1973) argued that by contrast, achieving full employment through stimulus of private investment spending tends to increase financial fragility as debt is issued to externally finance a portion of capital spending. While it is beyond the scope of this paper, Minsky showed that "Keynesian" pump-priming tends to produce speculative booms that end in a financial crisis. The "bubble-up" stimulus provided by ELR is a stabilizing alternative because it does not rely on investment-driven stimulus and trickle-down policy.

It might be objected that as the government implements ELR and begins employing some of the unemployed, this will raise aggregate demand and thus increase private sector employment. This, of course, is true and is desired as it will ultimately reduce the number of ELR jobs required. By stimulating demand (through the "spending multiplier"), ELR may find that only 6 million workers (of 8 million seeking work) will eventually accept ELR jobs because the others find non-ELR employment. Still, ELR automatically operates to ensure that the deficit spending is at the correct level to achieve full employment. ELR is a tremendous lever for keeping aggregate demand at a level consistent w/full employment.

This should eliminate the fear that a full employment policy must necessarily generate demand-pull inflation. It can still be objected that full employment and the ELR wage will generate cost-push inflation by placing pressure on wages and thus costs and prices. We now examine the second part of the proposal: exogenous wage setting by the government, for example, at $12,500 per year per worker. While the quantity of government spending on ELR "floats", the price (ELR wage) is fixed by the government that lets markets determine how many ELR workers show up--which then determines total government spending (on this program—obviously there will be other types of government spending, which we are holding constant for the purposes of this analysis). This mechanism prevents true full employment from setting off inflation. If the government instead said it would hire 8 million into ELR jobs and would pay whatever wage was required to obtain that many workers, then inflation could well result. Instead, in the ELR program, the wage is fixed but the quantity floats.

What are the implications for prices and wages? In the rest of this subsection, I will first analyze the ELR wage as an anchor and then will analyze ELR employment as a buffer stock. It will be seen that the ELR program should stabilize wages—rather than pressuring them.

The ELR wage sets a benchmark price, or anchor, for labour. When ELR is first implemented, if its wage is set above the going wage at the low end of the pay scale, ELR might cause wages and the prices of products produced by these workers to experience a one-time increase. If we set the ELR wage at the minimum wage, even this jump won't occur. This is why it is probably less disruptive to initially put the ELR wage at the minimum wage. If compensation is set above the minimum wage and it includes benefits, this would at first cause the ELR pool to grow as the private sector would lose workers. The private sector would then have to increase wages and benefits, presumably forcing firms to raise prices. But this one time jump is not inflation nor can it be accelerating inflation as these terms are normally defined. Wages and prices simply will be re-established at a higher level, relative to the ELR wage.

Still, it can be argued that other wages are likely to continue to rise because by achieving full employment of labour, the threat of unemployment is removed, emboldening workers to demand higher wages--the "reserve army of the unemployed" argument. However, while workers have the alternative of ELR jobs, employers have the opportunity of hiring from the ELR pool. Thus, if the wage demands of workers in the private sector exceed by too great a margin the employer's calculations of their productivity, the alternative is to obtain ELR jobs workers at a mark-up over the ELR wage. This will help to offset any wage pressures caused by elimination of the fear of unemployment if they should arise. ELR does not eliminate a reserve army of potential employees; rather, ELR workers can be hired away at a mark-up over the going ELR wage. In the absence of ELR, these workers can be obtained at a mark-up over the value of the package of social spending obtained when unemployed; this mark-up, however, is likely to be higher than the mark-up over the ELR wage since it must be sufficient to make employment preferable to welfare.

Further, there is a high rate of "depreciation" of idle human capital; the productivity of workers falls quickly when they are unemployed, and beyond some point, they probably become unemployable (due, for example, to loss of the "work habit" or due to crime and imprisonment). With an ELR policy, however, those who are not employed in the private sector continue to work, thus, human capital will not depreciate so quickly. Indeed, program design should be geared toward enhancing human capital of the ELR workers. This would reduce the productivity-adjusted cost of hiring ELR workers relative to unemployed workers, and thereby diminish inflationary pressures. Thus, ELR workers are in some important respects a better reserve army than are the unemployed for the purposes of keeping labour costs down.

From time-to-time, there will be pressure for an upward revision of the ELR wage. As there are forces in modern capitalist economies that generate trend increases of the price level, the "real" (inflation-adjusted) ELR wage probably will fall over time--generating a need for adjustment. In addition, there will be obvious pressures by labour to raise the ELR wage--just as there are pressures currently to increase the minimum wage. When the government raises the ELR wage, rather than "causing inflation", the wage change will merely take account of inflation that results from factors that have little to do with the ELR program. Thus, the ELR program will achieve what most economists would call zero involuntary unemployment (well beyond what they would call full employment) without inflationary pressures. The ELR policy would almost certainly result in less inflation than is currently the case—which relies on a combination of social spending to provide income to those who cannot find work, plus "trickle down" tax cuts or pump priming to generate jobs in the private sector (mainly through investment stimulus). Further, as discussed above, while there is a recognized right to employment, there is no human right to stable prices. If job creation and rising living standards at the bottom of the income distribution does lead to pressures on prices, policy-makers should find other means to alleviate inflation rather than forcing society's least advantaged members to bear most of the costs.

As Bill Mitchell of CofFEE has argued, we can analyze ELR's impact on wages and prices by looking at commodity buffer stock schemes, such as Australia's wool price support program, or various US agricultural price support policies. Australia's government maintains a price floor for wool, standing ready to buy wool when the price falls to the floor and to sell it when the price rises above a ceiling. Given that market pressures often push prices to the floor, the government accumulates a large buffer stock of wool. However, the floor price set in a buffer stock program does not, indeed, cannot, lead to inflation of wool prices—no matter how much the government buys--because by operational design a price floor cannot cause prices to rise above the floor price. Rather, the floor prevents prices from falling through the floor. Further, government can dampen price pressures that arise in the market by selling wool when the price rises to the ceiling. Clearly, the buffer stock program moderates wool prices, and, indeed, could entirely eliminate wool price movements altogether by collapsing the differential between buy and sell prices, so long as the government accumulates a sufficient buffer stock of wool. In conclusion, if government does not raise its floor price, the buffer stock program cannot directly contribute to "inflation" of wool prices.

The ELR program I favour operates like a buffer stock for labour. Government effectively offers a floor price for labour, paying the program wage to participants. Government "sells" labour at any price above the ELR wage to firms (and non-ELR government employers) that recruit from the ELR pool when labour markets are tight. Just as in the case of a floor price for wool, a floor price for labour cannot directly generate pressures on the market wage. Indeed, so long as the buffer stock pool of labour is large enough, it will help to restrain market pressures on wages as government "sells" labour in a boom. Further, because labour is an input to all production, to the degree that wages are stabilized by ELR, production costs will be more stable. In addition, ELR will directly stabilize income and consumption of ELR workers, and if other wages and incomes become more stable because of ELR, that will further enhance macroeconomic stability. Notice also that the government budget will operate as an automatic stabilizer, as the size of the ELR pool will grow in recession and shrink in expansion—indeed, this effect will be even more closely tied to the business cycle than is the case with a commodity buffer stock program (in which wool purchases/sales, for example, are less closely linked to the business cycle). Private sector shedding of labour will automatically trigger increased government spending as the involuntarily unemployed accept work in ELR, while growth of the private sector will automatically reduce government spending.

