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## Macroeconomic Stability, Affordability and Manageability of Employer of Last Resort Programmes

*L. Randall Wray*

### Introduction

For the past decade, a number of researchers (many of whom are now associated with the Center for Full Employment and Price Stability at the University of Missouri-Kansas City) have been advocating a job creation programme that has been variously called the employer of last resort (ELR), job guarantee, public service employment, or buffer stock employment programme. These proposals were based on earlier work by Hyman Minsky (n.d., 1965, 1973, 1986), Abba Lerner, Phillip Harvey, Wendell Gordon and Charles Killingsworth, recalling the US New Deal experience with job creation programmes. In addition, work has also been done at the Centre of Full Employment and Equity, Newcastle, Australia and at the Levy Economics Institute. Most of the work so far has been at the theoretical level (Ginsburg (1983) and Harvey (1989) are important exceptions). However, Argentina recently adopted a job creation programme that is explicitly based on our proposals, and other nations have expressed interest in such programmes including Bolivia, Brazil, India and South Africa.

Three main objections have been raised to broad-based employment guarantees. First, critics have objected to the 'open-ended' fiscal commitment entailed in a job guarantee, asking whether government can 'afford' the programme. Second, critics have argued that ELR will threaten macroeconomic stability, in particular, the price level and exchange rate. Will ELR create inflation and threaten the value of the currency? Third, critics have objected that various administrative problems will make the programme unmanageable. Will it be possible to find

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enough useful work for ELR workers, or will they be reduced to ‘digging holes’? What about corruption or incorrigible workers?

In this chapter I will proceed as follows. First I will address the impact that ELR will have on the macroeconomic balance. Next I examine the conditions under which a government will be able to afford ELR. Both of these issues are analysed from a theoretical level. In the final section I will briefly address some practical questions of administration of ELR by examining the *Jefes* programme operating in Argentina.

Before getting underway, however, I wish to express disappointment with the reaction of many heterodox economists to ELR proposals, and, more generally, with their proffered ‘solutions’ to unemployment problems.<sup>1</sup> Many, including Sawyer (2003), have revived the orthodox Phillips Curve to argue that unemployment is the necessary cost of keeping inflation at bay. Many, again including Sawyer (2003), have conjured up the spirit of Kalecki (1971), arguing that full employment is politically infeasible, based on a long out-of-date article that Kalecki surely never meant to be used to battle against progressive policy. (Given that Kalecki devoted much of his career to work at the United Nations, it is difficult to believe that he would reject the UN’s Universal Declaration of Human Rights that calls on governments to *guarantee* the right to employment – a right that cannot be ensured without something like an ELR programme.) Others, again including Sawyer (2003), have argued that employment by government in an ELR programme is just unemployment by another name, implicitly accepting the neoliberal view that only market assessment of efficiency is valid. And ‘heterodox’ critics, including Sawyer (2003), have argued that government cannot afford full employment because it is restrained by the neoclassical government budget constraint.

Finally, it is troubling that in a volume devoted to the topic of employment, few of the chapters actually examine policy that would have any hope of significantly reducing unemployment. An embarrassing number of heterodox economists are devoting effort to criticizing (and formulating minor changes to) ‘New Consensus’ monetary policy, policy that has not and cannot make much difference to the unemployment experienced in the real world. Highly abstract and aggregative models are used in a manner that is all too reminiscent of the Bastard Keynesian fine-tuning models of the 1960s. While it is true that at least some real world unemployment is due to insufficiency of aggregate demand, it does not follow that greater monetary ease or even pump-priming tax cuts or general government spending increases will have much impact. Rather, well-targeted and well-formulated programmes are needed. ELR is meant

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to mitigate *part* of the unemployment problem but other programmes will also be needed. It is unfortunate that so few heterodox economists are interested in such research.

## ELR and macroeconomic stability

During presentations on ELR – especially in countries with small, open economies – someone from the audience will invariably object that if jobs are created that provide income to the poor, consumption will rise, increasing domestic prices and reducing exports. Further, workers in the ELR programme will spend a portion of their incomes on imports, generating accelerating inflation through an exchange rate ‘pass through’ effect (import prices rise as the currency depreciates, adding to inflation of the price level of the domestic consumer basket). Hence, ELR will cause inflation and will depreciate the currency. In other words, unemployment and poverty are viewed as the cost of maintaining macroeconomic stability.

