12th Regional Seminar for Labour-intensive Construction

8 - 12 October 2007, International Convention Centre (ICC) KwaZulu Natal, South Africa

Prioritising Employment Creation in Government Policies, Programmes and Investments

Conference Proceedings: Panel on Employment Guarantee Policies

Summary:
The 12th regional seminar for labour intensive construction provided a forum for practitioners, academics and government officials concerned with labour-intensive construction to come together to discuss how employment creation can be prioritised in government policy and infrastructure development. Innovative methods, techniques and policy options to address the challenges of unemployment and underemployment faced by many developing countries were featured.

To stimulate a debate, the conference hosted a panel considering the feasibility, effectiveness and sustainability of employment guarantee programmes as vehicles for job creation. With keynote speakers from India and the Levy Institute, panellists discussed how job creation policies can be best integrated with economic growth and social development objectives, to enable attainment of inclusive growth trajectories. The panel provided a comprehensive discussion of India's National Rural Employment Guarantee, including consideration of innovative mechanisms built into programme design to induce programme accountability and legitimacy. To facilitate a continued social dialogue and institutional learning amongst practitioners and theoreticians concerned with prioritising employment creation, opportunity was taken to launch a new network titled 'Economists for Full Employment'.

http://www.economistsforfullemployment.org

The following proceedings provide background information to the panel and an outline of the relevance of employment guarantee models to the conference; a summary of panel content and issues raised by conference delegates is detailed; and a more in-depth discussion of the economics behind full employment and employment guarantee models[1].

[1] The proposal for a panel on employment guarantee policy was conceived by Steven Miller, of the International Labour Office Employment Intensive Investment Programme, and follows the Levy Economics Institute of Bard College Global Conference on Employment Guarantee Policies. The proceedings consist of edited notes taken from presentations prepared by keynote speakers and also remarks made by keynote speakers throughout their presentations and during question time.

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List of acronyms

CBO	Community Based Organisation
EGS	Employment Guarantee Scheme
ELR	Employer of Last Resort
GDP	Gross Domestic Product
HCBC	Home Community Based Care
ILO	International Labour Organisation
MDGs	Millennium Development Goals
NGO	Non Government Organisation
NREG	National Rural Employment Guarantee
PEL	Programa de emergencia laboural
SAM	Social Accounting Matrix
UNFPA	United Nations Population Fund

1. Background

In October 2006, the Levy Economics Institute of Bard College organized a Global Conference on Employment Guarantee Policies: Theory and Practice which brought together academics and development practitioners from around the world to discuss new approaches for pursuing the goal full employment.[2] A number of employment creation and employment guarantee experiences were presented at this Conference, including programmes in Argentina, Bangladesh, Bulgaria, Cameroon, Morocco, South Africa and Tunisia. The Conference provided a first-of-its-kind opportunity for academic theorists to discuss their theories in the context of actual programmes which are designed and implemented to respond to a variety of development situations, including financial shocks, as in Argentina, or structural unemployment and poverty, as in South Africa and India.

In follow-up, plans are underway to launch a global network on employment guarantee policies, under the title of "Economists for Full Employment." Also, an informal follow-up meeting was organized in New York in April 2006 where participants drawn from a variety of institutions agreed to develop a global policy package to present a new vision of employment creation policies and to use this package to orient the work of the international community at the country level. This panel would have three main purposes, namely,

a) To set the stage for the Conference's second theme on Public Works Programmes and Social Transfers;
b) To stimulate a debate between economists and engineers, between theoreticians and practitioners on the feasibility, effectiveness and sustainability of employment guarantee programmes as vehicles for sustainable job creation; and
c) To provide the opportunity to launch the Economists for Full Employment Network, as well as to present this Global Policy Package on Employment Guarantee Policies.

[2] For the Conference proceedings, see http://www.levy.org/default.asp?view=publications_view&pubID=11272474e5b.

2. Relevance of the panel to the objectives of the Durban Conference

The Durban Conference takes place at a critical moment not only for South Africa and but for many countries seeking to reconcile employment creation with social protection objectives in the framework of poverty reduction strategies. This panel added value to the Conference by facilitating interaction between a broad institutional spectrum and viewpoints within South Africa and theoreticians and development practitioners on employment guarantee programmes. Specifically, the panellists addressed the following issues:

- How to design programmes for optimal impact on employment creation and poverty reduction;
- How to integrate employment guarantee programmes into a broader policy mix to support economic growth and social goals;
- How this work is relevant to the broader international development agenda, including the MDGs; and finally
- What specific contexts in which employment guarantee policies can be applied?

Also, with specific reference to the Ministerial participation, the panel also discussed the following:

- What role do employment guarantee policies have in government strategies for full, productive and freely chosen employment as called for in ILO Convention 122? How should we distinguish between the economic, social and human rights justifications for such policies and programmes?
- From the standpoint of those responsible for infrastructure allocation and spending, how can we increase the employment impact of infrastructure programmes?
- Who should be responsible for managing an employment guarantee programme, Ministry of Labour, Public Works, or Ministry of Finance?
- How can we best ensure that efforts within the framework of an employment guarantee programme to expand the scope of public service employment do not lead to overall informalisation of the labour market?
- How is it best to finance an employment guarantee programme, i.e., within the framework of existing budget allocations, or through additional allocations and deficit spending?

3. Organization of the panel

The Panel comprised of four presentations drawn from national employment guarantee programmes, government, academia and multilateral development organizations. Each panellist made a short presentation meant to provoke debate and propose new solutions to combing social protection and job creation objectives. The overall focus of the panel was to identify the costs and benefits of employment guarantee policies from economic, social and political perspectives.

The panel was composed of the following presenters[3]:

RANIA ANTONOPOULOS: Research scholar at the Levy Institute of Economics at Bard College.

INDIRA HIRWAY: Director and professor of economics of the Centre for Development Alternatives, Ahmedabad, India.

SANTOSH MEHROTRA: Advisor, Rural Development Department, Planning Commission, Government of India.

STEVEN MILLER: Senior policy advisor for the ILO's Employment-Intensive Investment Programme, Employment Policy Department.

DIMITRI PAPADIMITRIOU: President, Levy Economics Institute and Professor of Economics, Bard College, Annandale-on-Hudson, New York, USA.

[3] Biographical information on the panellists is further detailed in Annex 1.

4. Topics to be addressed

1. Case Study: India's National Rural Employment Guarantee Scheme

Santosh Mehrotra opened the panel by presenting a case study of the National Rural Employment Guarantee (NREG) scheme in India, a demand driven employment guarantee programme which came into effect in February 2006. His presentation reviewed the history and problems of government employment programmes over the past 45 years and emphasised that despite extensive experiences and policy design features, many of the initiatives had limited involvement of communities in project planning and selection, low coverage of the targeted populations, limited involvement of women, implementation lapses and extensive corruption. The NREG addresses some shortcomings of the previous programmes with the integration of legislated incentive and compliance systems, which entails time bound action, social audits and budgetary sanction mechanisms to induce state and local government policy compliance. Preliminary results reveal that the programme is effectively targeted and is successfully drawing the most disadvantaged into the labour force. Mehrotra noted that many challenges lie ahead including, adequate planning for 'shelf projects', capacity of local government to continue to deliver the programme as it expands, and continuing capacity for social auditing to be undertaken. Mehrotra recommends that funds and functionaries should be transferred from the state to the local government in order to complete the process of decentralization and local self-government, and that the coming of the Right to Information Act be used to deter the problems of corruption that affected earlier programmes.

Indira Hirway explained the that NREG was the product of a long and committed social struggle, motivated by a context and growth trajectory that saw many impoverished and vulnerable people excluded from the benefits of an economic growth which has seen India become one of the strongest economies in the world. Hirway emphasised that the NREG is one strategy which can strengthen the position of the most vulnerable in society by offering a wage income and social protection, while relieving indigence in the short run. Over time the initiative contributes to infrastructure development needed to revitalise and sustain local economic development. The NREG challenges the established development paradigm by underscoring the critical role of the state as an employer of the poor and ensures that development is labour intensive. To date social and departmental audits reveal significant spatial variation in programme outcomes, concerning mobilising the poor (how to make poor people demand work under the scheme) and legislation enforcement. Several problems in the field level included planning from the top down rather than the bottom up, ad hoc projects, a lack of integration and policy coherence across multilevel and macro development objectives, and insufficient material inputs to ensure asset durability and quality. Hirway observed that an important component of the scheme is a social audit by vigilance committees at the village, block, and district levels that include representatives of the poor and mitigate the exploitative structure of rural society. This mechanism brings social accountability to government policy.