In sum, the ELR wage will serve as a wage and price anchor. Unlike the case of a wool buffer stock, labour goes into the production of all output. For this reason, stabilizing the wage will lead to greater price stability than can stabilizing the price of a commodity, or even a basket of commodities. It follows that ELR promotes price stability by increasing the stability of unit labour costs so long as ELR operates as a buffer stock. As conceded, the transitional effects of implementation of ELR can include one-time impacts on "the" price level (as measured according to some index). However, once these have worked through the economy, ELR will act as a macroeconomic stabilizer by providing a wage anchor that is given force by the labour buffer stock.

4.3 Affordability and Exchange Rate Effects

Many object that while a "rich" and internationally dominant country like the US might be able to afford ELR, smaller and weaker countries are too poor to afford full employment. My argument is that a sovereign government operating with its own currency and a floating exchange rate can always financially afford an ELR program—even if it is a small open economy. In a later section we will look at the case of developing nations that peg their currencies—as they operate differently and do face financial constraints. As such, financial considerations do come to the fore when discussing implementation of ELR in developing nations.

Here I will briefly summarize the situation faced by "sovereign" nations with floating currencies (a case that covers most developed nations and some developing nations). Readers are referred to more complete treatments in Wray (1998) and Bell and Wray (2002-3). It must be emphasized that the discussion that follows is not a proposal, but rather a description of actual fiscal and monetary operations. Hence, when I discuss funding of an ELR program, I am not proposing any "special" method of financing ELR that deviates from the method now used to finance all existing government programs in sovereign nations. The only implication of financing a new ELR program would be a possible increase of government spending relative to that which occurs today. As discussed above, the net increase of government spending would be quite small, likely less than 1% of GDP—and possibly much less than that. Further, by its very nature, ELR is strongly countercyclical, so that government deficits in booms would probably be smaller than today (without ELR), although perhaps larger in slumps with ELR. That is, the cyclically stabilizing force of deficit spending would be larger in the presence of ELR—a result that is generally deemed desirable even by orthodox analysis. Finally, I recognize that the discussion that follows will appear controversial to many readers. However, the viability and desirability of ELR remains even if conventional views of "government finance constraints" are adopted because there are no plausible arguments against the claim that governments can find some way to "finance" a program that will generate true full employment at a "cost" of less than one percent of GDP—an amount of spending that is already exceeded by all developed nations in their attempts to fight poverty and unemployment. In other words, even if it is believed that governments are already operating against very tight fiscal constraints, ELR can be implemented by reordering priorities. It will be clear that I do not accept such a view—to the extent that sovereign governments operate under financial constraints, these are self-imposed and mostly result from political considerations. Sovereign governments can always financially afford to provide jobs to unemployed workers. Again, readers are referred to Wray 1998 for more detailed arguments.

A nation like the US (as well as countries like Japan and Turkey, and Argentina after it abandoned the currency board or Italy before it joined the EMU) creates a currency for domestic use (and ensures its use primarily by demanding payment of taxes in that currency, although some also take the additional step of adopting legal tender laws). The government, itself (including the Treasury and the Central Bank), issues and spends high powered money (HPM—cash and central bank reserves) as its liability.[5] It is clear that the US government does not promise to convert its HPM to any other currency, nor to gold or any other commodity, at any fixed exchange rate. The flexible exchange rate is the key to maintaining fiscal and currency independence—what can be called sovereignty, although governmental sovereignty certainly has other dimensions as well.

The sovereign government spends (buys goods, services, or assets, or makes transfer payments) by issuing a Treasury check, or, increasingly, by simply crediting a private bank deposit. In either case, however, credit balances (HPM) are created when the central bank credits the reserve account of the receiving bank. Exactly analogously, when the government receives tax payments, it reduces the reserve balance of a member bank (and, hence the quantity of HPM). Simultaneously, the taxpayer's bank deposit is debited, and her bank's reserves at the central bank are reduced. While we commonly think of a government needing to first receive tax revenue, and then spending that revenue, this sequence is not necessary for any sovereign government. If a government spends by crediting a bank account (issuing its own IOU—HPM) and taxes by debiting a bank account (and eliminating its IOU—HPM), then it is not as a matter of logic "spending"

[5] It is usual to refer to supposed independence of the central bank from the treasury, a relation that is sometimes expressed in law. However, the main independence of the central bank consists of its ability to set overnight interest rates without political interference. As explained in Wray (forthcoming), this independence is achieved only if the central bank coordinates its activities with the fiscal operations of the treasury—if it did not it would not be able to hit its overnight rate targets. These relations between the treasury and central bank were made clear in the older money and banking textbooks, but have been lost in recent academic debates as conventionally trained economists lost the ability to work through balance sheets. In any case, in discussions of fiscal and accommodative monetary operations (required to hit interest rate targets), it is useful to consolidate the balance sheets of the central bank and treasury (the liabilities of both are treated as "outside money")—which can be justified both in accounting terms and in political terms (the central bank is a creature of congress or parliament, as is the treasury). The notion that a modern central bank might be allowed to "bounce" treasury checks is ludicrous—which means that it must accommodate as necessary treasury spending. All modern nations develop the necessary procedures to ensure that the treasury has the "funds" available in its account at the central bank to allow it to make payments as they come due.

tax revenue. In other words, with a floating exchange rate and a domestic currency, the sovereign government's ability to make payments is not revenue-constrained.[6]

Note that the sale of its own treasuries by a sovereign government should not be thought of as a borrowing operation, even though it is frequently described as such. Rather, the purpose of such sales (even if policy-makers do not realize this) is to drain any excess reserves created by deficit spending. As noted above, government spending leads to a credit of HPM to bank reserve balances (mostly held at the central bank); tax payments to the government lead to a debit of these bank reserve balances. Hence, a budget deficit means that the credits exceed the debits so that bank reserve balances rise. When banks have more reserves than desired (or required), they offer the excess in the overnight (fed funds in the US) market. A budget deficit tends to generate aggregate excess reserves so that bank offers to lend reserves exceed the demand by banks that are short. This immediately causes the overnight interbank lending rate to fall below the central bank's target, triggering an automatic open market sale (the central bank sells government bonds) to remove reserves so that it can hit its interest rate target. Hence, if the bond sales were not undertaken to drain excess reserves, the overnight rate would fall.

Operationally, the Treasury and the Central Bank work together to ensure that the overnight interest rate target (set by monetary policy) is hit.[7] They do this through security sales or purchases to drain or add reserves as necessary to allow the monetary authorities to hit rate targets. When a household or non-sovereign government borrows, it issues an IOU and obtains a bank deposit that it needs in order to spend. The sovereign government, on the other hand, has no need to obtain a deposit before it spends its own currency, but rather it spends by crediting a private bank account. It sells a security, not to finance its expenditures but to reduce bank reserves. When it does so, it merely offers

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[6] It should not be surmised from this explanation of normal operating procedures that I am proposing "sky is the limit" deficit spending. While modern sovereign nations do not face financing constraints, deficits can certainly be too high. Once full employment is reached, additional deficits lead to what Keynes called "pure inflation": higher aggregate demand increases only prices, not employment or output. Further, I want to be clear that I do not endorse spending without taxation. Without taxes, there is no demand for the state's currency, hence, the state cannot purchase goods and services by issuing HPM. The purpose of taxes is to create a demand for the state's currency; this demand is necessary to allow the state to spend by issuing high powered money. Still, there is no simple relation between the total amount of taxes received and the total amount of state spending. (Budget deficits result from the non-government sector's desire to net save in the form of claims on government, a propensity that is probably complexly determined.) Clearly, centuries of evidence show that it is not necessary for a sovereign nation to balance its budget over a time span determined by the movement of celestial objects. Thus, even if the arguments raised here are not fully understood, no reader can plausibly maintain that balanced budgets or "golden rules" (the notion that deficits are "Ok" only to "finance" investment-like spending) are required over specific spans of time. It must be remembered that the US (by far the greatest economic power of the past century) has rarely had a balanced government budget and indeed has only had one brief period (during the presidency of Andrew Jackson) in which the government was not in debt. If we were to go somewhat farther, we could note that the US has only had seven periods of federal budget surpluses, six of which were followed by our six economic depressions (only the Clinton surpluses were not followed by depression). To argue that budget deficits are somehow "abnormal" and harmful would be rather bizarre, given the US experience (even with the concession that correlation never proves causation—while history does not repeat itself, it certainly rhymes) with budget surpluses always followed by economic downturns.

