The Levy Economics Institute of Bard College

Working Paper No. 498

Employment Guarantee Programs: A Survey of Theories and Policy Experiences*

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May 2007

*A similar version of this paper will appear under the title "Employer of Last Resort Schemes" in P. A. O'Hara (ed), *International Encyclopedia of Public Policy*: *Governance in a Global Age*, Perth: GPERU, 2008. The author wishes to thank L. Randall Wray, Philip O'Hara, Mathew Forstater, Zdravka Todorova, Shakuntala Das, Corinne Pastoret, and one anonymous referee for thoughtful comments and suggestions. Remaining errors are the author's.

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ABSTRACT

This working paper provides a survey of the theoretical underpinnings for the various employment guarantee schemes, and discusses full employment policy experiences in the United States, Sweden, India, Argentina, and France. The theoretical and policy developments are delineated in a historical context. The paper concludes by identifying some questions that still need to be addressed in the context of the global political economy.

Keywords: ELR, Full Employment, Unemployment, Job Creation, Functional Finance

JEL Classifications: B5, N0, E24, E62, E65, H68

INTRODUCTION

The idea of government as the employment guarantee, or the employer of last resort (ELR), has been present in economic literature since the seventeenth century. The need for an employment guarantee, or ELR, program became more urgent after the industrial revolution. Capitalist economies lack an inherent mechanism to create full employment. The Great Depression was the worst episode of the system's failure to deliver full employment. At that time, John Maynard Keynes was one of the few economists who challenged the conventional wisdom by arguing that capitalism, when left to its own devices, will not gravitate towards full employment, and suggested that government intervention was required in order to jump-start the economy and help achieve and maintain full employment.

Unemployment had a devastating sociopolitical and humanitarian impact during the Great Depression. The United States started to recover only when the government began spending massively to support the war effort. But even before WWII had ended, economists began debating whether or not capitalist economies would fall back into another depression. In his influential book, *Full Employment in a Free Society*, Sir William H. Beveridge called on the government to guarantee full employment, which for him "means having always more vacant jobs than unemployed [people], not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that the unemployed [people] can reasonably be expected to take them; it means, by consequence, that the normal lag between loosing a job and finding another will be very short" (Beveridge 1945).

At the onset of capitalism, William Petty recognized that unemployment was a serious problem that needed to be addressed by society. Unlike many English businessmen and thinkers of his time, Petty believed that the unemployed "ought neither to be starved, nor hanged, nor given away" (Petty 1899 [1662]). However, Petty was not the humanitarian that we would like to think he was; he simply believed that the unemployment pool was an untapped source of enrichment for the nation, and that the unemployed could be publicly employed to build infrastructure; "at worst this would keep their minds to discipline and obedience, and their bodies to a patience of more profitable labours when need shall require it" (Petty 1899 [1662]).

By the time David Ricardo published the third edition of his *Principles of Political Economy and Taxation* (1821), the capitalist mode of production had already become an integral part of the economy. Ricardo saw the need to add a new chapter, "On Machinery" (chap. 31), in which he acknowledged that "the substitution of machinery for human labour, is often very injurious to the interests of the class of labourers" and added that "the same cause which may increase the net revenue of a country, may at the same time render the population redundant, and deteriorate the condition of the labourer" (Ricardo 1821). Ricardo died two years later (1823) and therefore did not live to fully elaborate on his "new" views about capitalism and unemployment; but another great thinker, Karl Marx, came to the same conclusion about the chronic nature of unemployment in capitalist economies. For Marx, the industrial reserve army of the unemployed is a vital part of capitalism, allowing the system to expand during a boom and keeping profits high during a recession by holding wages down with the threat of being discharged into the reserve army.