2. Expanding the scope of public service employment and promoting equality through employment guarantee schemes

Rania Antononpoloulos explored the scope and role of employment creation programmes, drawing on the experiences of South Africa's expanded public works programme and employment guarantee schemes in general, in providing cost effective solutions to multiple deprivations and poverty. Specifically Antonopoulos considered the costs and benefits of employment guarantee policies in transforming unpaid work, largely carried out by women in the informal economy, into recognized paid employment supported by the public sector. She emphasized that the critical element of an employment guarantee scheme is that it moves public works programme beyond social protection to social entitlement. Antononpoloulos observed that projects can be designed to address multiple deprivations facing the poor by enhancing access to water and fuel, improving sanitation, maintaining shelter amongst other social services, while relieving members of poor communities, and children and women in particular, from long hours of necessary, but unpaid, laborious work. Antonopoulos noted that there are many lessons of programme best practice from the international arena, which can be sourced to develop more effective domestic policies, and that opportunity should be taken to engage in social dialogue, concerned with employment and equitable growth.

Dimitri Papadimitriou considered employment guarantee programmes within the context of responsible employment policy and fiscal policy frameworks. Technical and affordability issues relating to government budgetary constraints and modern money were highlighted. Papadimitriou highlighted the role of employment guarantee programmes within an integral strategy for full employment and price stability. He presented different views of employment policy, ranging from growth-based models, demand stimulation, and employer subsidies, and explained how employer of last resort programmes can provide an alternative which lays the foundation for increased productivity, fiscal responsibility, private sector development and social justice. He noted that an employment guarantee approach compliments and strengthens the private sector by supplying a work-ready labour force. Papadimitriou observed various limited employment guarantee programmes throughout the world and how such an approach can facilitate economic and social development objectives of national governments, as well as internationally agreed development goals, including the Millennium Development Goals.

Steven Miller summarised the panel discussion and facilitated an engaged discussion with delegates by recapitulating the three broad categories of issues discussed:

1) Identifying both financial and socio-economic costs and benefits of employment guarantee schemes, with consideration given to the wage income transfer, assets and services provided and the impact of training provided;

2) The consequences of programme scale and subsequent interrelation between dual objectives of employability and poverty alleviation; and role of institutional arrangements, i.e., whether employment is the primary objective (hence a preponderant role of labour/ employment ministries) or rather infrastructure development (hence a preponderant role of public works ministries); and

3) Promotion and development of methods for systematic employment impact assessment of public and private social investment programmes, which engages and supports policy makers and political debate.

5. Presentation Summary

Santosh Mehrotra
Case Study of India's National Rural Employment Guarantee Scheme
Part One

To introduce the panel and to situate contemporary employment guarantee schemes, Mehrotra highlighted India's long history of public sector employment programmes. The first nation-wide PWP in India was the Rural Works Programme during the 1960s. Since then a significant number of PWPs, funded both by state and central governments, have been implemented in rural India. While these programmes sought to alleviate poverty and contribute to development, it was only Maharashtra's Employment Guarantee Scheme that was focused on guaranteeing income or employment. The Maharashtrian employment guarantee scheme began in 1972 in response to a severe drought in the state. Policymakers believed that by both providing gainful employment to poorer people, and creating durable assets in rural areas, poverty would be substantially reduced. Thus, under the Employment Guarantee Scheme (EGS), able-bodied persons willing to do unskilled work were guaranteed manual labour, including manual earthmoving, shifting soil, and breaking rocks, through a self-selection method.

Mehrotra emphasised that despite extensive experiences and policy design features, many of the programmes had limited involvement of communities in project planning and selection, low coverage of the targeted populations, limited involvement of women, implementation lapses and extensive corruption. Many of the implementation deficits of these schemes were the direct result of irregularities/delays in project commencement, late payment of wages or complicated measurements of completed work. Further problems were associated with discrimination against the weak and elderly, and corruption of officials, which has been especially evident in the inflation of muster rolls. Finally, many have criticised the infrastructure that was generated from the programme, claiming that the assets were of poor quality.

Despite such issues surrounding the schemes, Mehrotra highlighted contextual and political factors that have contributed to perseverance with such approaches. In part, persistence with such a scheme could be attributed to political imperative, to respond to uneven and inequitable growth across the Indian state. The rural areas, in particular, face substantial problems associated with the slowing of the agricultural sector, which is further accentuated by increasing environmental hardship and enduring drought. While India's economic growth has been strong (9%), the nature of the growth has not been equitably distributed across urban/rural areas or across populations groups; nor have outcomes relating to social development been forthcoming.

In September of 2005, the Indian government passed legislation which enshrined a guarantee of one hundred days of employment to any rural head of household within the nation, who is the holder of a 'job card' and willing to engage in manual labour. In February 2006, the National Rural Employment Guarantee (NREG) commenced its implementation plan, with states such as Maharashtra, Orissa and Uttar Pradesh the first to try the scheme. The government intends to have completed the national roll out of NREG before the next year's elections.

This programme was the product of extensive debate and consultation with government agencies, academe and social movements, particularly those of the women's movement and right to food campaign. The NREG addresses some shortcomings of the previous programmes with the integration of legislated incentive and compliance systems. The programme is backed by a strong legislative, rights based framework, which entails time bound action with strong budgetary incentive/compliance systems on state governments. The programme represents a paradigm shift. It is a demand driven programme, which means that if the community organises and demand their right to work, the government must deliver, or compensate individuals accordingly.

The programme entitles workers a range of benefits including provision of childcare if there are more than five children on site, drinking water on site and employment within certain distance of the individual's village. Of equal importance is the mechanism adopted for dissemination of wages, as the legislation specifies that either banks or post offices will be involves in delivery of wages, in order to prevent corruption and ensure that beneficiaries are appropriately remunerated.

Mehrotra highlighted that, advantageously the provision of an employment guarantee within rural areas effectively works to serve many objectives of the Indian government. For instance, the NREG increases employment opportunities in rural areas, thus deterring the rural poor from migrating to already congested suburban slums in search of employment. The provision of guaranteed employment may also give opportunities for female heads of households to enter the labour force and facilitate the development of networks and other outcomes related to social development. The implementation of the NREG scheme has important implications for not only the reshaping the geography of poverty in India, but also the extent of poverty experienced by the Indian people.

Activities that are permissible under the act include environmental remediation activities, such as water conservation and the provision of irrigation systems, and flood control. Also permitted are activities involving construction of roads and the maintenance of assets that have been created under the employment guarantee scheme. As in previous employment guarantee schemes, the project coordinators are required to prepare a shelf of projects, which are to lay in reserve until a time when the demand for work under the employment guarantee cannot be absorbed into the current projects. The manner by which the budget allocated for the NREG are to be spent also remains in continuity with the previous employment guarantee schemes: sixty per cent is allocated to the payment of unskilled labourers, and the remaining forty per cent is to be spent other costs, including materials and skilled labour. The setting of the wage/materials ratio is important for limiting materials use and maximising labour intensive methods of construction. Programme expenditure currently amounts to only 0.3 per cent of GDP, and as the programme is demand driven, the government does not expect that programme expenditure will rise above 0.6 per cent of GDP.

The national employment guarantee fund manages programme expenditure of central government funds, and is responsible for allocated funds to various layers of government. The government has adopted a decentralised approach to implementation, using village governments (Gram Panchayat) and district level management, in collaboration with non-government organisations and community based organisations to implement the programme. The idea of directly involving local government in the roll-out of the programme is an attempt to overcome past experiences of corruption and exploitation, which occurred when supervision and implementation were outsourced to contractors.