[7] The coordinating operations can be quite complex. See Wray (1998) and Bell and Wray (2002/3) for details on US operations.

to substitute one of its interest-paying liabilities (the security) for a non-interest-paying liability (the HPM that is debited from bank accounts). This is really an interest rate management operation (known within the Fed as offsetting operating factors)—reducing bank reserves in order to eliminate (non-interest-earning) excess reserves that would otherwise place downward pressure on overnight interest rates, and not a borrowing operation.

The final point to be made regarding such operations by a sovereign government is that the interest rate paid on treasury securities is not subject to normal "market forces". The sovereign government only sells securities in order to drain excess reserves to hit its interest rate target. It could always choose to simply leave excess reserves in the banking system, in which case the overnight rate would fall toward zero (or any positive support rate established by the central bank). When the overnight rate is zero, the Treasury can offer to sell securities that pay a few basis points above zero and it will find willing buyers because such securities offer a better return than the alternative (zero). This drives home the point that a sovereign government with a floating currency can issue securities at any rate it desires—normally a few basis points above the overnight interest rate target it has set. There may well be economic or political reasons for keeping the overnight rate above zero (which means the interest rate paid on securities will also be above zero). But it is simply false reasoning that leads to the belief that the size of a sovereign government deficit affects the interest rate paid on securities. No matter how large the budget deficit, the central bank can set the overnight rate where it likes, and can hit the target.

I would like to emphasize one more time that this discussion describes existing procedure related to sovereign government spending. This is not a proposal. It is not a recommendation regarding “how to finance” an ELR program. The ELR program will be financed in exactly the same manner that military spending or Social Security spending or highway spending is accomplished—by crediting bank accounts. If there are limits to government spending (and I agree that there are, however, they have nothing to do with financial constraints), they do not result from the method used to finance such spending. My argument is that so long as government’s high powered money is accepted in payment for goods, services, and assets, government can “afford” to hire labour into an ELR program. Government spending can be too large and it can be too small. However, the design of the ELR program ensures that once full employment is reached, ELR cannot push government spending beyond full employment for the simple reason that there will be no additional workers ready and willing to work for the ELR wage. There is thus no danger that the wage floor and universal access to a job at that wage provided by an ELR promise can drive the government’s budget beyond the full employment level of government spending.

A non-sovereign government faces an entirely different situation—a case to be explored in more detail in a subsequent section. In the case of a "dollarized" nation, the government must obtain dollars before it can spend them. Hence, it uses taxes and issues IOUs to obtain dollars in anticipation of spending. Unlike the case of a sovereign nation, this government must have "money in the bank" (dollars) before it can spend. Further, its IOUs are denominated in dollars, which it must obtain to service its debt. In contrast to the sovereign nation, the non-sovereign government promises to deliver third party IOUs (that is, dollars) to service its own debt (while the governments of the US and other sovereign nations promise only to deliver their own IOUs).

Furthermore, the interest rate on the non-sovereign, dollarized government's liabilities is not independently set. Since it is borrowing dollars, the rate it pays is determined by two factors. First there is the base rate on dollars set by the monetary policy of the US government (in the US, it is the Fed, a creature of Congress, that sets the overnight rate target). On top of that is the market's assessment of the non-sovereign government's credit worthiness. A large number of factors may go into determining this assessment. The important point, however, is that the non-sovereign government, as user (not issuer) of a (foreign) currency cannot exogenously set its interest rate. Rather, market forces determine the interest rate at which it borrows.

A floating exchange rate and currency sovereignty provide the “degree of freedom” that allows the government to spend without worrying that increased employment and higher demand will threaten an exchange rate peg—by possibly increasing domestic inflation and/or increasing imports. Thus, fiscal policy is “freed” to pursue other objectives, rather than being held hostage to maintenance of the peg. By the same token, monetary policy can set the overnight interest rate to achieve other goals, rather than being determined by the rate consistent with pegging the exchange rate. This is not to imply that the government will necessarily avoid any consideration of impacts on exchange rates while forming fiscal and monetary policy. However, if achievement of full employment is believed to conflict with maintenance of a constant exchange rate, the government in a floating currency regime can choose full employment—although it might not. On the other hand, on a fixed exchange rate, a government that has insufficient foreign exchange reserves is not able to “afford” to spend to promote full employment if that might lead to loss of reserves.

Some nations that potentially have sovereign power issue debt denominated in a foreign currency, thereby giving up a measure of their sovereign power to operate independent fiscal and monetary policy. Nations that have relaxed restrictions on capital markets typically allow the domestic private sector to issue liabilities and to hold assets denominated in a foreign currency. This does not impinge on sovereign power so long as the government is willing to allow default on domestic private debt denominated in the foreign currency. However, if the government comes to the rescue by providing foreign currency to bail-out domestic debtors, it can lose sovereign power because it must operate the economy to ensure that it has a sufficient reserve of foreign currency to meet these private obligations. In the case of countries with large net exports and thus dollar reserves (China, Taiwan), the threat to sovereign power is minor. However, in the case of many Latin American nations, domestic policy is subjugated to the needs of foreign debt service, compounded because private debts are often assumed by the government. Finally, some national governments choose to issue debt in foreign currencies, presumably to take advantage of interest rate differentials. This is problematic for two reasons. First, the domestic overnight interest rate is a policy variable, hence, the government could issue domestic currency denominated government debt at the domestic interest rate chosen by policy makers. Unfortunately, this is not usually understood as the central bank keeps domestic interest rates high on the belief that this is required to attract “lenders” to “finance” the government’s deficit spending. (As discussed above, the true purpose of domestic bond sales is to drain excess reserves to allow the central bank to hit its overnight target.) Second, the lower interest rates in foreign currency are mostly offset by higher default risk so that the national government ends up paying interest rates that are just as high in the foreign currency. (The interest rates paid by Argentina on its dollar debt under the currency board arrangement were as high as those paid by Brazil on its domestic currency debt.) Further, once the government has committed to delivering foreign currency to service its debts, it loses a substantial degree of sovereign power because it must operate domestic policy to ensure a flow of foreign currency required to service the debt. For these reasons, it is not enough to operate with a domestic currency; national sovereignty also requires that the government avoid taking on foreign currency denominated debt. To maintain policy independence, government should only issue currency and debt denominated in its own currency.