Two kinds of responses can be provided. The first is ethical. Should a nation attempt to maintain macroeconomic stability by keeping a portion of its population sufficiently poor that it cannot afford to consume? More generally, is unemployment and poverty an acceptable policy tool to be used to maintain price and currency stability? Are there other tools available to achieve these ends? If not, should policymakers accept some price pressures and currency depreciation in order to eliminate unemployment and poverty? Of course, these are difficult questions, and I refer readers to the excellent books by Amit Bhaduri (2005) and Phil Harvey (1989), who ably tackle them. While there are strong ethical arguments against using poverty and unemployment as the primary policy tools to achieving price and exchange rate stability, I will not pursue them here.

The second approach is to challenge the notion that ELR threatens price and currency stability. It could be argued that so long as ELR is a ‘relatively small’ programme – and even Argentina’s *Jefes* programme is small in comparison to GDP, at about 1 per cent – price and currency effects would probably be small. However, I will make the stronger case that ELR can be designed so that it will not cause price and currency instability – even if it is a ‘large’ programme. To be clear, I will not argue that ELR would have no effects on a particular index of prices (such as the CPI) or on the exchange rate. I will argue instead that ELR provides an anchor for the domestic and foreign value of the currency and, hence, actually increases macroeconomic stability.

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As Bill Mitchell of the Centre of Full Employment and Equity (CofFEE) has argued, we can obtain some idea of ELR's impact on wages and prices by looking at commodity buffer stock schemes, such as Australia's wool price support programme, or various US agricultural price supports. Australia 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 buffer stock floor price does not, indeed, cannot, lead to inflation of wool prices – no matter how much the government buys – because a price floor cannot cause prices to rise above the floor price. Further, the government actually dampens any price pressures that arise in the market by selling wool when the price rises to the ceiling. Clearly, the buffer stock programme 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 were able to accumulate a sufficient buffer stock of wool.

Of course, wool suppliers receive income from sales to government, which is then used for consumption. Is it possible that this generates price and currency instability, as induced consumption increases demand for domestic and foreign production? In the absence of the government's buffer stock programme, wool prices and thus wool producer incomes fluctuate more widely – indeed, the primary purpose of agricultural buffer stocks is to moderate farmer income fluctuation by preventing agricultural prices from falling below a floor or rising above a ceiling. Without the buffer stock, consumption by farmers would also swing more widely, generating greater macroeconomic instability as domestic output as well as imports fluctuated more widely. Hence, the wool buffer stock programme actually reduces instability by reducing variation of farm income – which is usually the expressed purpose of the programme.

Of course, when first implemented a commodity buffer stock programme might raise farm income, consumption and imports by setting the floor price above the prevailing market price. It is conceivable that this could cause a price index to rise and a currency exchange rate to fall, leading to additional knock-on effects that take some time to work through the economy. However, once the programme is in place and after all adjustments are made, continuing existence of the programme would not be inflationary, nor would it cause continuing pressures on the exchange rate. Indeed, for the reasons discussed, the buffer stock would enhance macroeconomic stability albeit at a possibly higher level

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of income and employment in comparison with the levels that existed prior to implementation of the buffer stock programme.

This is why some economists historically have called for commodity buffer stock programmes to increase macroeconomic stability. If a government operated a wide-ranging programme that included many different types of commodities, it would be able to stabilize prices of many of the commodity inputs to the production process. In addition, incomes from the sale of those commodities would be more stable, increasing stability of consumption of domestic and foreign production. Further, the government's budget would move in a countercyclical manner, as government increased its purchases of commodities whenever a downturn reduced private purchases and pressured prices. On the other hand, government commodity sales would occur in expansions when private demand pushed commodity prices above the government's ceiling price. In this manner, the government's budget would become an automatic stabilizer, swinging in the opposite direction to private demand for commodities and thereby attenuating fluctuation of aggregate demand.

There are obvious problems with such schemes. To be effective, a government needs to purchase a range of commodities to influence prices of inputs into most production processes. The government would have to hold a sufficient inventory of each commodity to stabilize prices by satiating private demand in a boom. As many commodities are sold in international markets, an individual 'go-it-alone' government would either have to control imports or would have to be willing to act as the 'last resort' buyer for the entire world supply. And a growing proportion of output has little commodities input in today's 'information' age. Finally, a commodity buffer stock programme only directly stabilizes the incomes of producers of the commodities it purchases. Whether it can stabilize income more generally depends on the degree to which it has successfully obtained a basket of inputs to most production processes.