There are many layers of monitoring and evaluation of NREG undertaken by all layers of governments. Importantly however, the monitoring and evaluation system of NREG goes further than departmental audits. The programme makes provision for social audits, which have been primarily undertaken by NGOs. The social audit embeds liabilities to those implementing the programmes, and operates as a necessary anti-corruption mechanism.

Recent results from social audits reveal that to date forty days of employment has been the norm, not the stipulated one hundred day entitlement. However, length of employment is likely to increase as the knowledge of the community increases, and the community demands its right to demand work. Social audits also reveal that work was provided for over 50% of beneficiaries within 15 days. However, those not receiving work within the specified timeframe were unlikely to get the unemployment compensation to which they are entitled, largely due to corruption of local officials. Forty percent of beneficiaries reported that they received less than the prescribed minimum wage.

Importantly, population trends reveal that rural to urban migration has been declining. It also seems that the programme is creating a wage floor in the economy. The programme has also been effectively drawing women into the labour market. Initially, the programme sought for women to make up thirty per cent of programme beneficiaries; however, social audits reveal that the programme has already exceeded this initial target. Further, disadvantaged populations, such as the untouchables account for over thirty per cent of the programme population, but make only fifteen percent of the overall Indian population. These preliminary results are positive indicators, revealing that the programme is effectively targeted and is successfully drawing the most disadvantaged into the labour force.

Many challenges lie ahead including, adequate planning for ‘shelf projects’, capacity of local government to continue to deliver the programme as it expands, and continuing capacity for social auditing to be undertaken. Mehrotra concluded with a cautiously optimistic tone. Recent changes, namely the introduction of the Right to Information Act, which absolves the Official Secrets Act, creates a more enabling environment for governmental transparency and accountability. Further, the recently adopted 11th plan follows a decentralised planning framework, which empowers local governments and the auditing of officials providing services to the community. Many of the mechanisms put in place by the government’s recent initiatives are demand driven, and are subsequently dependent on effective coordination of civil society for outcomes. In a context of chronic poverty and extensive illiteracy, it is of overarching importance that people are empowered through education systems and through assistance of social facilitation agencies, though these agencies are not ubiquitous.

Indira Hirway
Case Study of India's National Rural Employment Guarantee Scheme
Part Two

Hirway began by explaining that the National Rural Employment Guarantee (NREG) is an innovative new programme in India, which can play a critical role in the government's realigned, long-term strategy for economic growth. The initiative was the product of a long and committed social struggle, motivated by a context and growth trajectory that saw many impoverished and vulnerable people excluded from the benefits of an economic growth, which has seen India become one of the strongest economies in the world.

Hirway emphasised that the benefits of India's economic growth have been concentrated. Indeed, the condition of poverty in rural areas and also urban slums illustrates the uneven outcomes of India's economic growth. A particularly chronic problem relates to the purchasing power of the poor, which is so low in some cases that one is unable to purchase enough food/calories to sustain one's self. The nature of growth in India, especially since the early 1990's, has been accompanied by the growing inequalities. Governmental policies have followed a path which has brought with it rapid growth, normally higher than 8 per cent over the last decade. However, these strategies have not had mechanisms to lead the economy to full employment. Indeed, the rate of employment growth has slowed substantially, from 2.01 in the 1980s, to the current rate of 1.84. One could summarise the Indian economy as a two-speed economy, with the benefits of growth concentrated at the top, with poor trickle-down effect evident.

Given this situation, Hirway asked what can be done? And how can the position of the most vulnerable in society be strengthened? The outcomes of inequitable growth cannot be addressed overnight, but there are strategies that can work towards rectifying these chronic problems. One such strategy is the National Rural Employment Guarantee, which seeks to engage disadvantaged households in the rural areas of India in economically and socially meaningful employment, which is remunerated at an equivalent wage of 60 rupees per day. Such a programme has the potential to penetrate deep into the roots of poverty by providing a wage income and also addressing infrastructural, environmental and social deficiencies within local communities. In the short run such an intervention can contribute to the food/calorie intake of the poor, offer basic social protection, relieve indigence and allow the poor dignity. Overtime it has the potential to contribute to the infrastructure delivery that is needed to promote agricultural growth and revitalise local economic development. Further, a basis for employment maximising approaches to development can be established and expanded, leading to labour intensive or pro-poor economic growth.

The offer of an employment guarantee has economy wide multiplier effects. For instance, it raises labour productivity in the sectors that are labour intensive and it promotes labour intensive methods in other primary and non-traditional sectors. Indeed such a policy could induce a developmental trajectory, which maintains and enhances pro-poor growth, while ensuring the quality of that growth. Such a strategy could be seen as the first step towards a globalisation lesd by growth which is more sustainable and equitable.

In the programme's first year of operation, over 905 million days of work were generated. While this is a great success in itself, India's long experience with rural development programmes has shown that success depends upon communities' ownership of the intervention and also the intervention's connection with long-term, systematic growth and planning strategies. Without the consideration of these matters, outcomes and objectives will not be forthcoming.

Hirway noted that social and departmental audits reveal significant spatial variation in programme outcomes and success. These variations highlight both the strengths and weaknesses of the demand driven approach of NREG. That is, the community must organise and demand that the government deliver its right to employment. Knowledge of the scheme is therefore an essential ingredient; however, it takes time for information to disseminate across communities, and for communities to respond to this information.

Further, Hirway noted that there are various incentives and sanctions incorporated in the NREG to induce programme compliance. One such system relates to a liability enforced upon state governments to deliver employment after it is demanded within a 15 day time limit. If work is not supplied, the state government must bear the financial costs associated with delivery of unemployment allowance (1/3 of the minimum wage) themselves. However, to date this provision has not been forthcoming, and there have been reports of government officials adjusting beneficiary application dates.

Factors such as this reveal that the programme is still functioning in manner more dominated by top-down mechanisms of delivery, rather than sought after bottom-up orientation. Up to the present time, society in general has not been sufficiently demanding of its right to work. Socio-economic factors and the vulnerability of people experiencing chronic poverty play a role in this dynamic, as does the absence of the necessary local social support structures, such as NGOs and CBOs, in some areas.

If the programme is to work successfully, effective combinations of bottom-up and top-down are required. This entails extensive information and education campaigns, the support of academics and community based organisations to induce action and empower community mobilisation. Currently there are some pockets across space which have successfully implemented the employment guarantee. Hirway emphasised the importance of expanding those success stories and learning from the processes that have enabled success in those various communities. Typically NREG success in local communities has involved a combination of social mobilisation and participatory planning with programme beneficiaries, community representatives as well as government officials.

For the programme to be sustainable and linked to meaningful goals within the community, it needs to be closely tied to long term goals of regional growth strategies, while also engaging in multi-level planning across layers of government departments. Hirway noted that previous schemes such as the Maharashtrian employment guarantee scheme fared poorly in addressing the problems of poverty as the programme failed to develop strategic connections with long term policy and planning objectives. In this sense, the scheme did not adequately move beyond simple poverty relief objectives, to broader objectives concerned with social development.

A long term outlook is also much more appropriate for human capacity investment outcomes, as these outcomes are not instantaneous or timely in their manifestation. Further, it would be advantageous if options for exit pathways could be integrated within the NREG, which would support programme beneficiaries seeking to transition into mainstream employment. This is an important point for policy and social equity objectives. However, such a focus should not override the core objectives of the NREG, which are primarily related to drawing otherwise unemployed surplus labour, into socially meaningful activities that build capacity at the local level.

Hirway highlighted the necessity of functional supervision and monitoring systems, to ensure programme legitimacy and sustainability. She reported that current data collection is excellent, but that there is need for more extensive data analysis to ensure that the programme is effectively monitored and evaluated throughout the country. A programme's strength and ultimate impact is very much contingent upon provisions which have been made for planning of audit, monitoring and evaluation. NREG's provision for social audits and high levels of commitment from civil society ultimately provide an environment conducive to programme success.

Importantly, there are vested interest groups and different power dynamics operating within and around communities, which have potential to influence the character and quality of the programme at the local level. Such interest groups have voiced concern over the relationship between NREG and wages across rural areas, as the programme effectively sets a wage floor across the economy. This brings with it several challenges, partly because the programme disturbs power relationships in local communities by enabling widespread access to a minimum wage. This makes it difficult for local employers seeking to remunerate workers at rates lower than 60 rupees per day.

