“ELR as an Alternative Development Strategy”
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The UN and Development Decades

In 1961, on the proposal by President Kennedy, the United Nations launched its first Development Decade[1]. There would be four official development decades in all before they were superseded by the pledge in the Millennium Declaration of 2000 to achieve a set of millennium development goals by the year 2015.

The objective of the first Development Decade was to increase per capita income growth in developing countries. Given estimates of population growth, it was thought that this could be achieved with a rate of growth of GDP of 5 per cent. The objective was thus set at 5 per cent gdp growth for the first decade. However, it was also necessary to specify how this objective was to be met. At the time the dominant explanation of the difficulties facing developing countries was that they faced constraints on their ability to grow. They faced resource constraints in the form of a lack of capital equipment, and savings constraints that limited the ability to finance the acquisition of such goods for investment. It

[1] In United Nations General Assembly Resolution 1710 (XVI) of 19 December 1961. The history of the proposal, as well as the role of Secretariat personnel in defining the goals for the Decade is to be found in Emmerij L., Jolly R, and Weiss T.G., *Ahead of the Curve? UN Ideas and Global Challenges*, Bloomington and Indianapolis, Indiana University Press, 2001, pp. 176 ff.

was believed that these constraints could be overcome by importing foreign savings or importing foreign resources. Thus, the basic approach adopted in the development decades was to stimulate the transfer of savings from the developed to the developing countries. Developing countries would then be able to import the resources they required. This resulted in the use of the concept of net transfers of resources from developed to developing countries as the benchmark for the success of development policy. This is also the source of the well-know target for official development assistance of 0.7 per cent of developed countries' GDP.

It is believed that this number resulted from back of the envelope calculations made by Hans Singer, then working in the UN Secretariat and confirmed by research carried out by the first chairman of the CDP, Jan Tinbergen, who attempted t o estimate empirically the amount of external resources that would be required by developing countries if they were to be able to meet the 5 per cent growth objective. His research produced a figure of 1 percent of developed country GDP. Since some private capital would be flowing to developing countries this had to be deducted from the overall figure. On the assumption that private flows, which were at the time small, would be around 0.3 per cent of developed country GDP, the required official transfers were set at 0.7 per cent. And that figure is still part of every UN document on development up until the present, despite the fact that the pattern of global capital flows is quite different from what it was in the 1960s.

Independently of the exact figure, and how it was developed, the net transfer of resources became the measure of success. Looking back over the four development decades that we have experienced from the 1960s to the 1990s it is striking that for most of the period net resource transfers have not been positive, but negative. That is, financial resources have flows from developing to developed countries. Although developing countries managed to meet the growth targets in the first two decades, this was achieved without the required 0.7 per cent of aid transfers which has never been achieved and after peaking around 0.6 per cent had fallen to around 0.2 per cent at the beginning of the millennium. If positive net transfers were an indication of success, the development strategy of financing growth with foreign savings turned out to be a clear failure. It simply has not worked. In addition, while official flows have remained low, private flows have now become the dominant source of development financing.

As already mentioned, throughout most of this period, with the exception of two short periods in the 1970s and 1990s, negative net flows have been the dominant pattern of international capital flows. A very telling example of this is given in a conversation between the former Chilean finance minister, Gabriel Valdez and President Nixon in a meeting in the White House in 1969. Reviewing the experience of the Alliance for Progress which was to designed promote increased public capital flows from the US to Latin America in order to attract more private financing, Valdes told President Nixon that: “It is generally believed that our continent receives real financial aid. The data show the opposite. We can affirm that Latin America is making a contribution to financing the development of the United States and of other industrialized countries. Private investment has meant and does mean for Latin America that the sums taken out of our continent are several times higher than those that are invested. ... In one word, we know that Latin America gives more than it receives."[2] This was also the case in the "Lost Decade" of the 1980s that followed the Latin American debt crisis, and has again become the case in the last half of the 1990s.