The ELR programme we favour operates like a buffer stock for labour. Government offers a floor price for labour, paying the programme wage to participants. Government 'sells' labour at any higher price. Just as in the case of wool, a floor price for labour cannot directly generate wage pressures. Indeed, so long as the buffer stock pool of labour is large enough, it will help to restrain market pressures 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. Earlier we noted that income and thus consumption of wool suppliers is stabilized by a wool buffer stock; ELR will directly

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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 programme (in which wool purchases/sales, for example, are less closely linked to the cycle).

However, there are two complications that arise from behaviour changes in response to adoption of an ELR programme. When a government adopts a wool buffer stock programme, sheep ranchers respond by increasing production of wool as the price supports reduce downside risks. ELR will increase the size of the labour force as a job is guaranteed to all who qualify. It is possible that growth would come about as a result of (discretionary) population growth (including immigration), however, most of the growth would result from entrance into the labour force by individuals who formerly had been excluded (due largely to an insufficiency of jobs). The labour buffer stock could thus be much larger than the measured unemployment rate at the time the ELR programme is implemented. On one hand, the initial addition to aggregate demand could be larger (depending on the setting of the programme wage, the number who accept ELR employment, and the increase to income provided by ELR over whatever income the participants had received prior to joining the programme). As in the case of implementation of a wool buffer stock programme, the impact on consumption could lead to a higher price level (as measured by some index) and to a lower exchange rate. However, again, once implemented the programme would stabilize income, consumption and imports, hence, it would promote macroeconomic stability. Note that if the programme draws people into the labour force, the larger buffer stock pool will more successfully enhance wage and price stability. Just as larger wool buffer stocks help government to counter wool price pressures by selling wool, a larger labour buffer stock helps to counter wage pressures as workers are drawn out of the ELR pool to seek higher market wages when the private sector is growing.

The second way in which an ELR pool might change behaviour is in the wage bargaining process. Critics often claim that existence of ELR makes other workers more obstinate in their wage demands, because if employers refuse to grant wage increases, the workers can always fall back on ELR employment. There are two reasons to doubt this effect is large. First, an effective labour buffer stock tends to dampen wage demands because employers always have the option of hiring out of

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the ELR pool – just as the price demands of wool suppliers are attenuated by the government's buffer stock of wool. The second reason to doubt that obstinate workers will adopt accelerating wage demands is because the further their wages rise above the ELR wage, the greater the costs of losing higher-paying jobs. If the ELR wage is \$10 per hour, non-programme workers earning \$10.50 per hour might be emboldened to demand \$10.75, but they are not likely to continue to demand ever-higher wages in subsequent years simply because they can fall back on a \$10 per hour ELR job. The cost of losing a \$15 per hour job is not the same as the cost of losing a \$10.50 per hour job.

Effectively, the ELR wage serves 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, wage stabilization generates greater price stability than can stabilizing the price of a commodity, or even a basket of commodities. The ELR programme will directly stabilize the effective minimum wage. Of course, labour is heterogeneous so that wages are anything but uniform. If we could weight labour by skill (and other relevant variables such as experience, seniority, and so on) we could reduce all labour units to multiples of a basic, unskilled, unit of labour receiving 'the' wage unit (as Keynes did in the *General Theory*). Labour with greater skill (and experience, seniority, and so on) would be paid a multiple of the wage unit. Price stability is realized as constant purchasing power of money in terms of this wage unit. In practice, this is somewhat problematic. The uniform wage paid in the ELR programme, however, would be a reasonable approximation of the wage unit. Except in unusual circumstances, non-ELR employers would have to pay at least the ELR wage (including benefits package) to hire workers away from the pool. Hence, from the perspective of the 'labour market', the last worker hired out of the pool would have to be 'worth' at least the ELR wage to the employer. Stated another way, the dollar will be 'worth' the number of 'labour units' it can hire out of the pool. If the ELR wage is \$10 per hour, then the dollar is worth 6 minutes of labour time (reduced to this simple labour unit). More productive labour would receive more for each 6 minutes of work, with the 'market' determining relative wages.<sup>2</sup> So long as the ELR wage is held constant, the wage unit (as described here) is constant *if the ELR operates as a buffer stock*. 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 include impacts on 'the' price level (as measured according to some index) and on the exchange rate. However, once these have worked through the

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economy, ELR will act as a macroeconomic stabilizer by providing a wage anchor that is given force by the labour buffer stock.