The benefits of the National Rural Employment Guarantee extend beyond the bounds of employment and social development benefits gained by communities involved in the programme. It will therefore be very useful to develop tools and models to simulate the economy wide impacts of the programme. The Social Accounting Matrix, SAM, is one such tool that can help to understand the distribution of costs and benefits, thus enabling a more comprehensive understanding of the impact that such a programme has on the economy.

In sum, Hirway emphasised that the Act has the potential to address some of the major concerns of the Indian economy, such as inequitable growth while simultaneously enabling a more sustainable path for development. After an extensive social struggle, the various fragmented employment strategies of government have emerged in a coherent and powerful framework, which is founded on the right to work. The success of NREG is of course contingent upon many contextual and institutional factors; however, the keys to programme success and innovation will be learning from successes, and where possible replicating these successes across space.

Rania Antononpoloulos
Expanding the scope of public service employment and promoting equality through employment guarantee schemes
Part one

To reorient the panel discussion back to South Africa, Antonopoulos began by highlighting the similarities and differences between the Expanded Public Works Programme and Employment Guarantee Schemes. She explained that the EPWP is a government job creation initiative, which seeks to engage the poorest and most vulnerable people within South African society in effective combinations of paid work and training. The EPWP does not have its own discrete budgetary allocation, but rather challenges all layers of government to spend their budgets in ways that maximise the number of employment opportunities created for low/unskilled workers, without compromising efficiency or productivity. In this sense, the EPWP seeks to mainstream a culture of job creation which draws the most vulnerable into meaningful work opportunities. The concept of EPWP is indeed innovative, while at the same time limited.

Employment Guarantee Schemes are also a type of government job creation programme; however they differ from EPWP in the unique entitlement that they bring the beneficiary target population. An EGS is an entitlement programme, and while entitlements offered through such schemes can vary, the EGS concept essentially entitles a selected population to a predetermined amount of employment within a given timeframe. There are many design possibilities, for instance, an EGS could be a universal time unlimited programme, a geographically (rural) targeted EGS as in India or it could offer employment to heads of households as was the case in Argentina during the post 2001 financial crisis. The critical element of an EGS is that it moves public works programmes beyond social protection to social entitlement.

EPWP and EGS differ on several fronts. However, the most prominent difference relates to potential coverage of the target population. EGS entitle the target population to a work opportunity. Programme beneficiaries self-select into the programme by applying through the implementing institution for their entitlement. EGS are therefore a demand driven approach. Importantly, if such an approach is to work effectively, it must be accompanied by a functional public education and awareness campaign, which informs the target population of their entitlement. EPWP, is in contrast a supply driven approach, and sets an aggregate target for creation of work opportunities per annum. While the programme effectively draws a proportion of the target population into employment, there are many more potential beneficiaries from within the target population who are not able to access the programme due to the limit number of employment opportunities created.

Antononpoloulos emphasised that in spite of the policy adopted, programme success will ultimately be related to planning. Design and implementation of the programmes, of course, play a predominant role in programme effectiveness and in meeting programme objectives.

Beyond that there is a need for such an initiative to be embedded within economy wide growth and planning initiatives, so that the scheme/programme can complement regional growth trajectories and also national development strategies. For instance, government employment programmes can be integrally designed to enhance the growth of other sectors. A good example comes from the Indian NREGA, which is widely involved in activities associated with environmental remediation and rural traditional water harvesting. Creation of employment in this sector has implications for the productivity and development of the agricultural sector.

In addition, work projects designed to address multiple deprivations by enhancing access to water and fuel collection, improvement in sanitation, repairing of housing structures and other services, while providing jobs they also relieve members of poor communities, and children and women in particular, from long hours of necessary but unpaid work that often entails drudgery. These newly created assets, public or private, can result in much needed social and physical infrastructure that improves the ability of people to sustain their livelihood, while also contributing towards to outcomes related to the Millennium Development Goals[4].

In other contexts EGS provide a guard against cyclical trends associated with various sectors, such as the agricultural harvest season; and also economy wide cyclical trends associated with the business cycle.

Antonopoulos noted that there are many lessons of programme best practice from the international arena and also from the Employment Intensive Investment Programme of the ILO, which can be sourced to develop more effective domestic policies[5]. It is time to take stock of what has worked, engage each other in social dialogue and learn how these lessons can be translated into best practice at the local level.

To facilitate social dialogue and institutional learning, the Levy Economics Institute, with the support of the International Labour Organisation and participation of other research organizations with long standing experience, is developing a global informal network to encourage interaction between academics, policy advisors, advocates and governments concerned with the employment. It is proposed that the network (www.economistsforfullemployment.org) will provide a platform for public dialogue and information dissemination, foster synergies and support mobilisation of social movements concerned with the right to work.

No matter what the source of unemployment, social exclusion is not an issue that one should stay silent on. The network is committed to increasing economic literacy amongst communities, and emphasising the linkages between development, growth and full employment. As members of a community concerned with employment and job creation, we would like to invite you to join a network which will engage you in social dialogue and promotion of alterative development and employment strategies throughout the world.

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[4] Employment Guarantee Schemes and the Millennium Development Goals are further detailed in Annex 3.

[5] Further examples of government job creation programmes are listed in Annex 4.

Dimitri Papadimitriou
Expanding the scope of public service employment and promoting equality through employment guarantee schemes
Part two[6]

> "There is plenty of evidence that unemployment has many far-reaching effects other than loss of income, including psychological harm, loss of work motivation, skill and self-confidence, increase in ailments and morbidity (and even mortality rates), disruption of family relations and social life, hardening of social exclusion and accentuation of racial tensions and gender asymmetries."
>
> Amartya Sen (2000)

To put an economy on an equitable growth path, economic development must be underpinned by social efficiency, equity and job creation. The challenging is drawing together the right mix of social, employment and economic policy to achieve this end. The policy should not lead to inflation, interfere with the micro-decisions of individual firms or replace existing jobs. Further, it must not rely upon the fine-tuning of aggregate demand to achieve outcomes. For employment policy, there are several options that appear to meet these criteria: work-time reduction, employment subsidy approaches and finally government job creation programmes, such as employment guarantee schemes or employer of last resort approaches. The former two have been used extensively and have generated mixed outcomes. Experiments with work-time reduction strategies have failed and employment subsidy approaches interfere with employer decisions, thereby distorting the market mechanism. The employment subsidy strategy is unlikely to achieve higher levels of aggregate employment; instead only altering the final job recipient. Limited programmes that focus on training and increasing employability are also unlikely to stimulate higher levels of demand.

In the latter approach, first proposed by Hyman Minsky (1965), the government becomes a 'market maker for labour' by establishing a 'buffer stock of labour'. In effect it 'buys' all unemployed labour at a fixed wage, or 'sells' (provide it to the private sector) at a higher wage. The commodity (labour) used as a buffer stock always has a stable price. Thus, this approach to employment policy ensures full employment with price stability.

In cases where private sector demand is insufficient to provide full employment (and capitalist economies generally have demand constrained characteristics) unemployment emerges and persists. It is only the government can divorce profitability from hiring of workers, and can create an infinitely elastic demand for labour. This requires government to take responsibility for providing employment to all those willing and able to work at remuneration that is equivalent to (or marginally below) the prevailing informal sector wage. Lessons from the New Deal programme in the Great Depression years proved that government could successfully fulfill the role of an employer of last resort, by offering decent jobs that engaged people in

[6] Due to late changes made in the conference programme Professor Dimitri Papadimitriou was unable to deliver his presentation in person. The summary provided consists of edited notes taken from the presentations prepared by Papadimitriou and also a presentation delivered by Papadimitriou in an earlier session of the 12th regional seminar on Labour Intensive Construction, Durban South Africa.

socially and economically useful activities, which did not compete with the private sector.