It should now be clear that a sovereign nation operating with its own currency in a floating exchange rate regime can always financially afford an ELR program. So long as there are workers who are ready and willing to work at the program wage, the government can “afford” to hire them. It pays wages by crediting bank accounts. If it credits more accounts than it debits through tax payments, a deficit results. This initially takes the form of net credits to the banking system, held as reserves. If the reserve holdings are excessive, banks bid the overnight rate down. The government can then either choose to let the overnight rate to fall toward zero, or it can intervene to sell interest-paying bonds at the desired support rate; this will drain excess reserves. In no sense is the government spending on ELR constrained either by tax revenues or the demand for its bonds.

This leaves one important question: What if the central bank or financial markets react negatively to full employment? Implementation of an ELR program might cause a reaction by financial markets because they expect the central bank to raise interest rates. It is indeed possible that the central bank could try to fight an ELR program, trying to raise unemployment in a misguided attempt to fight supposed inflation pressures. However, the central bank would only be able to raise interest rates and possibly reduce private sector employment. This would not cause unemployment but would rather raise ELR employment. This would probably lower aggregate income and spending (because ELR wages are lower on average). In response, the appropriate fiscal policy would be to increase non-ELR spending or to reduce taxes in order to restore private demand. The preferred response to fears of financial market reaction is as follows: let us first guarantee a job for everyone, then try to get the central bank to lower interest rates. It makes no sense to argue that policy should first lower rates and then if that doesn't lead to a job for everyone, policy makers should try to implement ELR. There is no evidence that even well-managed monetary policy generates a continuously sufficient supply of jobs for all who want to work—quite the contrary. And even misguided monetary policy cannot cause unemployment if ELR stands ready to hire all who want to work.

V. ARGENTINA'S JEFES PROGRAM (AND A COMPARISON WITH INDIA'S EGS)

In this section we will examine Argentina's *Jefes* program in detail. This is a program that researchers at CFEPS have studied since its inception, thus, I am familiar with many aspects of its design and some of its outcomes. At the end of this section, I will compare *Jefes* with India's Employment Guarantee Scheme, focusing on the long-running Maharashtra program. Because I have not been involved with the programs in India, I will rely solely on secondary sources.

Through most of the 1990s, Argentina had been the poster child for the Washington Consensus, adopting a currency board, opening markets, downsizing government, and freeing capital. After its economy collapsed and unemployment and poverty skyrocketed, it implemented a limited employer of last resort program called *Plan Jefes y Jefas de Hogar*, (*Jefes*, hereafter) to provide jobs to poor heads of households. A Labour Ministry economist, Daniel Kostzer, had become familiar with the ELR proposals developed in the US, especially by CFEPS, and helped to design and implement the *Jefes* program. By most measures, the program has been a tremendous success, providing jobs (at its peak) to 2 million workers or about 5% of the population, and about 13% of the labour force within just a few months after its creation. Peak spending on the program amounted to about 1% of GDP. The macroeconomic impact of the *Jefes* program is larger than that because of the multiplier effect that results from spending by program participants. Taking this into account, according to estimates provided by Kostzer, the *Jefes* program increases GDP by about 2.5%--adding a needed boost to aggregate demand. Finally, surveys find that program participants are quite supportive and believe that it allows them to make valuable contributions to their communities. In the next two subsections we will summarize and evaluate the program; in the third section we examine recent changes that are affecting the program.

5.1 Summary of Argentina's Plan *Jefes* de Hogar

Jefes was born via a presidential degree in January 2002 during the short term of President Duhale, but was actually signed into law on April 3, 2002.[8] The program was intended to be the government's primary program to deal with the economic crisis that gripped Argentina with the collapse of the currency board. Most other safety net programs were eliminated or reduced in order to shift funding to *Jefes*. (The Ministry of Labour also operates another smaller employment program, Programa de Emergencia Laboral (PEL) with a design similar to that of *Jefes*—monthly benefits are the same, but it includes some beneficiaries that do not qualify for *Jefes*.)

Between April 3 and May 17, 2002, most eligible, unemployed heads of households who wanted to work were registered in a national database in preparation for program implementation. Participants were also required to register their children in school and to take the necessary vaccinations. The *Jefes* program pays 150 pesos per month to a head of household for a minimum of 4 hours of work daily. (At the time of

[8] *Decreto Nº 565/2002-* Creación del PROGRAMA *JEFES* DE HOGAR para ser aplicado mientras dure la Emergencia Ocupacional Nacional. See also Lopez and Paz 2003, Cortes et.al. 2003, and Marshall 2004 for analyses of the program.

implementation of the program the poverty line was about 300 pesos per month, so *Jefes* paid half of the poverty line for half-time work. Participants were expected to search for additional hours of work in formal and informal employment to supplement the *Jefes* salary.) Participants work in community services and small construction, agricultural, or maintenance activities, or are directed to training programs (including finishing basic education). The household must contain children under age 18, persons with handicaps, or a pregnant woman. Households are generally limited to one participant in the *Jefes* program.

The World Bank provided funding through loans ostensibly to help cover program costs. However, when Argentina abandoned the currency board, government spending on domestic programs could be financed with sovereign domestic currency. Clearly, *Jefes* wages as well as non-labour expenses are paid in the domestic currency, while the World Bank funding directed toward *Jefes* was in dollars, which could not be used to pay program expenses. In conversations with Argentinean Finance and Labour Ministry officials, it was clear that all involved understood that the purpose of the World Bank funding was not to cover program expenses, but rather would provide dollars to be used to service external dollar-denominated debt. Unfortunately, some observers have been misled by the fact that there were World Bank funds provided into concluding that the *Jefes* program could not have been undertaken without external funding. However, I was assured by those responsible for development of the program that it would have gone forward without external money. The developers of the program realized that because *Jefes* would be funded using domestic currency, no external funding would be required. (In any case, Argentina later defaulted on much of its external debt, reducing its need for dollars.) However, an important result of the World Bank funding has been a series of excellent reports issued by the institution that provides important data and comprehensive surveys of program design.[9]

One of the most distinguishing features of the program's institutional design is its decentralized model of administration. The Argentinean federal government provides the funding for salaries as well as a portion of equipment costs, general guidelines for the execution of work projects, and some auxiliary services for managing the program. Such services include maintaining a national registry of program beneficiaries, as well as databases that track all projects that have been proposed, approved, denied and completed. Note that these data are supposed to be made publicly available, thereby increasing transparency and reducing corruption.[10]

The actual administration of the program is primarily executed by the municipal governments. The municipalities are responsible for assessing the pressing needs and available resources of their communities and for evaluating the projects proposed by the local non-profits or NGOs. For those projects that have been approved, the municipality

[9] See for example "Project appraisal document on a proposed loan in the amount of $600 million to the Argentine Republic for the Jefes de Hogar (Heads of Households) Program Project", Report No. 23710-AR, World Bank and *Implementation Completion Report (SCL-43660) on a Loan in the Amount of US$284 Million Equivalent to the Argentine Republic for a Third Social Protection Project*, World Bank Report No: 26134-AR. See also Galasso and Ravillion (2003) for another World Bank analysis.

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

contacts program beneficiaries, informing them of the availability, time, and place of work. It is estimated that about 10% of participants work in projects organized and run by *Picateros*, or community activists, many of whom had led demonstrations in early 2002, forcing the government to deal with the social crisis created by the economic collapse. A peculiar aspect of the project organization is that the federal government finances no more than 80% (but usually only 60%) of each project costs. This provision requires that the project executing local governments and NGOs contribute their own resources—an arrangement that commands a higher level of commitment from the local community.