For more than three centuries, neoclassical economists have considered that unemployment is only a transitory phenomenon, and have either denied or minimized the existence of involuntary unemployment. Even during periods of high unemployment, they argued that the only thing the government should do is keep its hands off of the market, which would eventually clear the labor market; furthermore, they advocated government should reduce its spending and encourage downward wage flexibility. The unemployment of the Great Depression, however, proved to be disastrous at all levels. The government had to do something. In the United States, after several attempts to promote market forces, and a disbelief in Keynes' recommendations for increased government spending to boost aggregate demand, policymakers came to realize that *laissez-faire* economics was not the solution to the problem at hand (25% unemployment in 1933) and that the government had to act as the employer of last resort. In 1933, President Roosevelt introduced the New Deal program along with a whole host of public employment agencies that were enacted between 1933 and 1936, including the Public Works Administration, the Civil Works Administration, the Works Progress

Administration, the Civil Conservation Corps, the National Youth Administration, Rural Electrification Administration, and the Federal Emergency Relief Administration.

Despite the immediate success of these agencies, business opposition to the New Deal programs grew strong and Roosevelt quickly backed down and promised the nation that “a balanced budget [was] on the way”; and so was unemployment, which reached 14.3% in 1937, and then rose to 19% in 1938 when Roosevelt decided to slash government spending as a response to inflation fears emerging from the Federal Reserve Bank, which also doubled reserve requirements between 1936–1937. For these reasons, the New Deal was never meant to be a true ELR program since it did not provide an infinitely elastic demand for labor, but it did empirically show that the government can act as employer of last resort and provide decent jobs that do not compete with the private sector and that are socially, economically, and environmentally useful. A new generation of economists began to think about ELR as a serious policy alternative rather than just an intellectual exercise. And without too much discussion when WWII came along, the deed was done. Full employment was practically maintained throughout the war period with unemployment as low as 1.2% in 1944, the lowest rate ever recorded in the history of the United States. Concerns over accelerating inflation were taken seriously when the Office of Price Administration (1942–1947) used the March 1942 prices as a ceiling for nearly 90 retail food prices, as well as on residential rent. Rationing was also imposed on key commodities during the same period. Full employment and price stability were achieved, but only during wartime with a considerable number of the male working-age adults being in army and the rest of the working-age population employed to support the war effort. Therefore, the U.S. full employment experiment must be taken with caution given the specific circumstances, and the results should be evaluated accordingly, even though the there is a lot that could be learned from the methods employed at the time.

JOHN PIERSON’S *ECONOMIC PERFORMANCE INSURANCE*

John H.G. Pierson (1906–2001) was a Yale-educated economist who held several prominent positions in the U.S. Department of Labor and helped draft the Employment Act of 1946. Frustrated by the miseries of the Great Depression and by the unrealistic economics textbook models, Pierson began working on what would become his lifetime "obsession"—full employment. The result was published in his first book, *Full Employment* (1941), and was later refined and further elaborated in his 1964 book, *Insuring Full Employment: A United States Policy for Domestic Prosperity and World Development*.

The basic premise of his Economic Performance Insurance (EPI) proposal was that the government should adopt a policy of *guaranteed* full employment. In other words, the government should "stand ready to step in as employer of last resort; or step out, when necessary—[as…] disemployer of first resort. The mechanism to permit that would be a nationwide reserve shelf of additional public services and public works" (Pierson 1980). But this is only one side of the equation according to Pierson; the other side is indeed a very crucial one in maintaining full employment in the long run—high levels of consumer demand. It sure can be achieved through the employer of last resort, but one cannot rule out the possibility of oversaving to take place in the economy which will cause demand to decrease and, as a result, employment in the private sector to fall as well, thus leading to unemployment again, unless the number of last-resort jobs is constantly increased to absorb the sluggishness of the system. To avoid this scenario, Pierson's EPI proposal emphasizes the importance of the government *guaranteeing* or *underwriting* the volume of consumer spending that is consistent with the full employment level of production. That could be done through adjustments of consumer taxes or transfer payments, negative income tax, reversible federal sales tax, or federal sales bonus at the retail level, which could be stamps convertible into cash—"income boosters" or I.B.s (Pierson 1980).