Despite the growing evidence of the feasibility of such approaches, many have raised questions relating to the applicability of such a model given the characteristics of our modern economy. Questions including the following have been posed: Is an employment guarantee scheme affordable? And is it consistent with a fiscally responsible government? In regard to actual programme cost, simulations for the United States, Australia and the United Kingdom, which exclude multiplier effects, reveal that such a programme would cost between 1 and 3.5 per cent of GDP, which would be affordable for most governments. When the multiplier effects of such a programme, resulting from the rising incomes of the programme beneficiaries, indirect job creation and increased demand in the economy, are considered the potential benefits extend far beyond the programme budget and wage bill. Simulations for the U.S. indicate that an employer of last resort programme would provide an addition of 1.66 per cent of GDP annually. Further, there would also be considerable benefits to society resulting from the eradication of mass unemployment.

Beyond the actual cost and multiplier effects of such an intervention, there is need for consideration of the effect that such a programme would have on monetary and fiscal policy and whether such a programme is truly sustainable. In regard to fiscal policy, government spending creates private sector assets in the banking system. Taxation creates private sector debts to the government, which must be financed with those assets. If taxes exceed government spending, the private sector is in net deficit, i.e. insolvent. If the private sector holds assets for other convenience purposes, financial stability requires a government deficit over time, equal to the private sector's demand for money balances (saving). Thus, private sector debt (saving) is intrinsically related to the government surplus (deficit).

In regard to monetary policy, government spending increases commercial bank reserves. Excess commercial bank reserves drive overnight interbank interest rates to zero. Therefore, to keep interest rates at a desired rate, the government borrows from the reserves of commercial banks. As borrower of last resort it can effectively fix the overnight interbank interest rate (the central bank sets the interbank rate target). The experience of Japan, which set its interest rate at close to zero throughout the 1990-2007, by not paying interest on reserves and net-issuing fewer public bonds than would be required to offset operating factors at the Bank of Japan clearly illustrates this point.

Interest rates are thus not constrained by private sector willingness to buy government debt or the size of the government deficit. A government with a fiat currency is not required to borrow or issue debts in order to deficit spend. It follows that the government can always set the overnight interbank interest rate, independent of the size of the deficit or high debt to GDP ratios, without the onset of interest rate increases, currency depreciation, inflation or destabilisation. Therefore, it is possible to finance an employment guarantee programme in the same manner that all other government expenditure is financed. Governments spend by crediting bank accounts, tax by debiting them. Excess reserves are drained as part of the interbank interest rate targeting procedure.

Traditional/orthodox approaches to fiscal and monetary policy that seek to discipline by minimising budget deficits and maintaining high real interest rates ultimately undermine domestic mobilization. The primary role of fiscal policy should be concern for employment and output consequences that follow its parameters, rather than increases or decreases in public debt. In this way, the effective management of national budgets and debt facilitates an economic prosperity that is equitable, with spending focused on job creation. This method to management of public finance is known as 'functional finance', and is differs from models predicated on sound finance theory, which primarily seek to achieve a balanced budget over an arbitrary period – an application that is not suitable to the economy in aggregate. Given the social and economic consequences of unemployment outlined by Sen, policy that neglects to let the economy grow equitably is fiscally and socially irresponsible. A responsible fiscal position would ensure that the economy delivers full employment with price stability.

If demand in the private sector demand is insufficient to provide full employment, governments should use domestic policy space to mobilize labour resources to engage communities in socially, environmentally and economically meaningful activities. A programme that engages labour in productive employment has the further benefit of increasing flexibility in the labour market by creating and maintaining a work-ready supply of labour, capable of meeting the demands of employers in the private sector. This model of intervention, which increases both supply and demand, also tends to be superior when compared to issuance of government grants related to unemployment compensation, which increase demand only.

Full employment is a necessary ingredient for equitable growth outcomes. An effectively designed employment guarantee programme can provide a universally accessible social safety net, while contributing to social and economic developmental goals. Such a programme need not come at the expense of other social transfers or infrastructure investment, as was previously outlined. To put the economy on an equitable growth path there must be adequate education, health and additional social grants available to mitigate poverty and improve the quality of life of the working poor. Underpinning this should be fiscal and monetary sovereignty, to enable governments to effectively engage domestic policy[7].

Argentina's plan Jefes de Hogar

December 2001 saw Argentina's economic and social crisis peak. The social unrest demanded an intervention that would reduce poverty and unemployment, while boosting domestic demand to facilitate recovery of the economy from three years of recession. Argentina's experience with labour market programmes is extensive; previously the government had experimented with training programmes, wages subsidy, various other targeted job creation programmes, and quota job creation programmes such as the Trabajar programme (1995-2002). While the Trabajar consistently received positive reviews, the scale of the intervention was not capable of providing the necessary safety net for the large-scale social dislocation, poverty and unemployment precipitated from the 2001-2002 economic crises.

[7] Employment guarantee schemes and macroeconomic policy is further discussed in Annex 2.

To relieve the consequences of the economic crisis, the government introduced the Plan Jefes y Jefas de Hogar Desempleados (Jefes) in April 2002. The programme offered 150 pesos per month to a head of household with children under 18 years of age or caring for people with disabilities, 4 hours of work daily. The Jefes programme was unique in that it did not set an artificial cap on the number of beneficiaries from the target group who were able to access the programme.

Participants were to work in community services, micro enterprises (typically agricultural), small construction/maintenance activities or were to engage in training programs, particularly concerned with completion of secondary schooling. The Jefes programme was augmented with the Programa de emergencia laboural (PEL), which provided the same wage income benefit and work opportunity for those in need of social assistance, but not eligible for Jefes. At the programme's peak nearly 2 million households (1.6 million in Jefes and 300,000 in PEL) were engaged in socially meaningful work opportunities. In total the two programmes represented 5% of the population (37 million) and 13% of the labour force.

The preliminary assessment of the Jefes programme reveals many lessons about employment guarantee/job creation programs. Firstly, the target population was well focused; poor households with children. Further, over 55 per cent of households had at least one basic need unmet, such as inadequate sanitation or housing; Over 75% of programme beneficiaries had not completed secondary education; and over 65% of programme beneficiaries were in the national income bottom quintile. The programme increased income for poor households, and was effective in addressing indigence (food/shelter) but did not pull households above the poverty line. Jefes also encouraged a large influx of women into the labour market, with women making more than 60% of programme participants.

The limited offer of employment forced households to decide who would participate in the programme, and often women entered the programme with their husbands remaining unemployed or seeking employment in the informal economy. There were also some implementation and supervision problems, and some relatively rare cases of mismanagement, corruption and favouritism/discrimination. Possible remedies to these problems exist in programme expansion, to further reduce unemployment and underemployment. This would involve relaxation of programme entry requirements, so that more than one family member could participate in the programme. Further, if household income were increased to 300 pesos a month, the programme would become more effective at lifting families out of poverty.

Jefes programme effectively empowered communities, and allowed them to address local deficiencies in service delivery and infrastructure. The decentralised model of administration required local and municipal governments to assess the most pressing needs and available resources of their communities, in order to ensure that Jefes projects could provide a valid contribution to local economic recovery.

As the economy began to recover, beneficiaries exited the programme for work offered at higher remuneration in the private sector. While this programme was not the government's primary strategy for economic recovery, the programme was very complementary to the government's adopted macroeconomic framework. The programme fulfilled an essential role during a turbulent period, providing both a social and economic context that contributed to stabilisation and GDP recovery. Indeed, it is estimated that the multiplier effects of the Jefes programme, at its peak, could potentially add an annual addition of 8.327 million pesos to GDP (or 2.49% of GDP).

While the Jefes programme was a limited employment guarantee scheme, implemented as an emergency response to crisis, it provides a relevant example of successes and issues that emerge from the implementation of such an initiative[8]. For instance, domestic consensus is a very necessary programme element, as the initiative relies heavily on local/municipal government and the commitment of individuals for implementation. Further, to ensure programme sustainability it must be financed by a sovereign federal government. The social and economic consequences of Jefes reveal that even limited employment guarantee programmes can have a substantial impact on the quality of life in local communities.

[8] Further examples of government job creation programmes are listed in Annex 4.