A large majority of the projects are designed specifically to cater to community needs by directly providing goods and services. According to Labour Ministry data, 87% of *Jefes* beneficiaries work in community projects. These include primarily agricultural micro-enterprises and various social and community services. Some specific examples of rural programs include cleaning and environmental support in the agricultural sector, improving the sewer systems and water-drainages. Much of the community work is performed in local community centres, thus renovation of existing centres or construction of new ones are typical of many small *Jefes* infrastructure projects. Examples of community services performed in these centres include food kitchens or family attention centres which address domestic violence issues or provide temporary shelter and other services to abused women or children.

Other projects include health promotion programs, which offer basic education on sanitary issues—how to handle food and avoid dysentery and other infections. Others deal with mending old clothes that have been donated to poor communities. A similar program exists for the public libraries, where scrapped books from wealthier regions are repaired and catalogued for public libraries in poorer communities. Large-scale infrastructure projects, primarily under the jurisdiction of the Ministry of Infrastructure, also hire *Jefes* workers for the repair of Argentina's roads and bridges. Some projects distribute their output (such as bread baked in small *Jefes* bakeries) without charge to poor neighbours; others sell output at reduced cost either door-to-door or in public markets. Some large supermarkets have donated space to *Jefes* products—including fine hand-crafted furniture and cabinets. Finally, some *Jefes* workers form co-ops that produce output on government contract (such as school uniforms). These workers receive their *Jefes* salary for four hours of work, and then if they are able to obtain additional orders for their output, they work more hours and share the net sales revenue among co-workers.

It is also important to note that program participants receive additional benefits. Many *Jefes* projects provide free childcare for participants (with the care provided by *Jefes* workers)—this is important given that many participants are mothers with young children. Projects also provide literacy programs for adults, tutoring for children, counselling for families with drug abuse or domestic violence problems, and family planning. In interviews, many of the women working in the program emphasize that close proximity of their job to their home is essential for their participation. Many of them had never been able to work outside the home even before the economic crisis because long commutes would take them too far away from their children. *Jefes* jobs in their neighbourhood allowed them to check on their families throughout the day. In addition, they could make use of the various social services provided in their workplace. (See

Tcherneva and Wray 2005d for more discussion of the impact of the program on females and families.)

World Bank and Labour Ministry studies indicate that most projects are successfully completed. These are not "make work" projects of "digging holes" as some critics of public job creation programs have warned. The projects provide real benefits to the community. Further, by increasing political participation, the program ensures that even when participants leave the program, the individuals and the community will continue to benefit from the enhanced feeling of community. This is particularly true of the projects that are organized at the “grass roots” level by community activists—who know the needs of the neighbourhoods.

Government’s total spending on *Jefes* and PEL reached about 1% of GDP, gradually declining as the economy recovered and GDP grew while some *Jefes* workers found jobs in the private sector. However, it should be noted that the US spends 1% of GDP on social assistance, while France and the UK spend 3-4% of GDP on such programs. Given a national poverty rate in 2003 that was above 50%, and with 9.6 million indigents and a child poverty rate approaching 75%, Argentina’s spending even at the program’s peak was still small relative to needs.

5.2 Preliminary Assessment

According to the World Bank’s reviews (see for example World Bank Reports No: 23710-AR and 26134-AR), the program has been highly successful in achieving a number of goals. First, program spending is well targeted to the intended population—poor households with children. Second, the program has provided needed services and small infrastructure projects in poor communities, with most projects successfully completed and operating. Third, the program has increased income of poor households, although it has not pulled them above the poverty line (this is not surprising, because of the low monthly income provided through the program). While there have been some problems associated with the implementation and supervision of the program, cases involving mismanagement or corruption appear to have been relatively rare. Still, there are reports of favouritism, and some home country researchers have made critiques of program design.

One of the most surprising results of the program has been the large influx of women into the program—women accounted for over 60% of program participants in the beginning, and now make up nearly 75% of program participants. It is suspected that many households chose to allow the wife to participate in the program while the husband attempted to find private sector work, including informal work. As the economy recovered, more of the men were able to move out of *Jefes* and into formal sector employment—this increased the female ratio as they have had a harder time transitioning out of the program. In addition, some women do not want to leave the program because it offers them the ability to work near their homes. The advantage of *Jefes* is that it can “take workers as they are”, providing them work they can perform even if they have familial constraints as well as no previous formal labour market experience or skills. This is especially important for women. At the same time, the increasing feminization of the program also generates criticism—as discussed below.

Some of the domestic criticism results from the limited entry into the program. This has purportedly resulted in some cases of discrimination as potential participants were denied access even though they appeared to meet program requirements. More importantly, and as discussed above, households have been forced to make a choice concerning who would participate in the program. Frequently, women have entered the labour force to participate in *Jefes*, while their husbands have tried to find employment, often in the informal market. This result has also generated domestic criticism, in part because the program is not reducing unemployment rates significantly. If entry into the program were not restricted to one participant per family, it is probable that many poor families would send both husband and wife into the program. This would provide a minimum family income of 300 pesos monthly, lifting some families out of poverty (however, note that with continuing moderate inflation, the poverty line has grown significantly above 300 pesos per month). Hence, not only would poverty rates fall, but unemployment rates would also decline. If the program were broadened further, extended beyond heads of households with children, persons with disabilities, or pregnant women, participation would almost certainly have grown well beyond 2 million.

The response of the beneficiaries to the *Jefes* plan has been overwhelmingly positive. According to household surveys conducted by Argentina's Ministry of Labour, Employment and Social Security, only a small fraction of *Jefes* workers report they are dissatisfied with the program, while 90% are either satisfied or very satisfied with it. (See Tcherneva and Wray 2005c for data and analysis.) When asked how they felt when requesting the program, most people (over 70%) reported "respected" as opposed to "undervalued" or "politically used". Some of the reasons for this satisfaction include the opportunity "to do something" and "help the community," but note that the second largest reason for satisfaction that people report is the good environment that *Jefes* jobs provide. When asked what they would prefer to do as part of *Jefes*, most people stated that they would like to be involved in training and community projects.

In August 2005, I went with colleagues from CFEPS to interview government officials and project supervisors and participants. (See Tcherneva and Wray 2005d for a detailed report.) We visited half a dozen projects and interviewed close to 100 participants.[11] A large majority of the participants—as well as their supervisors—were women. Our findings were very similar to those reported by the Labour Ministry: almost all participants reported that they were happy with the program, and they listed the ability to do something productive as well as the opportunity to work with others as the most important reasons for their satisfaction. Most said they were learning new skills that would prepare them for formal sector work, although a few who had previously held skilled jobs worried that participation in *Jefes* would not enhance their employment prospects. Finally, we asked every participant interviewed whether she/he would prefer to continue to work in *Jefes*, or whether they would prefer to receive the same amount of income in the form of welfare. Every participant, without hesitation, responded that she/he preferred to work rather than receive welfare—even those who had never worked outside the home previous to *Jefes*. It was very clear that all participants believed they

[11] See Tcherneva and Wray 2005d for methodology. This was a qualitative study, with no attempt to obtain a representative sample of projects or participants. However, we visited a variety of types of projects, some of which were developed by community activists and others that were administered by local government.

were receiving benefits from the program in addition to income, and most (but not all) believed they were making positive contributions to their community.

The early experience of the *Jefes* program shows that a huge program can be implemented quickly without major problems. As mentioned above, within a couple of months after implementation, the program was employing five percent of the population. Further, implementation was accomplished in less than ideal conditions: economic, political and social instability was high; there were literally riots in the streets that forced the government to move quickly; the economy had collapsed, unemployment was above 20%, and GDP was falling rapidly; consumer inflation was running at 40% while producer prices mushroomed by 125%, and currency depreciation reduced the peso by more than 200%. Admittedly, the dire economic straits forced the government to take action, and it saw *Jefes* as something of a last ditch effort to restore stability. This made the program more politically feasible, which helped to overcome some of the other problems.