With his EPI proposal, Pierson showed that it is important not only to guarantee *current* aggregate demand (through the reserve shelf of pubic works), but also *future* markets, which would boost expectations and therefore increase investment. Hence, the double confidence-building feature of the EPI system would guarantee that there are enough jobs to be had, and that the market will be held at an adequate level year after year. Furthermore, EPI would kill off inflationary expectations. By establishing floors under employment and consumer spending, as well as ceilings over both, no inflationary spiral could take place. If need be, the government could scale back on consumer spending subsidies and/or call for putting some public works back on the reserve shelf until further notice.

Even though Pierson's EPI proposal was put forward as a policy for domestic prosperity, it also has its international benefits as well. When domestic full employment is guaranteed through EPI, there would be less pressure on domestic producers to worry about finding more or new markets at the international level since domestic demand and jobs are already *guaranteed*; thus leaving more room for developing countries to expand their exports and move from aid to trade (Pierson 1964).

JOHN PHILIP WERNETTE'S *FULL EMPLOYMENT STANDARD*

Like Pierson, John Philip Wernette (1903–1988) was fearful that the postwar era would be marked by mass unemployment and another Great Depression. In 1945, he published *Financing Full Employment*, in which he laid out a long-term economic policy proposal to secure full employment. Wernette proposed to establish a "new fiscal-monetary system," which he called the "Full Employment Standard" (FES). Recognizing that the capitalist system is inherently unstable, Wernette advocated the establishment of a Federal Stabilization Board which would "take over the powers and duties of the Federal Reserve Board of Governors, and acquire some new ones" namely the "control of the total amount of money," and "the creation of new money to be turned over to the Federal government to finance budget deficits and/or to pay off the Federal debt" (Wernette 1945).

Wernette believed that the Federal government has the ultimate responsibility of ensuring the conditions of full employment. Like Pierson and other ELR advocates, Wernette's FES proposal was carefully designed for a dominantly market economy. "The entire purpose of the program […] is to keep private enterprise alive by underwriting a big market for the goods and services which private business can produce" (Wernette 1945).

The FES proposal was financed mostly by printing new money. This is in fact necessary in order to achieve and maintain prosperity and full employment. And according to Wernette, an expanding economy (with a growing population and a rapidly rising potential per capita production) could absorb immense amounts of new money without creating inflation (Wernette 1945).

The orthodox dichotomy between fiscal and monetary policy was absent from the FES proposal. Indeed, it is the meticulous coordination between the two that lies at the heart of FES. The Federal Stabilization Board would create monetary certificates and deposit them in the Federal Reserve banks for the account of the U.S. Treasury. The Treasury then draws checks to finance deficit spending (without borrowing) on public works projects that are carefully planned and selected not to be in competition with private enterprise.

Wernette developed a very elaborate argument explaining how money is injected into the system through government spending and is destroyed through taxation. "The function of Federal taxes is preventing inflation. The federal government literally does not have to collect taxes in order to get the money for its expenditures. Like any other sovereign government, our Federal government has the power of creating money" (Wernette 1945). Wernette thus had rediscovered the principle of functional finance which Abba Lerner had laid out in his seminal 1943 *Social Research* article, "Functional Finance and the Federal Debt."

ABBA LERNER'S FUNCTIONAL FINANCE THEORY

Abba Lerner's (1903–1982) most important contribution to the literature is the principle of "functional finance," which opposes the orthodox view of "sound finance."

> "The central idea is that government fiscal policy, its spending and taxing, its borrowing and repayment of loans, its issue of new money and its withdrawal of money, shall all be undertaken with an eye only to the *results* of these actions on the economy and not to any established traditional doctrine about what is sound or unsound." (Lerner 1943; emphasis in original)

From a functional finance perspective, "money is the creature of the state." Money is created when the government spends, and is destroyed when the government levies taxes. The government does not need to "borrow" its own money from the public;

rather it only “borrows” in order to withdraw excess money from the system and to give savers an alternative interest-bearing asset (bonds).

