DOMESTIC PUBLIC RESOURCE MOBILISATION FOR DEVELOPMENT

Presentation by Jan Kregel

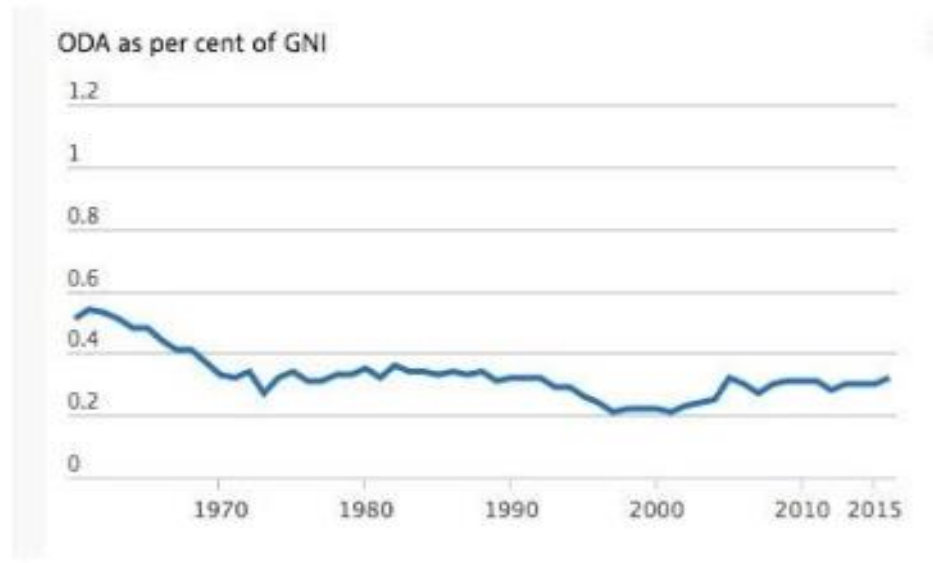
The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

Levy Economics Institute of Bard College

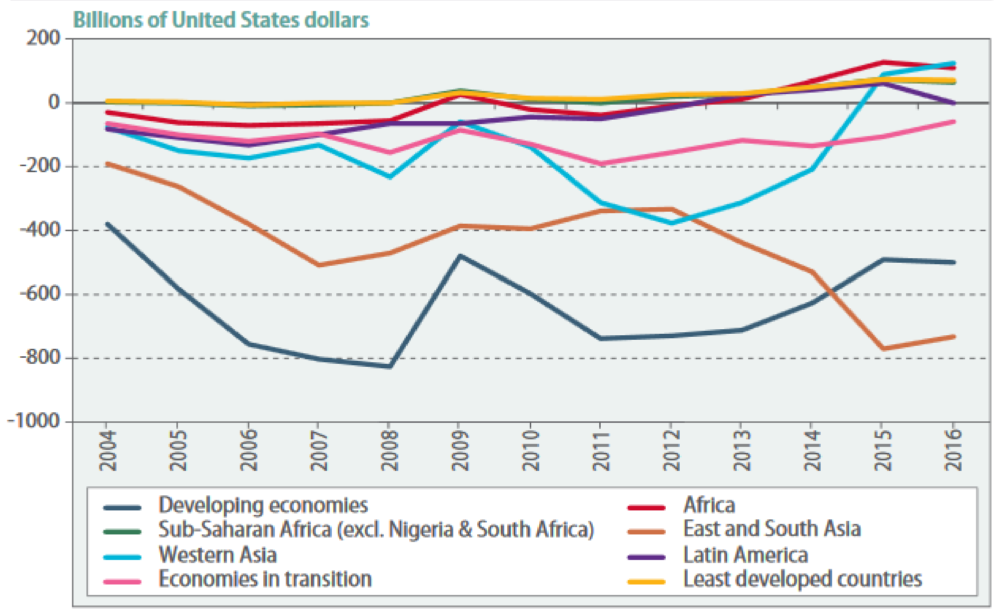
How are we doing sixty years on?

- First UN Development Decade (1961): Mobilise Foreign Resources
  - *Low Domestic Savings Made Foreign Resources Necessary*
  - *0.7% of DC GDP Transfer of Official Financial Resources*
  - *Sixty + Years later: Never achieved,*
  - *After 1970 Dominated by (**Negative**) Net Private Financial Flows*
- First UNCTAD Conference (1964): Mobilise External Trade
  - *Declining Terms of Trade may swap financial flows*
  - *Prebisch: Let us "Earn our Way to Development"*
- SDTreatment, GSPreferences, Buffer Stocks
  - *Tendency to decline until 1970s then 2004 – 2008*
- Monterrey Consensus: Mobilisation of Domestic Resources
  - *First Pillar: Supportive enabling environment; Good governance; Control of corruption; Sound macroeconomic policies; Public resources/budgeting; Sound banking systems; Micro-finance/SMEs – including women and rural areas; Capacity building, with special focus on Africa*