The number of program participants has steadily declined since its peak in May 2003. Part of the decline is due to participants moving to other programs such as Familias and PEL.[12] Nonetheless, a significant number of people have moved into the private sector. This implies that efforts to reintegrate *Jefes* workers into the labour market are largely successful—at least for males in the context of a rapidly growing economy. While more recent data are not presently available, in September 2003, over 76,000 *Jefes* workers left for the private sector. Note that this was at a time when the economy was still in disarray. As the economy recovered more robustly the reinsertion rate was noticeably higher, as evidenced by the steady decline in program beneficiaries. Therefore, the *Jefes* program has been able to (re)integrate *some* of its workers into private sector activities. However, there is a large population of females that because of family commitments, low educational attainment, and lack of previous employment experience is likely to be left behind no matter how robustly the economy should grow—an important consideration to be taken up in the next section.

5.3 Prospects for the future of *Jefes*

During our August 2005 visit (as well as an earlier visit in 2003), we found that high level government officials had reservations about the program. Particularly during the most recent visit, many officials expressed the view that while *Jefes* had been necessary to deal with the aftermath of the breakdown of the currency board, it would be a temporary program. Because the economy was now performing well, most "employable" workers had already been pulled out of the program, to be hired by private firms. Unemployment was no longer a major problem, at least in the developed, urban, areas. Several officials at the labour ministry said that those who remained in the program were either "economically inactive" or insufficiently trained to obtain private sector work. Their preferred solution would be a "reform" that would replace *Jefes* with

[12] *Familias* is a program, which gives mothers a stipend per child. While there is no requirement to work as in *Jefes*, this program effectively recognizes that caring after children is a socially useful labor that should be remunerated. As noted above, PEL (Programa de Emergencia Laboral) is an employment program similar to *Jefes* for those poor that do not qualify for *Jefes*.

unemployment compensation and incentives for training for those who were economically active, and expanded welfare (through expansion of *Familias*) for the economically inactive. While it was not explicitly stated, it was clear that most of the women in *Jefes* would move into welfare, and many of the remaining men would be moved to the unemployment program.

In our discussions with these officials, we tried to explore their views in depth. When we pointed out that every participant we interviewed preferred work over welfare, most of the officials responded that many participants were not producing anything of value. When we described the bakeries that provided bread to poor neighbours, or childcare services, or handicrafts sold in markets, the officials responded that such production of goods and services was not "efficient". It became clear that the officials were using market measures of efficiency, and while they did not deny that the women working in community bakeries were doing something "useful", they insisted that "the market" could, for example, provide bread more efficiently using skilled workers and modern factories. Yes, the women would lose their jobs, but they could use their welfare benefits to buy bread. Many of the high level officials either refused to recognize, or were not capable of recognizing all the other benefits that *Jefes* participants gained from working: social interaction, ability to contribute to society, and access to a range of social services provided by organizers.

We discussed two other issues with officials. Some argued that the government did not have the "institutional capacity" to run the program. Some projects were not well-designed, so that they operated inefficiently. *Jefes* workers sometimes duplicated work done by regular government employees, or, worse, did the work of government employees (who then shirked work). There were some tales of waste and corruption (a favourite was a story about use of funds to purchase an electric oven for a *Jefes* bakery in a community with no access to electricity; this, of course, begged the question—why not provide ovens *and* electricity to the community?). Most importantly, officials and participants alike said that *Jefes* does not provide sufficient training to prepare most participants for private sector work. However, when we discussed this matter with the top labour official in charge of workforce training programs, he said the lack of institutional capacity was related to the budget: if more money was provided, he was sure that the capacity could be improved sufficiently. This leads to the other issue we discussed: money. As discussed above, *Jefes* spending is equal to about 1% of GDP, and all government officials we interviewed agreed that spending at that level was affordable. Hence, their desire to "reform" the program by replacing it with unemployment compensation and welfare was not to cut costs. Indeed, they realized that their reform would almost certainly increase spending.

On February 14, 2006 President Kirchner announced that the *Jefes* program would be "redesigned". This is not surprising in light of our August visits with officials. He announced that there would be two separate programs to replace *Jefes*:

i) Unemployment Insurance: that will pay 225 pesos monthly, with a maximum time limit of two years. The program will focus on training and job search and is designed for the "economically active". The Labour Ministry expects 500,000 participants.

ii) Plan Familias: welfare for poor families. It will pay a monthly benefit on a scale from 150 pesos for a family with one child, up to 275 pesos for a family of six children. It is designed for the rest—the "economically inactive" population.

For now, it appears that individuals will leave *Jefes* voluntarily for one of the other programs. However, note that as *Jefes* still pays only 150 pesos per month to participants, there are strong economic incentives for all to leave *Jefes* (except for mothers with only one child, who would receive the same payment in Familias). It is too early to know how the population will react to this proposal. However, CFEPS researchers who returned to Argentina in August 2006 found that at least some women had left *Jefes* for *Familias*, but still showed up at their *Jefes* workplace to perform their jobs—without pay. This allowed them to maintain their newly found social network, and to receive the other services provided in *Jefes*. However, the long term future of the program is now in doubt. It is not clear that all of the services and products that have been (and in many cases still are being) produced will continue to be provided as *Jefes* is gradually phased-out. Nor is it clear that government officials recognize the loss to poor neighborhoods, especially. Simply providing welfare income to poor families cannot ensure that all of the secondary benefits of the *Jefes* program will continue to be made available.

5.4 India's Employment Guarantee Schemes

India and some other countries (Chile, South Korea) also have a history of job creation programs. India has recently adopted a job guarantee in its National Rural Employment Guarantee Act (NREGA) of 2005, and is now exploring ways to implement the guarantee. The NREGA is loosely modeled on the Maharashtra Employment Guarantee Act of 1977, which guaranteed provision of work to every adult in rural areas. (Papola n.d.) India has a long history of employment provision, dating to the 4^{th} century B.C. (Dev 1995) After independence, a number of employment programs have been created, but Maharashtra's Employment Guarantee Scheme (EGS), which dates to 1965, is the most important as it is one of the largest public programs in the developing world. (Dev 1995, p. 108) It guarantees employment at a defined wage to all adults over age 18 in rural areas who are willing to do manual work. From the beginning, the program has been seen as an entitlement that guarantees the right to work. Hence, in light of the previous discussion about the *Jefes* program, the EGS is viewed as a permanent program that is required to ensure a recognized basic human right to work. The program is self-targeted, totally financed by the state government, and according to Dev is supported by all groups: the urban population, rural rich, rural poor, and politicians. The EGS facilitates collective political action by the poor, promoting power and making politicians more responsive to the demands of the poor. (Dev 1995 p. 111) Legislators recognize the value of the program because they can claim credit for new projects created by EGS workers.