6. Summary of questions raised by conference delegates

Question: Given the government's budgetary constraint, what are the financial implications and viability of such an approach within the constraints of a fiscally responsible government?

Panellist response (RA): The issue of affordability is important. Currently, the EPWP does not require additional funds; instead it seeks to spend already existing departmental budgets in ways that maximise employment opportunities created. While this tactic is innovative, can this approach provide an adequate number of jobs for all those who are in need and seeking employment? It is important that policy space is open for this consideration.

An EGS is a redistributive, social justice programme. When considering the financial implications of such a programme, it is important to include multiplier effects that such a programme has throughout the economy, as well as benefits that accrue over time. For stance, an EGS increases productivity, which can subsequently lead to increases in GDP. Further, EGS increase aggregate demand and can subsequently create additional 'spin-off' employment opportunities in other sectors of the economy. Employment guarantee programmes effectively contribute to social development and provide a strong engine for growth within the local economy.

Finally, it is important to remember that not all institutions existing in our societies today have always been there. Yet the affordability of such institutions is not questioned, as they are deemed to be necessary and essential elements of a functional economy and society. For instance, can we afford central banks? Can we afford universal education systems? Of course. Importantly, we can't neglect to let the economy growth equitably. This requires a range of macro, meso and micro interventions, of which an EGS should be a component[9].

Panellist response (IH): In the context of India, with the economy growing strongly at 9%, such a scheme is affordable. Even in spite of the rapid economic growth, such a programme is not expected to cost more than 1% of GDP, and 1% of GDP should be affordable for most economies.

Panellist response (SM): The employment guarantee programme is just one of the many initiatives the Indian government has introduced to alleviate poverty. The economy has to grow at 9% per annum to get the tax revenue to carry out the policies. Currently India has a fiscal deficit, not surplus. However, India is committed to responsible governance, discipline and employment creation.

There are alternative social supports available in India. For instance, there is a plan to universalise the old age pension. Cash assistance is limited, however the government is about to introduce maternity assistance programme for those below the poverty line. The system of social grants in India needs to be expanded. However this expansion should not come at the costs of other programs. The option is not 'either' 'or'. You have to do it all to put the economy on an inclusive growth path.

[9] Employment guarantee schemes and macroeconomic policy is further discussed in Annex 2.

Question: India, like many countries has extensive unmet need for social service provision. Why is the NREG not seeking to address this deficit? What strategies are in place to address these issues?

Panellist response (IH): It would be possible for NREG to expand its scope to include work opportunities within social services. However, the demand for this expansion should come from civil society; a bottom-up, instead of a top-down approach.

Panellist response (SM): There are backlogs in health and education. However, the 11th plan seeks to address some of these issues. For instance, there has been a fivefold increase for the budgetary allocation of education, as well as significant increases in the budget for health. These allocations are in addition to the employment guarantee scheme. It is important that the path of growth be inclusive, and that it makes provision for investment in health, education, infrastructure, agricultural investment, etc. The employment guarantee scheme is part of an integrated, developmental plan for India. We need to have plans that bring together investments. Imagine, a farmer who was only able to grow one crop may be able to upscale his operations and expand his income base, due to the environmental remediation activities undertaken through the NREG initiative.

Question: The Social Audit is essential for maintaining programme legitimacy and social accountability, yet the institutions tasked with undertaking the social audit are not funded by government to do so. What is the rationale behind this?

Panellist response (IH): The social audit helps to institutionalise and enhance the programme's bottom-up approach. The NGOs and CBOs are not funded to undertake the social audit as there is a perception that government funding for such an assessment may influence or control the findings of the social audit. Instead, these organisations receive funding through various donors to undertake the assessment. Further, the organisations conducting the audits are not operationally expensive; employees from these institutions work and live amongst the poor. Funding for other developments and activities which NGOs and CBOs are involved with can come from the government, but funds for accessing government policy should come from elsewhere.

Question: How do you budget and plan for an employment guarantee scheme, given the demand driven approach of the initiative?

Panellist response (SM): Projections can be made based on the state of the economy. However, political commitment and domestic consensus for an alternative developmental path is imperative. India is currently running a deficit and we are able to do this as currently we have domestic consensus, and our parliament is sovereign. It is possible to develop a comprehensive understanding of project costs (wages/materials); further the Act stipulates that 60 per cent of the budgetary allocation should be spent on beneficiaries' wages. The NREG also requires local authorities develop 'shelf projects', which lie in wait until beneficiaries demand their right to employment.

Question: Rural households in India are entitled to 100 days of work per year under the National Rural Employment Guarantee. Are there any conditions for continuity of work?

Panellist response (IH): The 100 days can be spent however the programme beneficiary wishes, usually it is spent seasonally. There is a growing demand in civil society for increasing the number of days to which one is entitled past the 100 days ration.

Question: There are different growth trajectories that nations can adopt to develop their country. One is the approach put forward by this panel, the other are approaches that fall under the neoliberal banner, and are advocated by various financial institutions. Often the latter path for development has seen economic growth at the cost of social development. What recommendations does the panel have to mitigate the two approaches? How can we encourage harmonisation of the social and economic objectives?

Panellist response (SM): Issues of fiscal space and subsequent constraints, which are the product of international agencies programmes, are of critical concern. India is currently running a deficit and we are able to do this as currently we have domestic consensus, and our parliament is sovereign. Political commitment and domestic consensus for an alternative developmental path is imperative. However, it takes time to arrive to such a position.

It is true that some countries have more fiscal space than others, especially if the national currency is pegged to another currency or if there are debts which have to be serviced in foreign currency. However, South Africa is currently in a relatively good position: the population is relatively small, resources are plentiful, the currency is fiat with a floating exchange rate and the government is currently running a surplus.

Historically, public investments in developing nations have been funded by international donors. Such funding often requires commitment from a sovereign nation in regard to the channelling of domestic resource expenditure. Yet it is possible to finance public investments, particularly labour intensive public works through normal budgetary expenditure. Further, expenditure on such programmes need not be large. For the case of India, we do not expect the costs of NREG to become unsustainable. Currently programme expenditure is equivalent to less than 1% of GDP.

Question: Which institution or government body is best placed to drive such a programme? Is it the Department of Public Works? The Department of Social Security? The Presidency? What are the different mechanisms through which such an approach can be packaged?

Panellist response (RA): The appropriate implementing institution and policy design will vary with context; one shoe will not fit all. Financing, government priorities, policy space, modes of implementation, root of unemployment, and departmental backlogs are important considerations in policy design and allocation of programme responsibility. Importantly, there needs to be domestic space within the policy discourse for consideration of these issues. It is also important that one take stock of international experience and programme evaluation to determine how institutional structure of the interventions can be improved to enable superior programme outcomes.

Question: Offering a legislated guarantee is a little like letting the genie out of a bottle. How can you ensure that you meet your targets now, and in the future? Current economic conditions may be conducive to such a programme, but the future is uncertain.

Panellist response (SM): The NREG currently costs less than 1% of GDP, and we do not expect expenditure to exceed 1% of GDP. The demand for work is far less than the possible labour supply response. Expectations regarding the labour supply response to an employment guarantee need to be realistic. Employment on the programme is demanded when the target population is in need of work. Importantly, people already have ways and means of sustaining themselves, and other forms of work with which they engage. When people first learned of NREG, millions lined for a job cards, hoping that the government would not be able to fulfil the 15 day criteria of a job offer, and that unemployment assistance would be forthcoming. Employment, in general, was however delivered. Further, the employment offered through the NREG is hard, physical labour. Given the option, lessons from experience indicate that people would rather engage in work that is less physically demanding.

The government has a range of options available, including micro finance initiatives, skill development programs, child education and health initiatives. It is most important that government offer a range of programmes to empower the vulnerable, not simply one or the other. Further, these programmes are complementary, and work together to provide a safety net and options for those in rural areas who would have otherwise migrated to congested urban areas.

Panellist response (IH): Such a programme does create expectations. However, the situation would be far worse without the programme. The element of guarantee is a necessary ingredient for social and government accountability. The government needs to be responsible for its people: That is its role. Further the programme makes the growth process more labour intensive, bringing with it a more equitable path to development and also a more equitable globalisation.