Similarly, the government does not need to tax its population in order to finance expenditures; rather the government needs the public to demand its currency to give it value. Hence, there can be no financial constraint on the monopoly-issuer of money (the state). A sovereign state can make anything generally acceptable and call it “money,” as long as the state “is willing to accept the proposed money in payments of taxes and other obligations to itself” (Lerner 1947). From this perspective, all the worries about the deficit and the national debt become meaningless when compared to their *function*: financing full employment. The employer of last resort is, in fact, the spender of last resort, whose responsibility is to keep the rate of aggregate spending in the economy “neither greater nor less than that rate which at the current prices would buy all the goods [and services] that it is possible to produce.” If the rate of spending is too high, inflation will develop; and if it’s too low, there will be unemployment (Lerner 1943).

This taxes-drive-money (TDM) approach has been one of the cornerstones of most ELR policy proposals. The TDM theory has been challenged by Louis-Philippe Rochon and Matias Vernengo (2003), who claim that the state can only establish the validity of money, but not its value, and that bank (credit) money takes precedence over state money. They argue that when the state is weak and cannot enforce tax collection, banks may still create money through loans to finance the hiring of workers to produce new output. Money will be accepted and used in the economy because workers will use it to buy the output and firms will accept it because they can use money to pay off the loans they took from banks. The value of money is then determined by the interaction between the newly produced output and the number of money units that firms pay out to the workers who produce it. Although this is certainly a valid scenario, it does not, however, contradict the TDM approach; it merely shows that the *authority* that controls the creation and destruction of money, gives it value, and imposes its general acceptability can be either the state, the banking system, religious authorities, the military, or even the mafia. The loss of state sovereignty (broadly defined) creates a vacuum and allows other authorities to emerge and control monetary processes (see Wray 2004).

THE SWEDISH FULL EMPLOYMENT MODEL

The Swedish (corporatist) model showed that there is a way to achieve price stability without using unemployment as a disciplinary measure against labor. The model was developed after WWII by trade union economists Rehn and Meidner who envisioned two essential elements that would characterize the Swedish economy for more than four decades: 1) highly centralized wage bargaining; and 2) active labor market policies. The model focused on the "socialization of investment" and offered a practical alternative to welfarism by putting a strong emphasis on "the right to work" rather than "the right to income."

The strong trade unions stressed noninflationary full employment and wage differentials based on skills and training rather than profitability in a given industry. Thus, equitable income distribution was a basic tenet of the Swedish model. A wage restraint on behalf of labor unions was compensated with a system that taxed profits and used the proceeds to finance capital accumulation under the workers' control. Swedish employers took the initiative on centralized wage bargaining in the 1950s with the potential wage-restraint gains and the "peace obligation" (no strikes) as an end-in-view (Marshall 1995). Thus, a fundamental feature of the Swedish corporatist model was the unity of interest, which was manifested through a noncentralized wage restraint and centralized wage bargaining.

The National Labour Market Board (AMS) has played a key role in implementing activist labor market policies in Sweden. It is a tripartite institution (labor majority, business, and government) funded by Parliament via the annual budget appropriation. AMS meets twice a month to make decisions about labor exchanges, training programs, and wage subsidies for workers who have not been placed within six months. Only after all employment and training options have been exhausted are individuals entitled to unemployment benefits, and once those benefits are also exhausted, the unemployed has the right by law to work up to six months in the public service employment which acts as the employer of last resort (Ginsburg 1983).

The theoretical underpinning of the Swedish model can be found in Keynes' idea of "socialization of investment." The model strongly encouraged private investment despite high tax rates on profits. Firms were allowed to put their “excess profits" into tax-exempt “investment funds,” thus encouraging capital accumulation. These investment funds in fact date back to 1938 and have been used primarily as counter-cyclical tools rather than a true socialization of investment. In 1983, five independent regional wage-earner funds were created with majority representation from employers. The funds were financed through taxes on profits and government funds, with the obligation to invest in Swedish firms in the risk market. By 1990, the funds owned about 5% of the total stock market value, and each were similar in size to medium-sized private institutional shareholders. In order to achieve *partial* socialization of the means of production, wage-earner funds were supposed to gradually transfer title of ownership to trade unions (not to the state). Despite the success of the trial period, the funds were abolished in 1991 by the Conservative government (Marshall 1995).