In 1993, the program created 148 million person days of work, with expenditures accounting for 10-14% of the state's total development budget.[13] As in the case of the *Jefes* program, female participation increased relatively over time, so that the majority of participants in the EGS are female. Studies show the EGS is successfully targeted to the

[13] All information in this paragraph is derived from Dev 1995.

poor, even though it is open to all rural adults. It provides about a third of the income of the typical poor family. The EGS reduces unemployment and underemployment by 10% to 30%, and accounts for about half the number of days of employment of participants. Like *Jefes*, the EGS provides a large number of secondary benefits: growth of agricultural production (through, for example, provision of infrastructure); some increase of the agricultural wage due to increased labour bargaining strength and reduction of labour supply; reduction of discrimination (partly due to tighter labour markets); enhanced social life by increasing social interaction and breaking down prejudices as different groups work together on projects; raising the confidence of women; stabilizing family incomes so that they do not have to sell assets at depressed prices during bad harvests (it is estimated that income variability is reduced by half); reduction of malnutrition during droughts; and perhaps more equality of distribution of food within the family (because women bring money income to the family, their status rises and they can protect female children). In comparison with other anti-poverty programs, some studies find that rural work programs are more effective in reducing poverty and hunger. Dev concludes that the EGS is a powerful tool for rural development and for enhancing democracy, which helps to explain why it is the most popular state program. While there are some "leakages" to corruption, the EGS is better administered than other anti-poverty programs.

Could a program like *Jefes* or Maharashtra's EGS be extended as a universal employment guarantee work for all of India? At the very least, India can learn from successes and failures of these programs. Decentralization and implementation of the Argentinean program by community groups and local government ensured that projects met local needs, and helped to integrate poor families into the social and political life of their communities. As one of the *Picatero* organizers put it to me, "The people that actually have the answers are the ones with the needs, those that suffer from starvation. If you target your policies to these people you cannot go wrong. This government did a good job; they addressed the root of the problem… They didn't look to the top; they went straight to the bottom." The program's transparency minimized corruption—even if it did not eliminate it entirely. On the other hand, the decision to include only heads of households kept many people from participating—and forced families to choose who would participate. Likewise, the decision to have a cut-off date for registration meant that those who came too late could not get into the program. Finally, the decision to limit hours in the program and to set the wage at half the poverty line forced many to work less than desired and kept them in poverty.

By contrast, Maharashtra's program explicitly recognizes the right to work. This is an important condition to ensure program longevity. However, the right to work is useless unless the program is sufficiently well administered to a) ensure jobs are actually supplied; and b) ensure the work is productive. Like Argentina's program, the EGS is decentralized, which seems to ensure a responsive administration. Dev (1995) argues that it is important to design a program delivery system that can effectively ensure the guarantee to a job. Voluntary organizations, including labour organizations, should play a role. They can help to spread awareness of the program among the poor, to ensure that individuals are aware of their rights as well as of procedures to be followed to act on those rights. The organizations can also represent the poor to ensure that program administrators provide the jobs that are guaranteed. Organizations can help to check corruption and leakages. There are two main kinds of leakages: funds can be misappropriated, or they can be spent on unsuccessful projects. Even if corruption is limited, a program that results in largely unsuccessful projects will lose support. In that case, recognition of a right to work will not be sufficient to keep a program as a going concern. Thus it is critical to have local involvement in project development and execution so that program benefits will be recognized. The *Jefes* program was successful at including local control, and at minimizing both kinds of leakages. However, program benefits appear to be insufficiently recognized outside poor communities, and the right to work was never a major selling point of the program. The EGS has been much more successful at promoting the human rights aspect and, perhaps, at creating an awareness of program benefits.

With the enactment of the NREGA, there is an on-going discussion of implementation of a program to provide the employment now guaranteed. (Bhaduri 2005; Hirway 2006; Papola n.d.) Unfortunately, it appears that the program will be far less than universal, applying only to the rural poor and promising only 100 days of employment. In addition, individuals must meet various conditions relating to registration, application for work, and reporting for work. (Papola n.d.) Apparently these restrictions are being imposed in order to keep program costs down. As India implements its job guarantee, it makes sense to limit the scope of the program in terms of participants and hours worked to keep it manageable. However, once the program is underway and operating smoothly, the job guarantee should be expanded—to anyone who is ready, willing, and able to work. Papola argues that a universal (albeit, rural) program would probably not cost more than the restricted program planned. This is because most participants would work less than 100 days per year on average; further, even with a universal guarantee, perhaps only about 2.6% of the labour force would opt for the program. In addition, by eliminating the bureaucracy required to restrict entry, the management of a universal program would be less costly than that of a restricted program. I suspect that Papola is correct in all of these arguments. I would suggest a phase-in (with restrictions gradually relaxed) only in order to keep the program manageable, rather than using restrictions to keep costs down. As administrative competency improves, the program should be expanded until it becomes a universal (rural and urban) program.

The *Jefes* and Maharashtra EGS experiences allow us to move from the realm of theory to the reality of practice. Many of the fears of the critics of ELR have been shown to be fallacious. (Sawyer 2003) Job creation, even on a massive scale and under difficult circumstances, can be successful. Participants welcome the chance to work. They view participation as empowering, rather than as modern slavery. The program can be democratically implemented and can increase participation in the political process, with relatively few instances of corruption and bureaucratic waste. Useful projects can be undertaken. Even with a huge program that employs 5% of the population, Argentinean communities have not yet experienced insurmountable problems in finding useful work for participants. *Jefes* reduced social unrest, and has provided demand for private sector production. Still, the President's proposed redesign shows how important it is to develop political support for a job guarantee. Because *Jefes* was viewed as a temporary program to deal with an economic and social crisis, rather than as commitment to a job guarantee to fulfill a human right, support among officials declined when the crisis passed. In that respect, Maharashtra's EGS is a model to build on because it always recognized employment as a human right, thus, promoted EGS as a necessary, permanent, system.

VI. Employer of Last Resort for Developing Countries

A small developing nation presents several challenges that were not faced in the middle income Argentina or in the large, relatively open Indian economy that has advanced sectors. First, the small developing economy may produce a small range of commodities so that it imports a large number of types of goods that it does not produce (although many of these may not directly enter the consumption basket of much of the population). Further, its exports might be limited to an even smaller range of commodities. Growth of monetary income would immediately pressure the exchange rate. Second, the formal sector could be small, with most production and employment in the informal sector—and with a large disparity between wages paid in the formal versus the informal labour markets. Third, the administrative capacity of the national government might be quite limited. Further, domestic infrastructure is inadequate to allow significant expansion of productive capacity. And finally, its exchange rate is likely to be pegged—perhaps to the currency of its former colonizer.

If an ELR program is implemented with a wage equal to the minimum wage in the formal sector, there could be a flood of workers from the informal sector. Monetary incomes would rise and the demand for consumption goods—including most importantly the "luxury" imports that had been beyond reach for most of the population—would increase. The trade balance would deteriorate and the government would quickly lose the international reserves necessary to maintain the peg. Domestic prices would rise (although direct pressures on prices of domestically produced goods would be limited if these were inferior goods, mostly purchased by poor families), but more importantly, import prices would rise as the currency depreciates. An exchange rate crisis would be likely to trigger an economic crisis. Is there any way to avoid these consequences?

A nation with a floating exchange rate has a significant degree of domestic policy independence—both in terms of fiscal policy and in setting of interest rates through its monetary policy. This is because it can choose policy to achieve domestic stability while allowing its exchange rate to adjust to enhance external stability. The small developing nation with a pegged currency is severely constrained—its interest rate is set by markets as a mark-up over the interest rate set in the nation to which it has pegged its exchange rate. The mark-up in turn is determined by assessment of country and exchange rate risk. "Sound" fiscal policy is required to prevent assessed risk from raising borrowing costs—and to prevent a run out of the currency. The best recommendation to such a country is to move toward a floating exchange rate. However, it is recognized that such a recommendation will not be taken by many such nations. Can an effectively non-sovereign nation (that is, one without fiscal and monetary policy independence) implement an ELR program?