Annex One

Biographical information on Panellists

RANIA ANTONOPOULOS is a research scholar at the Levy Institute, where she initiated a new research programme on gender equality and the economy in 2004–05. Prior to her present position, she taught economics at New York University for 10 years. She specializes and teaches courses in feminist economics, international trade and globalization, and the history of economic thought. Since 2002, she has been a coprincipal investigator and co-coordinator for Knowledge Networking and Capacity Building on Gender, Macroeconomics, and International Economics. This programme is funded by the Ford Foundation and the International Development Research Centre (Canada), and its main activity is capacity building among researchers, economists in government and academia, and Ph.D. students throughout the world. Her work has been published in the *Journal of Income Distribution*, *Review of Radical Political Economics*, *Eastern Economic Journal*, and *Oikonomikos Tahydromos* (in Greek). Her current research focuses on the macroeconomics of gender-aware, full employment policies and economic modelling, including unpaid work. Antonopoulos received a Ph.D. in economics from The New School for Social Research.

INDIRA HIRWAY is director and professor of economics of the Centre for Development Alternatives, Ahmedabad, India. Her major areas of interest are poverty and human development, labour and employment, environment and development, environment accounting, gender and development, time use studies, development alternatives, and development paradigms. In the field of public works and employment guarantee programmes, she has written two books: *Wage Employment Programmes in Rural Development: A Study of National Rural Employment Programmes in India* (1986) and *Towards Employment Guarantee in India: Indian and International Experiences in Rural Public Works Programmes*(with P. Terhal) (1994). She has written several papers on the subject and has evaluated the recent Indian employment guarantee programme for the Indian government. She has been a member of the Indo Dutch Mission on the examination of feasibility of the Employment Guarantee Scheme in two Indian states (1994–95) and of the national team for concurrent monitoring of the National Rural Employment Guarantee Act, Ministry of Rural Development, Government of India, New Delhi.

SANTOSH MEHROTRA is advisor, Rural Development Department, Planning Commission, Government of India. He was formerly regional economic advisor, United Nations Development Programme Regional Centre for Asia, Bangkok, and senior policy advisor to the Human Development Report. He also led UNICEF’s research programme on developing countries at the Innocenti Research Centre, Florence, Italy. After receiving a Ph.D. from the University of Cambridge (1985), Mehrotra was associate professor of economics at Jawaharlal Nehru University, New Delhi (1988–91). He has been with the United Nations for the past 15 years as a human development economist. His research interests span industry and trade issues, the impact of macroeconomic policy on health and education, the informal sector, and the economics of health and education. His books include *India and the Soviet Union: Trade and Technology Transfer* (1990); *Development with a Human Face: Experiences in Social Achievement and Economic Growth* (1997); *Universalizing Elementary Education in India*: *Uncaging the “Tiger” Economy* (2005); and *The Economics of Elementary Education in India* (2006). He is co-author (with M. Biggeri) of *Asian Informal Workers: Global Risks, Local Protection (*forthcoming);

and (with E. Delamonica) *Reducing Human Poverty: Macro-economic Macro-economic and Social Policy to Achieve the Millennium Development Goals* (2006).

STEVEN MILLER is a senior policy advisor for the International Labour Office's (ILO) Employment-Intensive Investment Programme within its Employment Policy Department. Before joining the ILO, he was assistant director of the African Studies Centre of Boston University. He began his career with the ILO in 1982 as a chief technical advisor of a $4 million technical cooperation programme in Burkina Faso that provided rural employment through labour-based community infrastructure development. Miller joined the ILO headquarters in 1985, where he was responsible for research, training, and evaluation of the ILO's employment-intensive investment programs. He has worked and published in a number of employment policy areas, including urban employment, informal sector, and remuneration policies. In 1998 he was seconded to the United Nations Secretariat in New York to coordinate employment-related outcomes for the U.N. General Assembly's five-year review of the World Summit for Social Development, which included co-authoring the secretary-general's report that was discussed during a special session of the assembly in July 2000. Miller was the secretary of the U.N. Secretary-General's Youth Employment Network (YEN) from 2000 to 2005. YEN is a partnership of the World Bank, the ILO, and the U.N. that was launched by Kofi Annan within the framework of the United Nations Millennium Summit. He holds a bachelor's degree from Yale University and a master's (political science and economics) from Boston University. He has also carried out research toward a doctorate in colonial agricultural policy in the Democratic Republic of the Congo.

DIMITRI B. PAPADIMITRIOU is Jerome Levy Professor of Economics, Executive Vice President of Bard College and President of the Levy Economics Institute, a policy oriented think tank. He heads the Levy Institute's macroeconomic modelling team studying and simulating the U.S. and world economies and has authored and co-authored studies on Federal Reserve policy, fiscal policy, employment growth, community development and Social Security reform. Papadimitriou was vice-chairman of the Trade Deficit Review Commission of the U.S. Congress (1999-01) and a member of the Competitiveness Policy Council's Sub-council on Capital Allocation. He has testified on a number of occasions in hearings of Senate and House of Representatives Committees of the U.S. Congress on employment policy, community development banking and financial instability. In the fall of 2002, he was a Distinguished Scholar at the Shanghai Academy of Social Sciences (PRC). His research and writings are in three areas: financial instability and monetary policy; community development banking and employment policy; and distribution of income and wealth. He has edited and contributed to ten books published by Palgrave Macmillan and Edward Elgar and his last book was *Government Spending on the Elderly*. Currently he is co-authoring a book on *Employment Guarantee Policies: Theory and Practice*. Papadimitriou serves on the board of directors of William Penn Life Insurance Company, a member of the Legal and General Group Plc. He is a member of the editorial boards of *Challenge* and *The Bulletin of Political Economy* and holds degrees from Columbia University and a Ph.D. in economics from the New School for Social Research.

Annex Two

National employment guarantees and macroeconomic policy[10]

A Job Guarantee should be considered an integrated part of macroeconomic policy rather than an *ad hoc* standalone anti-poverty measure. It should be understood in terms of a broad modern monetary framework which is applicable to economies where only the national government is legally empowered to issue the currency.

Traditional macroeconomic reasoning, which largely on based fixed exchange rate logic, is not applicable in an economy with a flexible exchange rate system. Economic theory based on these assumptions, incorrectly advises national governments to:

- Pursue budget surpluses as a sign of fiscal responsibility (incorrectly assumes that surpluses increase national savings); and
- Avoid budget deficits as they lead to inflation and drive up interest rates (ill conceived crowding out theories);

In a modern monetary economy, these claims have no application and should not influence the design of policy. In a modern monetary economy, responsible governance requires a policy framework that maximises the inclusion and involvement of the citizens in the productive process, maintains a minimum standards of living and provides security from job loss.

A national employment guarantee becomes an integral strategy for:

- regional and social development;
- poverty alleviation;
- skills development; while promoting
- full employment and price stability.

How does a modern monetary economy work?

A modern monetary system is characterised by two features:

1) floating exchange rate, which frees monetary policy from the need to defend foreign exchange reserves;

2) a fiat (legal) currency, of which the national government is a sole provider.

The following macroeconomic principles apply to modern monetary economies.

The monetary unit defined by the government has no intrinsic worth. It cannot be legally converted by government, for example, into gold as it was under the gold standard (fixed exchange rate). Demand for the currency is ensured, as it is the only unit which is acceptable for payment of taxes and other financial demands of the government.

As a matter of national accounting, the national government deficit (surplus) equals the non-government surplus (deficit). In aggregate, the non-government sector cannot save without cumulative government deficit spending. This means that the pursuit of government budget surpluses leads to declines in private sector savings.

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[10] Annex Two was originally prepared by Professor William Mitchell, Director of the Centre of Full Employment and Equity, Australia, on behalf of the International Labour Office, for a research project titled, 'Poverty and unemployment: challenges for policy coherence, The role of the Expanded Public Works Programme in South Africa'.

Government spending is the source of the funds the private sector requires to pay its taxes and save. Government and household budgets are inherently different. Households use the currency and must finance their spending prior to the fact. However, the government issues the currency, and therefore must spend first before it can subsequently tax its population.

