

ON THE FEASIBILITY OF ELR: Macroeconomic Stability and Affordability Issues

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Hyman Minsky's Employer of Last Resort

- *Offers a job to anyone of legal working age
- *Provides uniform compensation package
- *Takes workers “as they are”
- *Training is a component of every job
- *Workers do useful things

Objections to ELR



- Open-ended fiscal commitment; Govt can't afford it
- Will threaten macro stability: inflation and currency depreciation
- Unmanageable: not enough useful work; corruption; incorrigible workers

ELR and Macro Stability



- Poverty and Unemployment is the cost of maintaining macro stability
- Objections:
 - Ethical
 - ELR can *enhance* macro stability

Macro Stability through Buffer Stock

- Oz Wool Buffer Stock
 - Buys wool at floor price,
 - Sells at ceiling price
 - Cannot cause inflation of wool price
 - Moderates price flux and thus income and consumption
- Basket of Commodities as Buffer Stock
 - Helps stabilize price, employment, income, spending and currency



ELR as Buffer Stock



- Govt hires labor at ELR wage; “sells” it at any higher wage
- A wage floor cannot pressure wages
- Unlike minimum wage, ELR is effective and has a buffer stock to give it force
- Stabilizes wages, production costs, incomes, consumption, prices, and currency

Affordability of ELR



- *Sovereign* nation with *floating* currency can *financially afford* ELR
- Govt spends by crediting reserves, taxes by debiting reserves
- Deficit generates net reserve credits
- Excess reserves drained through bond sales to hit interest rate targets set by policy

Nothing Useful to do?



Half of this previously fallow plot was now dedicated to growing vegetables and other crops to feed the people from this agro-cooperative and their children.



The rest of the plot was used to prepare food using an outdoor oven and to care for the children in a mini-daycare center.



All women we interviewed reported that they are happy to be working, to be involved in the community and to have jobs close to their children



Women at work at the Mataderos bakery



This micro-enterprise also had various posters pointing to local resources for family planning, training and education.

ELR For Developing Nations

- Experience shows even broad program “costs” about 1% of GDP— “affordable” even on conventional criteria
- Multiplier impact + reduction of social and private costs + useful output → “net cost” is minimal
- Socially, Politically, and Economically stabilizing, not destabilizing

SPECIAL CONSIDERATIONS FOR SMALL OPEN ECONOMY

- Pegged exchange rate: reduces sovereignty; reduced scope for policy independence
- Little output demanded in international mkts; (luxury) consumption and investment goods imported
- Limited competence; institutional constraints
- Monetary leakages (imports, foreign assets); inflation pass-through

IMPLEMENTATION IN SMALL OPEN ECONOMY

- Gradual phase-in: registration, lottery, community projects
- Targeting: heads of household; rural poor; regional
- Compensation: non-money benefits: housing, healthcare, food, transportation; limit import content
- Projects: labor-intensive; limit import-content; export-oriented projects; integrated with development plans

ELR vs Nonsense

- “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....” (J. M. Keynes)

