



Centre of Full Employment and Equity



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The Job Guarantee - Pakistan in crisis

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Overview comments ...



- Both academic researchers and public policy researchers have a lot to learn from each other.
- I started working on the concept of a Job Guarantee in 1978 – my Honours thesis conceived of a buffer stock approach to full employment.
- Over time I have added a macroeconomic understanding supporting the mechanics of the buffer stock.
- It is crucial – in my view – that in designing JG schemes that policy makers see them as more than simple job creation schemes.

Overview – Crisis or steady-state



- While this Conference is about addressing the current crisis I would caution against seeing the use of employment buffers in an ephemeral way.
- A Job Guarantee should be the permanent basis of a sustainable growth strategy designed to achieve full employment and price stability.
- It is a paradigm shift away from the use of unemployment buffer stocks to control inflation.

Disclaimer ...



- What I say about Pakistan today reflects my own opinion based upon my own research.
- Nothing I say should be taken to reflect on the Asian Development Bank or any officials of that organisation.

Wednesday June 3, 2009



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Current projects ...



- 2007-08 – Large evaluation of EPWP (ILO).
- Just finished a large research project covering Pakistan.
- 2009-2011 - 3-year project in the CAREC countries:
 - Afghanistan; Azerbaijan; Xinjiang Uygur Autonomous Region; Kazakhstan; Kyrgyz Republic; Mongolia; Tajikistan; Uzbekistan.
- My role is to manage the project which will:
 - Provide macroeconomic risk assessment.
 - Design a regional development strategy based on employment creation and integrated skills development.
- I will work with public research institutes in several of the nations to develop theoretical and evaluation capacities.

Mainstream view of Pakistan



- Pakistan has been living beyond its means.
- Both FDI and workers' remittances, together with government deficits promoted high growth rates but biased towards consumption.
- Relied on capital inflow outpacing the rising CAD (adding foreign reserves).
- Became unsustainable in 2008 as the pace of inflows slowed and the country started running out of reserves.
- So growth model unsustainable ... and

IMF intervention – cure worse than disease?



- In the short-run, FOREX reserves had to be restored or the Government could default.
- The Government chose to enter an IMF arrangement.
- The conditions will undermine sustainable development?
- Cure worse than the disease!
- The IMF program is flawed because it is not clear on:
 - the nature of currency sovereignty;
 - the nature and financing of the budget deficit;
 - the nature and financing of the trade deficit.

The real problem ...



- Pakistan has huge idle resources (labour) – that is, living **below** its means.
- Pakistan's inflationary bias is not a simple story of excessive demand.
- Fiscal policy has **not** been too expansionary.
- Fiscal sustainability has to be defined in relation to full employment.
- Fiscal restraint is not the solution under these conditions.
- But there is a case that **more room** for employment within the fiscal position is required.

Legitimate policy goals for Pakistan ...



- Typical macroeconomic objectives:
 - Full employment;
 - Price stability;
 - Sustainable economic growth;
 - Equilibrium BOP and budget balance;
 - Equitable income distribution.
- Growth should be a means to achieving better living standards – not an end in itself.
- Should never target a budget balance!

Goals of a sovereign government ...



- We also have to frame these goals in terms of the opportunities available to a sovereign government that:
 - Enjoys a currency-issuing monopoly;
 - Issues a non-convertible currency; and
 - Operates within a flexible exchange rate regime.
- A sovereign government is not revenue-constrained – it is not like a household!
- A sovereign government faces no solvency risk in its own currency.
- Budget deficits finance private savings.

Deficits and nation building ...



- Nation-building requires the national government to run deficits.
- All western countries ran deficits in the Post World-War II period for decades to finance private savings and generate strong growth in capital formation and productive capacity.
- Further, all advanced economies have now moved into deficit to counter the crisis.

Buffer stock options ...



- To understand the policy options available to any currency-issuing government which aims to stabilise prices we compare two different buffer stock options:
 - Unemployment buffer stocks (NAIRU approach)
 - Employment buffer stocks (Job Guarantee approach)

Unemployment buffer stocks



- While fiscal policy is making a comeback in the current crisis, the underlying policy bias remains the use of monetary policy via interest rate manipulation to target inflation (the NAIRU approach).
- IMF conditions always require unemployment to rise.
- Unemployment is a policy instrument rather than a policy target.
- Extremely costly approach.

Benefits of full employment ...

- Labour underutilisation creates huge net income losses.
- The social costs are huge (poverty, crime, health issues, family breakdown, social instability, terrorist responses etc).
- Full employment provides
 - training and skill development in a paid-work context;
 - poverty alleviation;
 - community building;
 - intergenerational stability.