The unemployment rate remained below 3% until the late 1980s, but according to Mike Marshall (1995), the unity of interest began to fade away in the 1970s and 1980s with the emergence of white-collar unions opposing the reduction of wage differentials between high and low profit industries, as well as a move towards local bargaining. This was followed by the dismantling of the wage-earner funds by the 1991 Conservative government, the failure of the labor movement to build the necessary political support for the project of “socialization of investment,” as well as the relocation of many Swedish firms now free to move elsewhere in search of lower labor costs and higher profits (Marshall 1995). Unemployment reached a record high 9.6% in July 1993, and has since fluctuated between 4 and 7%—a rather unrecognizable range for the Swedish full employment tradition.

CONTEMPORARY ELR PROPOSALS

It was Hyman P. Minsky (1965, 1966, 1986) who revived the ELR idea in the mid-sixties and continued to promote it for the next three decades. Other ELR advocates include: Mathew Forstater (1999, 2002), Wendell Gordon (1997), Philip Harvey (1989), Jan Kregel (1991, 1999), Raymond Majewski (2004), William Mitchell (1997, 1998, 2005), Edward Nell (1988), Dimitri Papadimitriou (1998), William Vickrey (1992), and L. Randall Wray (1998), among others.

From the mid-nineties to the present, seminars, workshops, and research funding continued to materialize. Beginning at The Levy Economics Institute of Bard College in New York, and continuing at the Center for Full Employment and Price Stability (C-FEPS) in Kansas City (Missouri) and at the Center for Full Employment and Equity (CofFEE) in Newcastle (Australia), the ELR model developed into a more rigorous policy proposal drawing from previous ELR ideas and addressing issues pertinent to contemporary economic conditions as well as political concerns. To begin with, the "last-resort" part was eventually dropped from the name due to its negative connotation. Names such as Public Service Employment (PSE), Buffer Stock Employment (BSE), or Job Guarantee (JG) are now preferred to ELR. Although most of the work has been geared towards advanced economies like the United States and Australia, the gist of the ELR model could be adapted to other countries and adjusted to accommodate their institutional characteristics (e.g. Argentina and India).

According to Minsky, ELR can create "an infinitely elastic demand for labor at a floor or minimum wage that does not depend upon long- and short-run profit expectations of business. Since only government can divorce the offering of employment from the profitability of hiring workers, the infinitely elastic demand for labor must be created by government" (Minsky 1986).

In the C-FEPS/CofFEE version of ELR, the government *guarantees* a real job opportunity for anyone ready, willing, and able to work at a fixed socially-established basic wage (plus benefits), thus exogenously setting the price of labor. With ELR, the government will provide a price anchor and establish greater price stability. During a recession, the size of the ELR pool increases to absorb workers displaced from the private sector, and when the economy booms it automatically shrinks when ELR workers find employment in the private sector, hence it operates as a buffer stock employment program. The ELR wage is fixed, while the quantity of labor in the buffer stock fluctuates. Private sector employers can obtain labor at a mark-up over the ELR fixed wage; hence the price-stabilization feature of the program. Furthermore, ELR reduces the depreciation of skills caused by unemployment, it contains a training component to prepare participants for private sector employment. ELR also gives more opportunities and freedom of choice for both workers and employers. Participation in the program is voluntary, so it is not a "make work" program. In addition, ELR does not displace private sector jobs since it offers jobs which are undersupplied or not supplied at all by the private sector, including companions to the elderly, public school classroom assistants, safety monitors, low-income housing restoration engineers, environmental safety monitors, daycare assistants for ELR workers, community and cultural historians, and ELR artists or musicians (Wray 1998).

Building on Lerner's functional finance theory, ELR advocates argue that the government always has the financial capacity to pay for the program. Unemployment only develops "because government spending is insufficient relative to private savings" (Mitchell 2001). The size of the deficit necessary to maintain full employment is irrelevant; and so is the national debt for the simple reason that the logic of government finances is totally different from that of households or firms. ELR proponents show that tax payments *do not* and *cannot* finance government spending; for at the aggregate level, only the government can be the "net" supplier of fiat money. As a result, the starting point is government expenditure. Once government spends (creates or supplies) fiat money to purchase goods and services, it provides the private sector with the necessary amount of money to meet tax liabilities, save, and maintain transaction balances. The government can safely run a deficit up to the point where it has provided the quantity of non-interest-earning fiat money and interest-earning bonds desired by the public (Wray 1998).