## **When is ELR affordable?**

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 programme.

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 by demanding payment of taxes in that currency). The government (including the Treasury and the Central Bank) issues and spends high powered money (HPM – cash and reserves at the central bank) as its liability. It is clear that the US government does not promise to convert HPM to any other currency, nor to gold or any other commodity, at any fixed exchange rate.<sup>3</sup> The flexible exchange rate is the key to maintaining fiscal and currency independence – what I call sovereignty, although governmental sovereignty has other dimensions as well. But there is more to it than a flexible exchange rate.

The sovereign government spends by issuing a Treasury cheque, or, increasingly, by crediting private bank deposits. In either case, 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 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. 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' 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.

By contrast, the non-sovereign government must obtain money before it can spend; it obtains money by taxing and borrowing (non-sovereign governments also sell services, assets, and some commodities to obtain money). For example, state and local governments in the US are non-sovereign and they really do spend tax revenue. When state and local taxes are paid, bank deposits of taxpayers are debited and those of the

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state and local governments are credited. These governmental deposits are used when state and local governments spend, leading to debits to their accounts and credits to the accounts of those receiving state and local government cheques. When tax revenues fall in recession, states have to cut spending, raise taxes, or borrow to finance their spending. However, state borrowing is ultimately limited by market assessment of default risk. Thus, states are forced to act in a pro-cyclical manner in recession, cutting spending and raising taxes and thereby exacerbating the unemployment problems.

Note that when Argentina adopted a currency board based on the US dollar, it put itself into a situation like that of US states – however, without the advantage of having a US government that would bail it out in crisis! In a similar manner, the Euronations abandoned their sovereign currencies and adopted what is for each individual nation a ‘foreign’ currency – the euro. The fate of individual Euronations now depends on markets, the generosity of other member nations, and the ECB (which by statute is apparently forbidden to bail out member nations). The individual Euronations are no longer sovereign; a more complete unification, with the creation of a fiscal authority similar to the US Treasury, would make the euro a sovereign currency of a unified, sovereign, nation. The mandate of the European Parliament is not sufficient because its spending is only about 1 per cent of Euroland’s total GDP. By contrast, US Treasury spending averages about 20 per cent of GDP.

In the US it is the federal government (the sovereign) that has the responsibility and the means to maintain full employment – not the individual, non-sovereign, states. Logically, this is implied by the fiscal arrangements. As the sovereign issuer of the currency, only the national government is able to spend without regard to revenue. Fiscal transfers from Washington to the states counter the pro-cyclical behaviour of states. If Washington had stepped in to provide sufficient transfers to non-sovereign Argentina, it could have prevented the fiscal, economic and social crisis that caused Argentina to abandon the dollar during its economic collapse. Such a policy would have had little political support in the US.

Note that the sale of treasuries by a sovereign government is not really a borrowing operation. Rather, the purpose of such sales (even if policy-makers do not realize this) is to drain 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 Fed); tax payments lead to a debit of bank reserve balances. Hence, a budget deficit means that the credits exceed the debits so that bank reserve balances rise. When banks

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have more reserves than desired (or required), they offer the excess in the overnight market. A budget deficit tends to generate aggregate excess reserves so that bank offers to lend exceed the demands by banks that are short. This causes the overnight interbank lending rate to fall below the central bank's target, triggering an automatic open market sale to remove reserves so the Central Bank can hit its target. Hence, if the bond sales were not undertaken to drain excess reserves, the overnight rate would fall.

The Treasury and the Central Bank work together to ensure that the overnight interest rate target is hit, through security sales or purchases to drain or add reserves as necessary.<sup>4</sup> Securities do not finance expenditures, but are sold to reduce bank reserves, substituting interest-paying liabilities (securities) for non-interest-paying liabilities (HPM). This is really an interest rate management operation – reducing bank reserves in order to eliminate (non-interest-earning) excess reserves that would otherwise place downward pressure on overnight interest rates.

Note also 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 simply to 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 that is a better return than the alternative (zero). A sovereign government with a floating currency can issue securities at any rate desired – a few basis points above the overnight interest rate target.

By contrast, the interest rate on the non-sovereign, dollarized government's liabilities is not independently set (whether it is a US state or an Argentina). 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 currency cannot exogenously set the interest rate. Rather, market forces determine the interest rate at which it borrows.