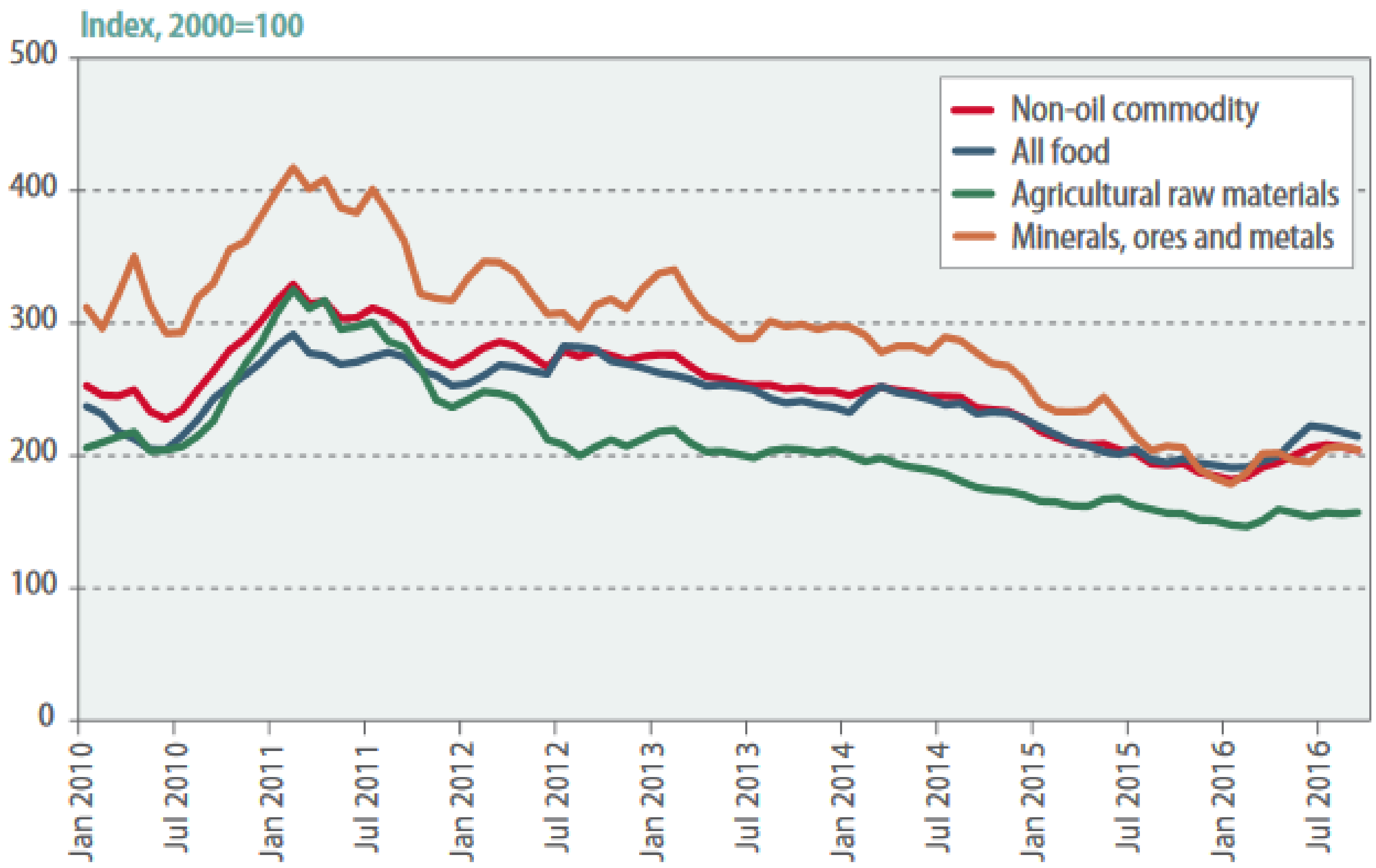
Figure 2: ODA trends since 1960[xiv]



Net transfer of resources to developing economies and economies in transition, 2004–2016



UNCTAD non-oil Commodity Price Index, January 2010–September 2016



Public Sector Resource Mobilisation?

- The“Public Sector” has no Resources to Mobilise
- Taxation cannot be a “source” of Financing
- The Government Budget Balance” is an endogenous variable
  - *Determined by:*
    - Private domestic expenditure
    - Net foreign expenditure
    - Public expenditure
- Government Cannot Create Foreign Finance or Foreign Demand
- IT CAN CREATE DOMESTIC FINANCIAL RESOURCES to Support Mobilisation of External Sector
  - *Design of Domestic Private Financial System*
  - *Design of Public Financial System*
  - *Exchange Rate Management*

Development Objective: Employment

- Prebisch, Lewis: Employment for "Underemployed" Agricultural workers (Disguised unemployment)
  - *Develop Manufacturing to Absorb Agricultural workers*
- Higher wages due to higher technical progress in Industry raise living standards and demand for rising output
- But Innovation in Manufacturing reduces employment per unit output
- Develop Services to Absorb Unemployed Manufacturing workers
- Innovation produces higher per capita income as it reduces demand for labour per unit of output
- No matter the level of development, the problem repeats: Finding employment for Disguised unemployment
- And this requires sectoral policy and government institutions

Domestic Financial System

- Schumpeter: Finance is the “ephor” of capitalism, allowing innovation by entrepreneurs through credit: creation of purchasing power “out of nothing” because they operate the payments system
- The Public Sector can do this too: With an Effective Fiscal system:
  - *Taxes are a liability that can be extinguished only by means of acquiring government issued promises to pay*
  - *You can only acquire these IOU’s by selling goods and services to the government*
- Efficient Taxation is only required to allow the government to create purchasing power out of nothing to finance development
- Not to finance expenditures

International Payments System

- Keynes used this same principle for his Clearing Union
  - *To create financing for external deficits out of nothing*
  - *And finance development by preserving global demand*
- The IBRD could never do this
- The current proposals for Regional development banks do not do this
- This system is more efficient that supporting international capital flows for development finance

THANK YOU

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