ELR critics often claim that the program would increase labor bargaining power since it eliminates the threat of unemployment, thus putting more pressure on the wage-inflation spiral. In response, ELR supporters argue that a *skilled* pool of *employable* ELR workers presents a greater "threat" to private sector employees than the traditional reserve army of the unemployed. Thus, one should not expect runaway inflation to develop under the ELR program (Wray 1998). Furthermore, the additional amount of government spending can hardly be inflationary given the low cost of running the program. Critics, however, argue that the inflationary outcome will eventually depend on whether ELR workers produce sealable or nonsealable output.

Estimates for the U.S., U.K., and Australia have shown that the cost of financing ELR ranges between less than 1% of GDP for the United States to about 3.5% of GDP in Australia (Mitchell & Watts 1997; Gordon 1997; Kitson, Michie, and Sutherland 1997; Majewski 2004). However, these estimates overstate the real cost of financing the program because they ignore the multiplier effects generated by the new income earned by ELR workers. ELR proponents also argue that the program will pay for itself through the reduction in other social spending associated with unemployment (unemployment benefits, food stamps, crime, police and courts, etc…).

Gordon correctly concludes that:

> "beyond this, there is an important sense in which the job guarantee program would not cost anything. The goods or services produced by the labor of the beneficiary of the job guarantee increase the gross national product and the national welfare by as much as the worker is paid as reliably as does any 'free market' labor. The laborer is 'earning' the wage or salary received. Also, and importantly, the worker under the job guarantee program has a job of which the worker can be as proud as are other citizens with their jobs." (Gordon 1997)

CHALLENGES FACING ELR

Most ELR critics generally support the idea of full employment, but have doubts about its capability to deal with structural unemployment, inflation, and logistical problems. Many still remain skeptical about the economic usefulness of the jobs to be created under ELR and the transferability of the skills learned under the program to the private sector (Sawyer 2003 and 2005; Kadmos and O'Hara 2000; King 2000).

Structural and Technological Change (STC) is a constant feature of capitalist economies. Currently, however, governments do not have any systematic way of dealing with STC. At best, they react to STC after it has happened and after workers have been displaced; only then does retraining begin and the search for solutions is undertaken. Governments only deal with the problem after it has made appearance on the surface instead of dealing with its root causes. This is a very inefficient and irresponsible way of dealing with STC. ELR does have the potential to target STC through careful planning in cooperation with business and union leaders, as well as technical training experts in order to constantly study the structural changes in the economy. This allows ELR to stand ready to provide job training for displaced workers so that they can reintegrate the labor force in the most effective way. ELR can therefore provide a systematic preventive program to minimize the damage caused by STC. STC is an institutional problem; therefore the solution for it must be institutionalized as well. ELR must have a watch list of at-risk industries and at-risk regions so that the ELR administration can stand ready to provide ELR jobs and retraining programs in the areas affected and for the skills needed. Laws can also be introduced to make it mandatory for at-risk industries to alert ELR authorities of imminent closures so that ELR jobs can be planned accordingly (Kaboub 2006, 2007).

The inflation threat suggested by ELR critics stems from the claim that ELR is nothing but a Keynesian aggregate demand stimulus policy and is equivalent to pump priming. With ELR in place, however, full employment is guaranteed regardless of the level of aggregate demand. Furthermore, ELR is to be financed like any other government program, by crediting bank accounts, not by “borrowing” or “printing money” (taxes are collected by debiting bank accounts), so ELR spending will simply increase bank reserves (Bell 2000; Mosler 1997–98).

