The Employer of Last Resort (ELR) is a proposal for a government funded programme in which the government employs all of the jobless who are ready, willing, and able to work in a public sector project at a base wage.

The proposal stems from the Post Keynesian understanding that unemployment is a monetary phenomenon and that profit-driven capitalist economies consistently fail to produce and maintain anything close to true full employment. Keynes himself had argued that governments must do everything that is humanly possible to produce ‘a reduction of the unemployed to the sort of levels we are experiencing in wartime…that is to say, an unemployed level of less than 1 per cent unemployed’ (Keynes 1980: 303). This tight definition of full employment is at the heart of the ELR proposal. Although calls for the government to become the employer of last resort were popular as early as the 1930s, contemporary scholarship has formalized the proposal as follows.

First, ELR offers an infinitely elastic demand for labor. ELR is not a depression solution. There are people looking for work even in expansions and this permanent and voluntary programme hires the unemployed irrespective of the phase of the business cycle. Since government is the only institution that can divorce the profitability of hiring from the decision to hire, the programme would eliminate unemployment by taking workers ‘as they are’ regardless of their work experience, race, age, or gender.
Second, ELR hires off the bottom. Unemployment is eliminated by direct job creation, not by ‘pump priming’ or by raising aggregate demand. It is a bottom-up policy that offers an employment safety-net to those individuals who tend to be last hired and first fired from private sector work—normally the least skilled and least educated. By contrast, pro-growth pro-investment aggregate demand policies always increase demand for the highly-skilled, highly-educated, and highly-paid workers first. Once the economy begins to recover, demand starts to trickle down to other workers, but never far enough to reach all of those who wish to work. Instead of targeting some level of investment or output growth (which may or may not produce true full employment), the ELR programme goes to the heart of the problem and closes the demand gap for labor by guaranteeing a job at a base wage.

Third, ELR operates as a buffer stock. The key counter-cyclical stabilization feature is its buffer stock mechanism, where labour in the ELR programme is the buffer stock that fluctuates with the cycle. In recessions, workers who are laid off from the private sector find jobs in the ELR programme, expanding government spending countercyclically. Once the economy recovers, they are hired away from the public sector into better-paying private sector jobs, reducing public expenditure.

Fourth, ELR stabilizes wages and prices. As with any buffer stock programme, ELR stabilizes the price of the buffer stock—in this case, wages at the bottom. An ELR worker will be hired by a private employer at a margin above the ELR wage and, thus, the ELR wage becomes the effective minimum wage. Although it should not compete with wages in the private sector, some argue that it should be set at the living-wage level that establishes a minimum wage-benefit standard for the economy. To the extent that wages are a cost in every producible and reproducible commodity in the economy and the ELR program stabilizes them at the bottom, the program would also help stabilize prices. Other price
stabilization features include the countercyclical mechanism which alleviates both inflationary and deflationary pressures in the economy as a whole, as well as the program’s supply-side effects. In contrast to income-support programs, ELR directly increases both the demand for workers and the supply of goods and services. That supply can be directed to satisfy the very needs of the previously unemployed and poor, thereby absorbing part of the ELR wage.

Fifth, ELR spending is always at the appropriate level. With pro-growth pro-investment pump priming policies, economists never know exactly how much stimulus is needed to produce genuine full employment. Producing effective demand consistent with full employment is particularly difficult with such policies because the determinants of effective demand (investment, saving, and portfolio allocation) are highly subjective and not under the direct control of policy-makers. With ELR, however, government spending will be no more and no less than what is necessary to hire all who wish to work.

Sixth, ELR operates with loose labour markets. The programme must be flexible enough to absorb new entrants in the ELR pool but also to let them go when they find private sector employment, without major disruptions to the public sector projects. A careful program design will produce a database of such tasks that can be easily shelved when there is little demand for ELR work. But it will also permit some level of experimentation if there is an unexpected influx of workers into the ELR pool. Keynes’s own view was that macroeconomic stability and full employment would be achieved by hiring the jobless directly into a long-term programme for the socialization of investment, where a considerable amount of investment would be under public or semi-public auspices (Keynes 1964[1936]: 378). This means that at any given time, the pool of public sector workers would be quite large. But should unemployment unexpectedly develop, the state would play the
role of ‘entrepreneur in chief’ to provide enough employment opportunities. In the absence of a sizeable socialization of investment, however, the ELR programme would serve essentially the same function of delivering macroeconomic stabilization and full employment through direct hiring into socially useful projects. Thus some have compared the ELR programme to a universal public service employment scheme (e.g., Forstater 2004).