A sovereign currency with a floating exchange rate is necessary to provide the 'degree of freedom' that allows the government to spend without worrying that increased employment and higher demand will threaten

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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. On the other hand, on a fixed exchange rate, a government that has insufficient foreign exchange reserves may not be able to ‘afford’ to spend to promote full employment if that might lead to loss of reserves.

A sovereign nation operating with its own currency in a floating exchange rate regime can always financially afford an ELR programme. So long as there are workers who are ready and willing to work at the programme 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 reserves are excessive, banks bid the overnight rate down. The government can then either choose to let the overnight rate 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.

In the next section I look at some of the practical considerations involving rapid implementation of a large ELR programme in a middle-income nation.

## **Argentina’s experience with *Jefes*<sup>5</sup>**

Over the past few years, most of the leading heterodox journals have devoted substantial space to critics of ELR.<sup>6</sup> For example, it has been claimed that ELR is ‘unemployment by another name’ or ‘NAIRU with a human face’. Heterodox economists have variously labelled ELR ‘communism’, ‘fascism’, and ‘slavery’. Sawyer (2003) claimed the programme will have the same effects as ‘dropping money from helicopters’, while others have argued that ELR would generate unsustainable government deficits and debts. (Aspromourgos, 2000) Heterodox critics have argued that if ELR were offered, no one would show up; that such a programme

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would be unmanageable; that it would be impossible to find useful jobs for ELR workers; that it is politically infeasible; and so on. While the *Jefes* programme does have some design problems, and while it is still in a relatively early stage of development, we believe that it allows us to assess the validity of some of the complaints about ELR.

When Argentina abandoned the currency board, it met the first conditions for gaining policy independence: its exchange rate was no longer tied to the dollar's performance; its fiscal policy was no longer held hostage to the quantity of dollars the government could accumulate; and its domestic interest rate came under control of its central bank. Without the flexibility provided by a sovereign, floating, currency, the government would not have been able to promise a job guarantee to so many participants. Currency sovereignty also allows the nation to use fiscal policy (and monetary policy) to continue to create jobs in the private and regular public sectors.

*Jefes* is a limited ELR programme, providing part-time work (4 hours daily) at low pay (150 pesos monthly, equal to half the poverty line) to one member of qualifying poor families with children (or other specified dependents). There was a brief window of opportunity to sign up for the programme, with some exceptions made for late-comers. Still, the early experience of the *Jefes* programme shows that a huge programme can be formulated and put in place quickly, without major problems. Further, implementation was accomplished in less than ideal conditions: economic, political and social instability were high; there were literally riots in the streets that forced the government to move quickly; the economy had collapsed, unemployment was above 20 per cent, and GDP was falling rapidly; consumer inflation was running at 40 per cent and producer prices mushroomed by 125 per cent; and the peso was devalued by more than 200 per cent. Admittedly, the dire economic straits forced the government to take action, and it saw *Jefes* as a last ditch effort to restore stability. This made the programme more politically feasible even as the crisis conditions created implementation challenges.

Within four months, the *Plan Jefes y Jefas de Hogar* had created jobs for 2 million participants – equal to 13 per cent of the labour force and with spending on the programme equal to about 1 per cent of GDP. This not only helped to quell social unrest by providing income to Argentina's poorest families, but it also put the economy on the road to recovery. In addition, the programme began providing needed services and new public infrastructure that encourages additional private sector spending.

Note also that implementation of *Jefes* did not generate uncontrolled inflation or currency depreciation. Indeed, after the initial devaluation

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caused by abandoning the currency board, Argentina's currency has appreciated strongly. Admittedly, this is not strong evidence for my arguments above about the role to be played by ELR in enhancing macroeconomic stability. When Argentina adopted ELR, it was in dire economic straits, with high inflation, high unemployment and a collapsing currency. No doubt many other factors also played a role in helping Argentina to turn-around its economy, including the abandonment of the dollar, the floating of the currency, default on much of its outstanding foreign debt, election of a competent government, and so on.

According to the World Bank's reviews (see, for example, World Bank, 2002), the programme successfully achieved a number of goals. First, programme spending is well targeted to the intended population – poor households with children. Second, the programme has provided needed services and small infrastructure projects in poor communities, with most projects successfully completed and operating. Third, the programme 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 programme). While there have been some problems with the implementation and supervision of the programme, cases involving gross mismanagement or corruption appear to have been relatively rare.