Since ELR workers would receive a living wage, this is often viewed as a trigger for a wage-price inflationary spiral given that all workers receiving less than the ELR wage will demand higher wages (and similar working conditions and benefits). This will cause a one-time (desirable) wage adjustment across the economy that might be accompanied by a one-time fall in profits and does not have to create accelerating inflation. Under ELR, the central bank cannot fight inflation by raising interest rates (to create unemployment) because this would merely increase the size of the ELR pool and the size of the government. The appropriate central bank policy would be open market operations to maintain the short-term interest rate at the desired target. In addition, it is noteworthy to mention that all estimates indicate that the cost of financing ELR (including logistics) is too small relative to GDP to be considered inflationary.

ELR AT WORK: ARGENTINA'S *PLAN JEFES DE HOGAR*

After a decade of strict orthodox policies ranging from adopting a currency board and opening markets to foreign trade, to downsizing government and freeing capital, Argentina's economy collapsed, pushing unemployment above 20%. Consumer inflation reached 40% while producer prices skyrocketed by 125%, GDP fell dramatically, and the peso depreciated by more than 200%. It was under these dire conditions that the *Plan Jefes de Hogar* (Head-of-Household Program, *Jefes* henceforth) was born in January 2002, via presidential decree during the short term of President Eduardo Duhale, and came into effect in April 2002. *Jefes* was essentially inspired by the C-FEPS/CofFEE ELR model, but unlike ELR, which guarantees employment for all, *Jefes* limits participation to the heads of households which contain children under age 18, persons with handicaps, or a pregnant woman. The program provides a payment of 150 pesos per month to the head of household for a minimum of four hours of work daily. *Jefes* workers participate in community services and small construction or maintenance activities, or are directed to training programs (including finishing basic education). Eighty-seven percent of *Jefes* beneficiaries work in community projects, primarily including agricultural micro-enterprises and various social and community services, such as cleaning and environmental support in the agricultural sector and improving the sewer systems and water-drainages. 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.

In 2002, after only four months of the implementation of *Jefes*, the indigence rates among participating households had fallen by nearly 25% and among individuals by over 18%. The government finances no more than 80% of the various *Jefes* projects. This provision requires that firms and NGOs executing *Jefes* projects contribute with their own resources. In 2005, Argentina's total government spending on *Jefes* reached about 1.6 million pesos (less than 1% of GDP), which is a price worth paying for a country that has a national poverty rate above 50%, 9.6 million indigents, and a child poverty rate close to 75% (Tcherneva and Wray 2005).

A major concern for ELR advocates is that the *Jefes* program is financed through a World Bank loan in dollars and therefore it is impossible for the community projects designed to improve the living conditions of the poorest to generate dollars for repayment. Recent developments, however, show that the World Bank loans were actually used to repay foreign debt (not to finance *Jefes*). In December 2005, Argentina announced that it would pay off its IMF debt ahead of schedule and stop borrowing from international institutions, while at the same time continuing to implement *Jefes*.

Jefes has also increased income of poor households, although it has not pulled them above the poverty line because the program restricts participation to heads of household and because the income it provides is below the official poverty line. Thus, ELR proponents argue that *Jefes* is just a step in the right direction and that it has to: 1) be extended to allow participation of anyone ready, willing, and able to work; 2) pay living wages; and 3) increase its education and training component to meet current needs (Tcherneva and Wray 2005).

There has been a large influx of women into the program who previously were outside the labor force. Women account for over 60% of program participants. The Argentine Ministry of Labor reports that there has been mobility from *Jefes* into the private sector, and that the program has an overwhelmingly positive impact on growth with an estimated multiplier effect of 2.57.

Tcherneva and Wray (2005) conclude that "the program has been a tremendous success, providing jobs to 2 million workers or about 5% of the population, and about 13% of the labor force," and that despite the huge size of the program, local communities did not experience any shortage of ideas to find useful work for *Jefes* participants. The program is decentralized (operated in coordination with municipalities, NGOs, and nonprofit organizations), which has increased political participation and fostered grass-roots democracy among traditionally marginalized groups.