The Millennium Declaration and the Millennium Development Goals

Given the persistent shortfall in ODA below the official 0.7 per cent target and with sustained periods of negative net transfers of resources there was no "fifth" development decade. Instead, to celebrate the coming of the new millennium the Secretary General proposed a new policy that was outlined in the Millennium Declaration[3]. In simple terms it was recognition that after forty years of stressing aid flows the conditions of most people in developing countries had improved but little. The new policy was a recognition that something new was required that would have a more visible and immediate impact on the lives of the majority of the world's population that was still living in poverty and without any expectation of a change in that condition. Thus, the most important difference was to reduce the emphasis on resource transfers, instead focusing on directed aid initiatives expressed as time-bound, objectively measurable

[2] Quoted by Andre Gunder Frank in "The Underdevelopment Policy of the United States in Latin America," *NACLA Newsletter*, December 1969, p. 1.
[3] United Nations General Assembly Resolution A/RES/55/2.

social goals. The result was a set of Millennium Development Goals, MDGs, to be achieved by the year 2015. While the idea was to ensure that aid flows provided a clear impact on the lives of the poorest in the global society, the approach was not without its own difficulties. The first is that the goals are themselves but symptoms of underdevelopment, or better of the failure of the preceding forty years of policy, and do nothing to eliminate or to solve the problem of ensuring sustainable increases in per capita incomes that must be the basis of sustained improvements in living conditions. At the same time, achieving the MDGs still requires substantial amounts of external resources, so that success still relies on generating external resources from developed to developing countries, something that has not been the case in the preceding period.

The Monterrey Consensus and the Millennium Declaration

In 2002, the United Nations Conference on Financing for Development[4] held in Monterrey Mexico sought to rectify these underlying difficulties in the approach set out in the Millennium Declaration. The relationship between the Monterrey Conference and the Millennium Declaration is not very transparent. In fact, the possibility of a Conference dealing with Financing for Development Conference, was first broached at the end of the 1980s as a direct result of the large and sustained negative net resource transfers that had taken place from developing to developed countries after the outbreak of the debt crisis. The basic intention of the Conference was to investigate why negative net transfers of

[4] Report of the International Conference on Financing for Development." A/CONF.198/11. New York

resources had been the rule rather than the exception and to find measures that could restore resource transfers in support of development. For political reasons the formal approval for the Conference was not forthcoming until the Asian crisis. After the Asian crisis, and a renewed period of negative net resource transfers, made it clear that there was something wrong with this strategy of development based on the international transfer of resources. However, the planning stages were long and conflictual between developed and developing countries, so that the conference only took place in 2002, some two years after the Millennium Declaration. But in terms of logic, in terms of theory, and in terms of politics, it precedes the MDG's and in fact it provides the framework, and should provide the framework, in which we interpret the Millennium Development Goals.

Mobilising Domestic Resources

The main points of importance for our present discussion from the Monterrey Consensus are, first, Developing countries have the primary responsibility for their own development. This is nothing new. That is, from the beginning of U.N. discussions and conferences on development, even the first UNCTAD conference, all start their analysis with the affirmation that developing countries are responsible for their own development. What this means in the context of development finance is that developing countries should first and foremost mobilize their own domestic resources to finance their development. Within the traditional approach to development strategy this means implementing policies to eliminate the savings and resource constraints by increasing domestic savings.

However, this approach is rather paradoxical, for in most developing countries domestic resources are usually not scarce. Most developing countries in fact are developing countries because at one stage in their history they were colonies, and they were colonies precisely because they had abundant natural resources. The problem was that these resources were used for the further development of the colonizers, rather than for domestic development, but that is another issue. The simple point is that in the large majority of cases developing countries do not lack resources; they simply lack the ability to utilize them for their own development.

Second, the most abundant unutilized resource is usually unemployed labor, which is the major domestic resource that is available to be mobilized. That is, if there is something that developing countries in fact do not mobilize effectively, it is their labor force. All developing countries suffer from problems of unemployment, underemployment, marginal employment, informal employment, youth unemployment. And the more important point is that even when developing countries have managed to achieve periods of rapid development, labor coefficients generally tend to decline; that is, with increasing growth rates, rates of employment growth tend to increases at a lower rate.