Employment buffer as a price anchor

- Employment buffer stocks - a superior use of the labour slack necessary to maintain price stability.
- This is called the **Job Guarantee** (note on usage – ELR)
- The theoretical work suggests that it should be an **unconditional** and **universal** offer of a public job at the minimum wage to anyone who wants to work.
- Represents the minimum government spending necessary to achieve “loose” full employment – **hiring off the bottom**.
- Our work points to **macro** and **micro** superiority!

In-built inflation control ...

- The JG is more than a job creation scheme – in fact part of an integrated macroeconomic policy framework.
- The fixed JG wage provides an in-built inflation control mechanism.
- When the private sector is contracting, the government uses its fiscal authority to increase the JG pool.
- It is a high quality anchor – maintains an effective labour supply.

Some micro benefits...



- It provides a framework to reduce the hiring costs to private business.
- It provides for intergenerational advantage.
- Can provide career and training paths.
- Has spatial advantages - can underpin community development.
- Can support environmental sustainability.
- It is not the panacea to everything.
- But it is better than the unemployment buffer stock option.

The JG in developing countries?

- Is the Job Guarantee applicable to developing countries?
- Where the developing country has a sovereign currency system the JG approach is imperative.
- Currency issues.
- Transition issues – administration capacity etc.
- Capital availability.
- Import dependency.
- Two fold development strategy: (a) get the adults into work; (b) get the kids into child support then education.

What is the real cost of the JG?

- Need to understand what a cost is!
- Nominal budget entries are not costs.
- Whether it is 10 billion or 100 billion is not indicative.
- True costs are the real resources that are used in such a program – food, materials.
- We always need to keep that in mind.

Proposals to deal with the crisis



- Need to understand the overall developmental challenges that the country faces: economy characterised by vastly underutilised resources.
- Concentrating exclusively on the financial problems will not provide a long-term solution and a sustainable development path.
- General principle: IMF-support should not be conditional on the size of the deficit – as an end in itself.

Proposals for Pakistan ...

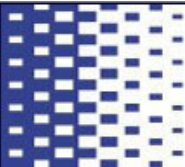


- Dealing with the crisis:
 - combination of external funding with few conditions;
 - lower domestic rates (moderate monetary policies) – no further foreign-denominated public debt.
- Policies for the medium-term:
 - Full employment and price stability via employment-rich growth – that is, a Job Guarantee;
 - Generate more fiscal room - reformulate tax and transfer policies;
 - Address the external deficit and the fall in international reserves in a manner that does not lead to domestic stagnation.

How international agencies can help ...

- International agencies can support this medium-term policy strategy.
 - Help design an investment program to achieve full employment – which generates domestic production capacity;
 - Contribute to the design of a program of export diversification but not require an export-led growth strategy;
 - Contribute to the design and implementation of a Job Guarantee specific for Pakistan;
 - Contribute to the design and implementation of an integrated training program within the JG framework.

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billy blog

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More back to fiat monetary system basics!

June 23rd, 2009

Yesterday I reported on a document I received from one of the largest international investment banks in the world. That document is part of that organisation's advice it gives to bond investors. I used some of the document to illustrate that the understandings of how a modern monetary system operates that I write about here are also now out there in the real world - in the financial markets where bonds are bought and sold. I didn't identify the document because it is a subscribers-only publication sent to me by the author and I respect his privacy. Today's blog provides some more insights that will help you better understand the public debate and allow you to cut through the nonsense being peddled by all and sundry.

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Credibility comes with understanding

June 22nd, 2009

I received a document today from one of the largest international investment banks in the world. One of its major offices is not far from where I am typing this right now in New York City. The document is a subscribers-only publication and so I cannot make it accessible here. But this blog discusses some of the contents of the document which might help readers who keep worrying about whether anyone important out there believes in the stuff that I write about. There is a constant undercurrent in the comments and private E-mails I receive that says that the treasurer, the central bank, the mainstream journalists and a host of



My current state

June 2009

M	T	W	T	F	S	S
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29	30					

[« May](#)

End of talk

Main messages ...



- Its high growth policies were unsustainable.
- In the short run, it faced a severe foreign reserve crisis.
- Options - Default or IMF?
- The IMF program helped restore FOREX but will have negative implications for long-run growth and equity.
- Pakistan's long-run objectives should be full employment and price stability.
- All development must be based on an understanding of the macroeconomic options facing the government.

Main messages ...



- Growth can never be an end in itself.
- Concentrating on budget outcomes is myopic and flawed.
- The Pakistan government is sovereign in its own currency and has options not considered by the IMF.
- Pakistan has flexibility even within the IMF straitjacket.
- Unemployment buffers are typically used for macro stability – very damaging.
- Employment buffers can provide for full employment and price stability – both are essential for **development**.