One surprising result was the influx of women into the programme, who originally accounted for 64 per cent of programme participants (currently three-quarters). It seems that often the woman has been designated the 'head of the household' in order to receive employment as a supplementary income, while the male attempts to find work elsewhere. The creation of an ELR programme in a nation with a large informal sector will draw a lot of new workers into the formal sector. Indeed, that was a stated goal of the *Jefes* programme, with 'formalization' of work viewed as one of the benefits of the programme – although it had not been anticipated that most participants would be mothers.

A distinguishing feature of the programme's design is its decentralized model of administration. The programme allowed local and municipal governments who are most familiar with the economic needs of their communities to administer the programme. The federal government provides the funding, general guidelines for the execution of work projects, and some auxiliary services for managing the programme. Such services include maintaining a national registry of programme beneficiaries, as well as databases that track all projects that have been proposed, approved, denied and completed.<sup>7</sup> The actual administration of the

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programme, however, 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. Many undertakings that may not be in the purview of profit-making enterprises, such as environmental cleanup, are also part of these government-funded jobs.

The *Jefes* programme proves that people will show up to work even at very low wages. Surveys of programme participants consistently show that they want to work and are satisfied with the programme; indeed, survey results demonstrate that the pay is a relatively minor consideration. During several CFEPS research missions, which allowed us to talk with programme participants and their supervisors, we found the same results: People want to participate and make a contribution to society; indeed, most want to work more hours even at the same pay, and all participants claimed they prefer work over welfare – even for the same pay. Obviously, they do not view the programme as ‘slavery’ or ‘fascism’ or ‘unemployment by another name’, nor is the programme equivalent to a ‘money rain’. Participation enhances communal spirit, even as it provides needed goods and services to the community. Our visits have convinced us that participation is voluntary and uplifting. Indeed, one of the most interesting results of the *Jefes* programme is that it demonstrates that a decentralized programme fosters grass-roots democracy among traditionally marginalized groups. The effects of the programme, especially on the lives of poor women, have been tremendously positive. Studies show that most projects are successfully completed. These are not ‘make work’ projects of ‘digging holes’ as most critics have claimed, but provide real benefits to the community. Further, by increasing political participation, the programme ensures that even when they leave the programme, the community will continue to benefit.

By registering the unemployed, issuing them social security cards, involving them in training and employment, and assisting them in re-entering the private sector markets, the programme is able to move people from the informal to the formal sector. The number of programme participants has steadily declined since its peak in May 2003. Part of the decline is due to participants moving to other programmes such as *Familias* and *PEL*.<sup>8</sup> Nonetheless, a significant number of people have moved into the private sector – especially males. For a variety of reasons (explored in Tcherneva and Wray, 2005), relatively fewer women move into the private sector – they had no previous private sector experience, they do not have the skills and education desired in the private sector, they suffer from discrimination due to their gender and national origin,

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and because private sector jobs are not ‘family friendly’ – however, we do not view that as a problem with the *Jefes* programme, which can ‘take workers as they are’ and provide them with a good employment experience.

We have long argued that the ELR wage will put a floor on wages in both the private and public sectors. The Argentinean experience demonstrates that this is the case. When examining the wages which *Jefes* beneficiaries receive after (re)entering the private sector, we observe that over 93 per cent of these workers receive wages of 150 pesos (the programme’s monthly pay) or above. This means that the *Jefes* wage is the effective minimum wage in the economy.

Before concluding, we consider Argentina’s macroeconomic conditions, such as currency stability, inflation and demand. It has been our contention that the introduction of ELR will not introduce currency or price instability. After the collapse of the currency board in January 2002, the peso quickly devalued, plunging to 3.76 pesos to the dollar. Since then, the exchange rate has improved and stabilized around 3 pesos to the dollar. The rate of inflation has similarly stabilized to single-digit yearly rates of change. In the meantime, demand has steadily increased and production has expanded robustly. The Argentine Ministry of Labour estimates that the effect of *Jefes* on growth is positive, with a multiplier effect of 2.57, so at the programme’s peak employment level it raised GDP by nearly 2.5%.<sup>9</sup> Thus, implementation of a limited version of ELR has certainly not led to instability; if anything, it has contributed to creation of macroeconomic stability after a financial, economic and social crisis.