ELR IN INDIA: NATIONAL RURAL EMPLOYMENT GUARANTEE

On September 5, 2005, the Indian Parliament passed the National Rural Employment Guarantee Act (NREGA 2005). The law guarantees 100 days per year of employment on rural public works projects to a member of every household in 200 of India's 600 districts, a scheme that is to be extended to all other districts within five years. The economic architect of NREGA 2005 is Jean Drèze from the National Advisory Council. Drèze (2004) estimates that guaranteeing 100 days of employment per poor household in India will cost Rs 40,000 crores per year at 2004–05 prices, or 1.3% of GDP. Once the program is phased in, it is expected that the number of poor households will decrease and with GDP rising, the program could be revised, such as to guarantee employment to every adult instead of every household, or to increase the cap to more than 100 days per year. The program is targeted at labor-intensive work in the field of environmental conservation and restoration, involving asset-creating public works such as watershed development, land regeneration, prevention of soil erosion, and restoration of tanks.

NREGA 2005 is a first step towards a full-fledged ELR program. It has been designed for the specific needs of India and it will be carefully phased in and merged with the preexisting public works programs over the next five years. It is expected that rural poverty will diminish significantly and that land productivity and environmental conditions will be enhanced as well. The Indian experience shows that ELR schemes are not exclusively for rich countries, and that developing countries are also capable of implementing full employment policies.

ELR IN FRANCE: PROFESSIONAL TRANSITION CONTRACTS

It was in 1984 (right before the 1986 elections) that Jacques Attali first put forward his ELR plan to President François Mitterrand who liked the idea but was occupied with other matters and never followed up on it. Attali's ELR plan reemerged again in newspaper articles in 1994 and 2004. It was the latter that finally got people's attention and is now being seriously considered for adoption. The gist of the proposed program stems from the idea that unemployed persons who are actively seeking work or actively engaged in training and skill improving activities outside the labor market are performing a socially useful activity. They deserve to be remunerated for their activity instead of being excluded from social benefits and punished for not finding a job despite their serious job-search efforts.

In December 2005, Prime Minister Dominique de Villepin announced that a pilot experiment of the proposed ELR program would be conducted in six districts. The experimental program will be evaluated in the first quarter of 2007 before being officially adopted nationwide. Workers laid off from companies of less than 300 employees will be eligible for a "Professional Transition Contact" (*contrat de transition professionnelle: CTP*). The CTP workers will sign a contract with a government agency that will guarantee practically the same remuneration as their prior employment. CTP workers will be employed in private companies or public organizations.

The program not only guarantees "activity income" for those who are actively seeking work, but will also provide "individualized coaching" and follow up for the passive unemployment category, in addition to a job training component to facilitate mobility to new occupations due to structural and technological changes.

The CTP contract will be financed by unemployment insurance and that companies who use the services of CPT workers; and if need be, the government will cover the remaining cost. The total cost of the program is estimated at 70 billion euros or 4% of GDP (3% activity income, .4% training programs, and .6% individualized follow up) if all the unemployed were to enter the program immediately (Attali and Champain 2005). This would be a less expensive program than the current 4.2% of GDP spent on unemployment compensations and other employment programs. Like other ELR schemes, the CTP program is a full employment policy that does not increase the deficit and national debt, nor does it create inflationary pressures since the unemployment insurance is totally financed by workers and employers.

GIVING ELR A CHANCE

Throughout the history of the economics discipline, and especially after the Great Depression, there has never been a shortage ELR schemes. Historically, when given a chance, ELR schemes were successful but business opposition, labor disorganization, lack of political support, and misunderstanding of the working of government finances proved to be the greatest obstacles to maintaining full employment in capitalist societies. Full employment policies in the United States (New Deal period), Sweden (Corporatism), and most recently in Argentina (*Jefes de Hogar*), show that ELR schemes can deliver high employment levels without inducing accelerating inflation. India and France are today on their way to implementing ELR schemes designed to fit their specific institutional characteristics. Like any other policy, ELR might have logistical problems, but its social, political, economic, and environmental benefits by far outweigh its costs (financial or otherwise). All countries have some sort of public service employment schemes that operate as ELR schemes, but those are so limited in size and scope that their impact is minimal due to self-imposed constraints and/or Washington Consensus policy constraints.

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