First, let us see how this nation can reduce impacts on prices, the exchange rate, and the trade balance as it implements ELR. It will need to limit the program's impact on monetary demand, which can be done by keeping the program's monetary wage close to the average wage earned in the informal sector. Thus, rather than setting the wage at the minimum wage in the formal sector, it is set at the wage of the informal sector. However, poverty still can be reduced if the ELR total compensation package includes extra-market provision of necessities. This could include domestically-produced food, clothing, shelter, and basic services (healthcare, childcare, eldercare, education, transportation). Because these would be provided "in kind", ELR workers would be less able to use monetary income to substitute imports for domestic production. Further, production by ELR workers could provide many or most of these goods and services—minimizing impacts on the government's budget, as well as impacts on the trade balance.

If the ELR program directly provides basic necessities as well as monetary income equal to that previously earned in the informal markets, there will be some net impact on monetary demand. Further, production by ELR workers might require imports of some tools or other inputs to the production process. Careful planning by government can help to minimize undesired impacts. For example, imports of required tools and materials can be linked to export earnings or to international aid. Because production techniques used in an ELR program are flexible (ELR production does not have to meet usual market profitability requirements—see Forstater 1999), government can gradually increase "capital ratios" in line with its ability to finance such imports. Further, ELR projects can be designed with a view to enhance the nation's ability to increase production for export. The most obvious example is the provision of public infrastructure to reduce business costs and attract private investment.

A phased implementation of the program will help to attenuate undesired impacts on formal and informal markets, while also limiting the impact on the government's budget. Further, starting small will help the government to obtain the necessary competency to manage a larger program. As discussed above, Argentina limited its program by allowing participation by only one head of household from each poor family with dependent children. If desired, the program can start even smaller than that, allowing each family to register a head of household, but allocating jobs by lottery so that the program grows at a planned pace (10,000 workers the first year, 20,000 the next year, and so on until it provides a universal job guarantee). The phased implementation can also be done on the basis of selecting the best projects proposed by individual community organizations (for example, at the village level) that will employ a given number of heads of households from the community (again, with selection of workers by lottery). Decentralization of project development, supervision, and administration can reduce the administrative burden on the central government while also ensuring that ELR projects meet local needs.

Some financing for the ELR program can be obtained through international aid. While a large nation with a floating currency does not need foreign funding of its spending, the small open economy with a pegged rate might need international help. However, borrowing should be avoided unless the ELR program will directly increase the exports that will be needed to service international debt. Some of the output of the ELR program can be sold in domestic and perhaps in international markets to generate revenue that helps to pay for the program. For example, *Jefes* workers in Argentina produce clothing and furniture that is sold in formal markets. Further, some of the output of the program can substitute for government purchases; for example, *Jefes* workers produce uniforms for the government. However, the wisdom of producing for market, or of producing to displace market production, will depend on local conditions. Generally, ELR production should not compete with the private sector.

Finally, government can use the traditional methods of protecting its trade balance and exchange rate peg: tariffs, import controls, and capital controls. To the extent that ELR raises monetary wages and monetary consumption its impact on the trade balance and exchange rates is similar to the impact of domestic growth more generally. The arguments for and against "intervention" in the area of international trade and capital flows are well-known and need no further discussion here. In any case, while there has been a strong bias against such intervention, the consensus seems to have shifted somewhat in recent years toward the view that protection is acceptable on a case-by-case basis. It should be re-emphasized that if ELR raises income and aggregate demand, then government should use traditional methods of protecting its currency and trade balance, as necessary. No government should use poverty and unemployment for these purposes.

VII. CONCLUSIONS

"Employment as central to economic and social policies" is a stated objective of the ILO and a priority area for its 2006-2007 biennium. This priority reflects the growing concern of many governments, particularly in the developing world, of the need to develop policies to lower the high levels of unemployment, underemployment, informality and poverty that plague their countries. Yet despite these concerns, development policy for the last two decades (at least) has been dominated by the quest for price stability, fiscal austerity, financial and trade liberalization and flexible labour markets. Unfortunately, these policies have met with little success in creating jobs. In 2005, 6.3% of the world's workers were out of work (and many more were forced to work in part-time, intermittent, and often informal sector jobs) and an additional 520 million survived on less than $1 per day. For this reason the Employment Analysis and Research Unit of the ILO undertook a research project on 'employment targeting in developing countries.' This paper examined the ELR or job guarantee as an important component of a strategy of employment creation. It was argued that only an ELR-type program of direct job creation can ensure the right to employment, which is claimed to be a human right that is important by itself as well as being important for securing other recognized human rights.

This paper sought to provide a theoretical and practical discussion of the ELR proposal, with a focus on how developing countries could provide jobs to all who are willing to work. In assessing feasibility, the analysis distinguished between the constraints and possibilities in both middle-income and lower-income developing countries. How would countries finance such a program, who would run it, what type of work would the participants do and how much would they earn? What are possible effects on the country's economy and labour market? The paper provided an historical example of one major program, the *Jefes* program in Argentina, to provide a description detailing how it works as well as to discuss some problems encountered. In addition, the paper summarized research on the employment guarantee in India, focusing on

Maharashtra's long-running EGS program and with some discussion of the formulation of programs to comply with India's new NREGA.

The conclusion is that ELR programs can be implemented even on a fairly large scale with success at providing useful jobs that provide real benefits to communities. These benefits go far beyond the wages received by participants and the products of the labour employed. Social cohesion, empowerment, political participation, and greater gender equality are some of the secondary benefits of ELR programs that are not likely to accrue so readily from other kinds of anti-poverty programs such as cash transfers. ELR programs are affordable, even on conventional measures such as percent of GDP—totalling perhaps 1% of GDP. For a sovereign nation operating with its own currency, there is no question of the financial affordability of a job creation program, although there could be impacts on price or currency stability. However, this paper has argued that the design of the ELR program actually enhances macro stability of sovereign nations. The small, developing nation is much more constrained. This paper offered some suggestions for implementation of an ELR program that will help to restrain undesired impacts on prices or exchange rates in developing nations.

Finally, the *Jefes* program indicates that even a program that is successful by numerous measures may not be sustainable if it is not able to garner widespread support. It is possible that recognition of employment as a human right and explicit recognition of this right in the development of an ELR program can help to create the political support that is necessary to maintain sustainability. This is suggested by the relative longevity and continuing popularity of Maharashtra's EGS, although there are undoubtedly other factors involved. While I have always believed that the "purely economic" arguments in favour of ELR should be sufficient to convince policy-makers to implement such a program, that may not be the case. Unfortunately, many policy-makers and most economists do not appear to be swayed by Keynes's passionate plea:

> The conservative belief that there is some law of nature which prevents men from being employed, that it is 'rash' to employ men, and that it is financially 'sound' to maintain a tenth of the population in idleness for an indefinite period, is crazily improbable—the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years… Our main task, therefore, will be to confirm the reader's instinct that what <u>seems</u> sensible <u>is</u> sensible, and what <u>seems</u> nonsense <u>is</u> nonsense. (Keynes 1972 pp. 90-92)

He went on to conclude that "if new forms of employment are offered more men will be employed, is as obvious as it sounds and contains no hidden snags." (ibid) Unfortunately, convincing policy-makers and economists that offering jobs to anyone who wants to work is sensible has proven to be a more difficult task than Keynes (or I) ever could have imagined.

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