Thus, if developing countries are to take seriously the idea behind the Monterrey Consensus that they are responsible for their own development they should take active measures to use and mobilize the most abundant of their domestic resources—unemployed labour.

Employment becomes an MDG

Although there is no mention of employment as an explicit goal in the Millennium Declaration, it was fully recognized in the 2005 Summit Outcome[5]. In paragraph 47 of the Summit Outcome it states: We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals.

As a result, the 2006 Economic and Social Council substantive session concentrates on employment and suggests that employment should be included as one of the Millennium Development Goals. The ministerial declaration of the High Level Segment[6] concludes that the UN should “Make full and productive employment and decent work for all, including for women and young people, a central objective of relevant national and international policies and national development strategies and to be part of efforts to achieve the internationally agreed development goals, including the Millennium Development Goals.”

[5] General Assembly resolution 60/1.
[6] Economic and Social Council, E/2006/L.8

So six years after the Millennium Declaration, employment has now become recognized and a formal proposal was made at the meeting that employment should be part of the Millennium Development Goals.

But recognizing the importance of employment to development is only the start of the process. It also requires that there is a clear idea of how developing countries can achieve fully productive employment. Once the goal of mobilization of domestic labor resources has been established there will have to be created suitable employment opportunities, provision of basic education, vocational training, unemployment benefits schemes that avoid moral hazard, and, bottom line, migration policy, which is the reason why in 2006 the United Nations is focusing on migration, because this is in fact part and parcel of the objective of providing mobilization of domestic resources.

Development from Domestic or from External Resources

It is important to recognize that this is a departure from the traditional approach based on supplementing the lack of domestic resources with external aid flows. That approach has been largely responsible for creating debt buildups through both official development assistance and by the increasing share of private flow that must be repaid. And debt can only be repaid by creating an external surplus. And it is precisely the external surplus that creates the negative net resource transfers that have dominated the experience of most developing countries. And generating this external surplus generally requires reducing domestic activity and as a consequence creating unemployment. Focusing on creating employment will mean reversing this process.

Development without Negative Net Resource Transfers

Thus, if we consider the full impact of the problem of the negative net transfer of resources, the negative net transfer of resources is not only represented by the current account surplus which is required in order to meet the debt service, but it also generates an additional cost in term of the cost of the foregone output from the unemployed labor. Do the cost is not only the transferred real resources, but also should include the output which has been lost because of the labour resources that have failed to have been mobilized. Looking at the costs of negative net transfers this way it is not only that the automobile that has to be exported in order to make the real resource transfer does not stay within the country and thus cannot be consumed domestically, but also the cost of the labor that is no longer working and could have been producing another automobile. There is thus a sort of multiplier, a doubling effect, in terms of the real resource costs of meeting debt service on external resource based development.

It is this additional cost that is not considered by the multilateral financial institutions when then recommend structural adjustment programs to provide the resources required for debt servicing, since they do not consider the domestic cost, in terms of unemployment and lost output.

Towards a New Development Policy to Support Domestic Resource Mobilisation

As already mentioned, to place mobilization of domestic labour resources at the center of a development strategy requires changing this approach. It will obviously require that developing countries do not have to employ policies which use fiscal and monetary policy to create external transfers and to reduce domestic activity levels. This is where the proposals and the theoretical backing for the employment of last resort proposal becomes important because it suggests that, in normal circumstances, if a country is going to be providing full mobilization of domestic resources, that government fiscal policy should be running a deficit; it should not be running a surplus. But the multilateral financial institutions' approach to structural adjustment is just the opposite and requires a surplus in order to create the resources to transfer, when what has to be done is precisely the opposite. In order to create full employment, to mobilize fully domestic resources countries require the fiscal space which allows the government to run an active fiscal policy.