For total output produced by the economy to be sold, total spending must equal total income in each period. In the absence of government spending, unemployment arises when the private sector, in aggregate, desires to save and leaves a spending gap. The result is unsold goods, and jobs being shed. Thus, unemployment occurs when net government spending (budget deficit) is too low to accommodate the private sector need to pay taxes and their desire to save.

While national government spending is not financially constrained, this does not mean it should spend without control. Inflation will arise if spending exceeds the capacity of the economy to produce real goods and services. The spending outlays on a national employment guarantee are unlikely to encounter these limits and mass unemployment is a sign that there is significant excess capacity that can be used to increase incomes and living standards.

While the national government is not financially constrained it still issues debt to control its liquidity impacts on the private sector. Government spending and purchases of government bonds by the central bank add liquidity (inject purchasing power into the system), while taxation and sales of government bonds drain private liquidity (take money out of the system). These transactions influence the daily cash position of the system (the amount of liquidity) and on any one day they can result in a system surplus (deficit) due to the outflow of funds from the government sector being above (below) the funds inflow to the government sector. The system cash position has crucial implications for the central bank, which targets the level of short-term interest rates as its monetary policy position.

Budget deficits create excess reserves in commercial banks. Competition between the commercial banks to create better earning opportunities on these additional reserves puts downward pressure on the interest rate. Budget deficits thus put downward pressure on interest rates. If the central bank desires to maintain the current target interest rate then it must drain this surplus liquidity by selling government debt. In other words, government debt functions as interest rate support to maintain desired reserve levels in the commercial banking system. Government debt does not finance government spending.

What does this mean for government job creation schemes?

A Job Guarantee would thus provide the economy with a way of automatically ensuring government spending was sufficient to fully employ all the available and willing workers who were unable to find work elsewhere. By purchasing labour “off the bottom” of the wage structure (at the minimum wage) the government would not place any market pressure on inflation.

A Job Guarantee would not only utilise the productive capacity of the workforce which would otherwise be wasted but also provides a structure through which skills development and upgrading can occur. Most importantly, an understanding of the principles governing a modern monetary economy outlined briefly above, would lead us to conclude that the government spending required to support a Job Guarantee would:

- not increase interest rates;
- not increase the inflation rate;
- not impose an increased taxation burden on the private sector.

Annex Three

Employment Guarantee Schemes and the Millennium Development Goals[11]

A suitably designed EGS can also contribute to….

MDG	EGS design element	Example…
MDG 1: Eradicate Extreme Hunger and Poverty	▪Wage income benefit; ▪Beneficiaries can be engaged in development of community gardens and other agricultural practices.	▪Argentina: effectively reduced the incidence of indigence by 25% ▪South Africa: the Working for Water programme engages beneficiaries in development of community gardens
MDG 2: Universal Primary Education	▪Wage income benefit; ▪Programme entry requirement; ▪Work/education options; ▪Beneficiaries can be engaged in school construction/maintenance activities.	▪Argentina: beneficiaries were required to register their children in school; ▪Argentina: options were also given for beneficiaries to complete secondary schooling.
MDG 3: Promote Gender Equality and Empower Women	▪Benefit of wage income; ▪Gender targeting design elements; ▪EGS effectively draw women into the labour force; ▪Reduce burden of unpaid work.	▪South Africa, Argentina & India: all successfully draw women into the labour force ▪South Africa: sets social equity targets for programme participation: 40% female, 30% youth, 2% disabled.
MDG 4: Reduce Child Mortality	▪Wage income benefit; ▪Programme entry requirement; ▪Compulsory education/training programs; ▪Beneficiaries can be engaged in development of water and crèche related infrastructure	▪Argentina: The Jefes programme had a child vaccination programme entry requirement. ▪South Africa: Childcare for the children of workers is critical both in terms of protecting the safety of children and releasing women into the workforce. A partnership with the Department of Welfare assists in the setting up of crèches in rural areas.
MDG 5: Improve Maternal Health	▪Wage income benefit; ▪Compulsory education/training programs; ▪Beneficiaries can be engaged in auxiliary community care activities; ▪Reduce burden of unpaid work.	▪Maternal health care education programmes could improve maternal health by prevention. ▪South Africa: working for Water projects joined forces with the Planned Parenthood Association and UNFPA to provide reproductive health care training and support to workers.
MDG 6: Combat HIV/AIDS, malaria & other diseases	▪Compulsory education/training programs; ▪Beneficiaries can be engaged in auxiliary community care activities.	▪South Africa: the EPWP actively engages beneficiaries in sexual health education programs. ▪South Africa: the Home Community Based Care (HCBC) programme provides basic care services to the sick and elderly.
MDG 7: Ensure environmental sustainability	▪Engage beneficiaries in environmental remediation and development of water and housing related infrastructure.	▪India & South Africa: both programmes engage beneficiaries in a full range of environmental remediation activities.
MDG 8: Develop a global partnership for development	▪Youth targeting design elements; ▪Learning from the international experiences of job creation programs.	▪South Africa: sets social equity targets for programme participation: 40% female, 30% youth, 2% disabled. ▪http://www.economistsforfullemployment.org

[11] This table was derived from the presentations prepared by Dimitri Papadimitriou.

Annex Four

International Experience of Government Job Creation: Selected Programs[12]

Country	Year	Programme Description
Argentina	2002 onwards	Head of households plan (Jefes de Hogar): offered households with children under 18, 20 hours of work per week[13].
Australia	1940-1970	Keynesian Commonwealth Employment Service, delivered an average of 2% unemployment; in contrast to unemployment hovering near 9% in the 1990s and over 4% presently
Bolivia	1986-90	Emergency Social Fund engaging beneficiaries in public works and infrastructure.
Botswana	1980s onwards	Labour-Based Relief Programme and Labour-Intensive Rural Public Works Programme
Chile	1975-1987	The minimum employment programme was a public works programs, developed to combat 30% unemployment, and employed up to 13% of the workforce.
France	Conceptualised in 1984, piloted in 2005	'Professional Transition Contracts' first proposed by Jacques Attali in 1984. Pilot programmes began in six districts (2005) and are currently being evaluated before being officially adopted nationally.
Ghana	1988 onwards	Programme of action to mitigate the social costs of adjustment, largely involving labour intensive construction.
India	1972, 2005	Maharashtra Employment Guarantee Scheme: guarantee manual work to any applicant National Rural Employment Guarantee Act: offers 100 days of employment to rural households
Indonesia	Re-launched in 1998	*Padat Karya* programmes involving poverty alleviation and emergency job creation measures in response to Asian crisis, small-scale infrastructure projects.
Korea	1997-8	Master plan for tackling unemployment: emergency public works programmes for low-skill workers following the East-Asian crisis
Mexico	1995 onwards	Programa de Empleo Temporal: community development through intensive use of unskilled labour for social and productive infrastructure. By 2000 programme had increased to one million beneficiaries.
Morocco	Since 1961	The Promotion Nationale has been successfully operating for over 45 years. The programme focuses on the development of rural communities, the Saharan and South Provinces. (Consistent annual increases in working days)
Nepal	1989	Dhaulagiri irrigation development project
Peru	1991-5	Programa de apoyo al ingreso temporal, a public works programme focusing primarily on Women (At one time employed 500,000).
South Africa	2004 onwards	The expanded public works programme seeks to reorient existing departmental expenditure in ways that maximise jobs creation in environmental, infrastructure and social sectors.
Sri Lanka	1985 onwards	National housing development authority: engages urban communities in housing and infrastructure development.
Sweden	1938-1970	Programme focused on the "socialization of investment" and offered an alternative to welfare-ism by emphasizing the "right to work" rather than the "right to income." Unemployment rates remained below 3% until the late 1980s, when the programme was dismantled.
United States	1933-1936	New Deal public works programmes (WPA, PWA, CWA)
Zambia	1991 onwards	Micro-project unit targeted the poor and focused on the maintenance of existing infrastructure.

[12] This table was derived from the presentations prepared by Dimitri Papadimitriou.
[13] This program is further explored in the presentation summary of Dimitri Papadimitriou.