Seventh, ELR has key preventative features over the long run. It is one thing to maintain full employment over the long run through private and public employment schemes (including traditional public sector work and ELR employment) and an entirely different task to eliminate unemployment once it has developed in the absence of such programmes. In the latter case, the policy response is always too small and always too late and, without a plan for direct employment, unemployment always accelerates far too quickly. Furthermore, much greater policy intervention is needed to produce job growth through pump priming policies, which never garner sufficient support to generate anything close to true full employment.

Eighth, ELR maintains and enhances human capital. Unlike cash transfers, this employment safety-net does not waste human potential by keeping the unemployed and poor in idleness and misery. Instead, it mobilizes their manpower for the public good. Even the poorest and least educated individual has something to contribute to their community. ELR aims to find them decent work that provides both on-the-job training and other educational opportunities that prepare them for post-ELR work.

Ninth, ELR workers perform socially useful work. ELR supplies public goods and services that the private sector generally fails to provide. There is no shortage of needs that require attention in any community, no matter if it is poor or relatively wealthy. The job of policy-makers is to carefully assess those needs and the available resources to adequately
address them, as well as to improve upon current projects and implement others that may be deemed more beneficial.

Tenth, ELR is an institutional vehicle to achieve other socio-economic goals. ELR can be used as a strategic tool for addressing pressing socio-economic problems, beyond that of unemployment. Research on direct job creation has identified some potentially transformational effects on poor women and destitute communities of such programmes. Some advocate that ELR take the form of a Green New Deal or a Green Jobs Corps that launches a massive environmental renewal effort and public investment in green technology (Forstater 2004).

Eleventh, ELR is financially sustainable over the long run in sovereign currency nations. ELR proposals are normally linked to the Post Keynesian modern money and functional finance literature, which argues that countries with freely floating nonconvertible currencies face no solvency problems or technical constraints in funding these programs in perpetuity. More than that, ELR itself can serve as a benchmark for the value of such fiat currencies. Currency values are very complexly determined, but they essentially reflect what one can buy with the currency. Advocates argue that the ELR hourly wage pins down a basic conversion rate between labor and the currency. In other words, a $10/hour ELR wage, for example, anchors the currency in labor power and sets the value of the dollar to be equal to six minutes of work. If the wage were doubled, then as a benchmark (recall that ELR stabilizes all wages at the bottom), one dollar will exchange for three minutes of work or will erode in value by half. So when the emitter of the currency (the government) sets the exchange rate between the currency and the labor in the countercyclical buffer stock pool, it helps stabilize the value of its currency. Freely floating nonconvertible currencies today have no equivalent anchors. Finally, ELR advocates argue that in the absence of a solvency problem, the effects
of government policy must be evaluated according to the principles of functional finance, namely by the program’s real effects on the economy and not by its financial costs.

One common objection to ELR deals with the administration and management of such programmes. One can look no further than nationwide war-time armament policies or the management of the military in peacetime, to see that governments are quite capable, but perhaps unwilling, to embark on similarly ambitious efforts for the purposes of civilian production and public service. But the more serious criticisms of ELR question its ability to deliver macroeconomic stabilization through full employment and price stability in practice. Several studies have looked at a recent direct job creation programme in Argentina (Plan Jefes) that was explicitly modeled after ELR proposals in the U.S. and Australia and find that, although the program was not universal (it was open to heads of households only) and had a number of other shortcomings (e.g., a small educational component), it exhibited virtually all of the above-mentioned features of the ELR proposal (Tcherneva and Wray 2005a,b).

History has witnessed few long-term policies for full employment (most notably in postwar Sweden). Most direct job creation programmes, as Argentina’s and the U.S. New Deal in the 30s, are normally implemented as emergency measures and, therefore, short-lived. In Argentina, for example, despite its enormous success, the program was phased out after three years under heavy political pressure. Thus perhaps the most persuasive critique of ELR is a political one, stemming from the Kaleckian argument that full employment policies in general tend to be strongly opposed by the captains of industry. Nevertheless, in 2005 an ELR-type policy was codified into law in India (The National Rural Employment Guarantee Act), suggesting that the social, environmental, and economic benefits of the programme, at least in one country, are deemed more important than whatever drawbacks businesses may see in it, to warrant its mass support and implementation.
References


Tcherneva, P.R. and L.R. Wray, (2005b), ‘Gender and the Job Guarantee: The impact of Argentina’s Jefes program on female heads of poor households’ Center for Full