The economic logic behind this affirmation is quite clear, and it's sometimes perplexing that policy makers cannot understand the simple principle behind what Abba Lerner baptized as Functional Finance. That is, that the government budget should be used to mobilize domestic employment. The argument in simple terms goes like this. When the government engages in economic activities it spends money; and by spending money to acquire goods and services from the private sector it creates incomes that are the basis for the savings and assets of the private sector. When it taxes, it takes those assets away from the private sector. So if the government is running a surplus it is taking away more than it is giving to the private sector. It is creating incomes with one hand and destroying income with the other. A surplus means that it is destroying more income than it is creating. The government surplus then creates a deficit in the private sector which places the private sector in a position in which it does not have enough income to meet its tax liabilities – it is technically in default. If a private individual cannot meet commitments he used to be sent to debtor's prison. Remember Charles Dickens and *Hard Times*. Now what happens is they become unemployed. The level of activity in the system goes down and, as a result, the demand for labour falls and this creates unemployment. Thus mobilising domestic resources requires that everyone be able to meet their commitments to the government, and this means that the government cannot be running a surplus over time. Running surpluses does not create resources that can be used for development.

The same thing is true of monetary policy in structural adjustment programs. In general, monetary policy is to supplement fiscal policy to create resources that can be transferred abroad. When the government spends by purchasing goods and services, it creates private sector income that is held in the form of short-term government debt called currency or as assets held in the banking system. In the traditional approach interest rates have to be high in order to prevent individuals from using these assets to finance consumption and imports that is to release resources for transfer abroad to meet debt service. But, whatever the private sector does with its increased money balance, in the absence of an increase in the demand for bank lending, they will end up as excess reserves for the banks.

If banks have excess reserves that they cannot lend and have no borrowed reserves that they can repay, they will place them in the inter-bank loan market. But if the banking system as a whole has excess reserves there is a market imbalance that drives price, that is, interest rates, down to zero. If the government desires a monetary policy with a positive interest rate, someone will have to step in to increase the demand for reserves. Only the government can play this role. It does it by offering to sell government securities to the banks. It is the government that is the borrower of last resort in the money market; and as the borrower of last resort the government has the ability to set the interest rate at which it borrows by limiting the amount and type of security that it offers to the banks or the general public. The point is that the government always has the power to set the interest rate where it desires.

This is important for two reasons: The first reason is that it provides the possibility for the government to direct monetary policy to support mobilization of domestic resources, rather than to attract foreign capital inflows or to neutralize inflation. The second is that it provides the possibility to control the size of debt service since it can choose the interest rate at which it is willing to absorb excess bank reserves. It is also important since the interest rate can be set at a level that avoids a positive interest rate differential. One of the biggest problems that has faced developing countries has been the speculative capital inflows and the borrowing by domestic companies in foreign currency driven by high domestic interest rates. But, if the government can set the interest rate it can determine the service on its domestic debt as well as control the extent of foreign speculative inflows and currency mismatching by domestic firms.

Finally, one of the factors that has limited the use of monetary policy for domestic purposes has been support of a fixed exchange rate which pre empts the use of policy for domestic purposes, indeed, simply installs structural adjustment as a permanent start of affairs if other countries are experience net savings. Flexible exchange rates will thus be required in order to allow full pursuit of domestic resource mobilization.

Everyone has heard the story that says that the government is constrained by bond market “vigilantes” who require higher interest rates to convince them to hold debt when the levels of government debt are higher. But, this conflicts with reality. Consider Japan that has debt levels which have caused the rating agencies to consider that Japan itself might go bankrupt. So presumably if a country is about to go bankrupt, then the risk premium on that country’s assets should be extremely high. But, over the last decade interest rates on long term debt have gone above 2 percent. So in practice there seems to be no clear or necessary relations between the size of the outstanding debt and the rate of interest on the debt.

Thus, if we recognize that government can employ policies to support employment without being constrained by the private foreign or domestic financial sector, the employment development goal can be actively pursued by using fiscal and monetary policy.

Employer of Last Resort (ELR) to Mobilise Domestic Resources and Attain MDGs

One very simple and effective way of doing this is through an Employer of Last Resort Program because it provides the possibility for resource mobilization that meets several of the other MDG’s. There are a number of different objectives that should be satisfied by an employer of last resort program. First, it should maintain and improve skill levels in the labor force, as well as providing a social safety net including income maintenance. It should also provide social inclusion for the underemployed and the unemployed, and meet the needs of female heads of households to make their participation in the labour market compatible with family responsibility; that is, increase work time flexibility. And this increasing flexibility means changing the ability to arrange work schedules—not the ability to fire people. Finally, it should contribute to the economic and social well-being of society. A society can always use more public social and economic infrastructure investment and their provision should be an important part of the program.