## Summary and conclusions

It has been argued at the theoretical level that a full employment programme can be designed that will *enhance* macroeconomic stability, rather than causing inflation and currency depreciation. By establishing a buffer stock of labour, ELR actually helps to stabilize wages, prices, consumption and income. Government spending on the programme will move in a strongly anti-cyclical manner, helping to promote macroeconomic stability. The programme is affordable so long as financing comes from a sovereign government that issues its own currency and adopts a floating exchange rate regime.

The *Jefes* experience allows 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. Job creation, even on a massive scale and

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under difficult circumstances, can be successful. Participants welcome the chance to work. They view participation as empowering, rather than as modern slavery. The programme 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 programme that employs 5 per cent of the population, communities have been successful in finding useful work for participants. The programme has reduced social unrest, and has provided demand for private sector production.

Argentina is not the US. Argentina was a middle-income country that experienced a severe social, political and economic crisis. Certainly one can raise the objection that the *Jefes* experience cannot be applied directly to the US – with unemployment rates typically in the 5 per cent range, with low inflation and relative currency stability, and with a more-or-less democratic political system that does not face crisis. However, note that conditions for those that live in America's urban core are not far from crisis. Unemployment rates easily run to double digits and jobless rates are 50 per cent and more. Social isolation and problems of political disenfranchisement are severe. Living standards are objectively substandard by any measure. Infrastructure and social services do not come close to first world standards. Through thick and thin, through rising tides and wars on poverty, through welfare reform and personal responsibility acts, these areas continue to deteriorate.

The crisis situation that existed in Argentina also is not that far removed from the current condition in many developing nations – with high official and even higher unofficial unemployment rates, with a large informal sector, with widespread poverty, and with social unrest and political disenfranchisement. Abandoning the fixed peg to the dollar made it possible for Argentina to 'afford' an ELR programme that helped to provide macroeconomic stability. Many developing nations do not perceive the possibility of abandoning exchange rate pegs, which will prevent them from implementing an open-ended job guarantee. Still, it could be possible to create a phased implementation of a limited programme. However, to achieve macroeconomic stability at full employment, these nations eventually will need to float their currencies. Euroland also faces relatively high unemployment that cannot be resolved under the current fiscal arrangements – since individual nations do not have sovereign currencies. As suggested, the best solution is to achieve a more thorough unification, with a centralized treasury that uses a sovereign Euro currency. This would allow it to provide the finance for an ELR programme in all of the Euronations.

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Could a programme like *Jefes* work elsewhere? Or should progressive economists continue to accept the conservative belief that Keynes ridiculed:

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 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 ... (Keynes, 1972, pp. 90–2).

## Notes

1. See especially Aspromourgos (2000), Kadmos and O’Hara (2000), King (2001) and Sawyer (2003, 2005). Professor Sawyer was notably absent during the two presentations on ELR given at the Downing College conference (as were several other prominent participants), presumably reflecting his disinterest in progressive policy that would reduce unemployment. Sawyer’s own presentation rather strangely attributed Euroland unemployment to insufficient capital – a typical neoliberal supply side argument.
2. Note there is no claim that the labour ‘market’ operates like the stylized perfectly competitive market of neoclassical theory. The relative bargaining strengths of workers and employers will continue to play a role.
3. The US operates what is called a ‘dirty’ floating exchange rate regime. A rapidly falling dollar would probably generate concerted official action by the US and other major players to cushion exchange rate movements. However, it would not financially constrain the US government from making timely payment on dollar-denominated liabilities precisely because the US government does not guarantee any particular conversion rate.
4. The coordinating operations are quite complex. See Wray (1998) for details.
5. This section draws heavily on my collaboration with Pavlina Tcherneva.
6. See Mitchell and Wray (2004) for a summary of the critiques and for a response to the critics.
7. For example, the Ministry of Labour collects monthly data on *Jefes* beneficiaries, listing all workers (by name and registry number) involved in the projects of each municipality.
8. *Familias* is a programme providing mothers with a stipend per child. PEL (Programa de Emergencia Laboral) is an employment programme similar to *Jefes* for some of the poor that do not qualify for *Jefes*.
9. This is a conservative estimate. To calculate disposable income, the greater VAT tax on consumption goods of 21 per cent is used, as opposed to the 13 per cent income tax, which substantially reduces the value of the multiplier. Furthermore, the marginal propensity to consume (*mpc*) is set to 0.9, even though there are strong reasons to believe that for those people in the lowest income quintiles (i.e., those receiving the *Jefes* income) the value of *mpc* is closer to 1.

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