The real question is whether a program can be designed to do all of these things. The experience of the Jefas y Jefes de Hogares program introduced during the recent Argentine crisis provides examples of how some of these objectives can be achieved. It is important to remember that the program was not designed as a full employer of last resort program, but rather as an emergency program to support employment and incomes, created in a very short period of time. Analysis of its most successful plans can provide examples of how many of the objectives cited above might be achieved. Of course, this is not to pose the question of the success or failure of the program, there were indeed many difficulties, but rather to observe how it achieved success. We can then use the successful examples of the Jefes program to provide a groundwork for an employment of last resort program that integrates the MDG's as well as the other internationally agreed development goals.

One of the biggest successes of the 2005 World Summit was the expanded focus of the U.N. development strategy from the eight millennium development goals (MDGs) to encompass all of the goals that had been put forward in all of the international summits that the U.N. has sponsored over the 1990s to what are now defined as the internationally agreed development goals (IDGs). So this means that the development goals now include the results of the Beijing gender conference, the Madrid Conference on Aging, the Rio and Johannesburg Conferences on Sustainable development, and so forth. The IDGs thus encompass the MDGs.

A Cheaper and More Effective Method of Meeting the MDGs

Let us thus consider how a suitable designed employment of last resort program might be more direct and efficient, and required much less foreign financing. Consider MDG goal number one, eradicate extreme hunger and poverty. By definition, an employment of last resort program would achieve this goal. Setting the ELR wage at the appropriate level will take care of MDG One.

MDG Goal Number Two: universal primary education. One of the most interesting aspects of Jefes program is that it fully integrates education into the program. In my experience this is the first and only employment program that has successfully been able to include an education component. Following the Jefes example would thus resolve MDG two.

MDG Goal Three: promote gender equality and empower women. On this aspect there will be more evidence in the papers by Corinne Pastoret and Martha Tepepa. They will note that the major support for the Jefes program is the support that it gets from Jefas, from women, precisely because it allows them an active role in the community and at the same time allows them to combine family and work experience. Indeed the greatest resistance to the efforts to reduce the size of the program has come from women who actively support the program, because they feel that it provides something that they would not be able to get in any of the other occupation-based or training-based unemployment programs.

MDG Goal four and five: Reduce child mortality and improve maternal health. Obviously, again, if we look at the way the Jefes program operates, it uses the plans to provide health services, and preventive health training for families.

Thus a suitably designed ELR program to provide employment, based on the successful experience of the Argentine Jefes program can satisfy MDG goals one through five at a much lower cost, in a much shorter period of time, and provide the basis for sustained realization of these goals. It further contributes to the overall macropolicy by ensuring that policy is counter cyclical.

Finally, such proposals are usually met with the question of the impact on the foreign balance. The simple answer is that, first, it does not depend on external financing – the ELR Program will be funded primarily from domestic resources, so it doesn't create external debt service. Second, the majority of expenditures will be on domestically produced goods, so it should not have a major impact on goods imports. It is important to remember that the unemployed were spending and consuming already, so all you are doing is providing them with a marginal increase to the level of the minimum wage. There may be an impact on the external balance for other reasons. Developing economies that are expanding will be building domestic production capacity that may require increased imports, and this may have a negative impact on the external balance. But it is not the ELR Program in and of itself which is going to create this kind of constraint.

Conclusion

In conclusion, an ELR program, if appropriately designed taking into account the successes that we have seen in the Jefes program, can be used to provide a very efficient means of meeting the Millennium Development Goals and overcoming the difficulties that we have had in traditional development strategies based on external resources. It would allow a country to take full responsibility for its own development by giving it the responsibility to decide to fully mobilize the resources that lie in its domestic labor force.