DOMESTIC PUBLIC RESOURCE MOBILISATION FOR DEVELOPMENT

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

- First UNCTAD Conference (1964): Mobilise External Trade
  - Declining Terms of Trade may swap financial flows
  - Prebisch: Let us “Earn our Way to Development”

- SDTreatments, 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

ODA as per cent of GNI

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

Billions of United States dollars

- Developing economies
- Sub-Saharan Africa (excl. Nigeria & South Africa)
- West Asia
- Latin America
- East and South Asia
- Economies in transition
- Least developed countries
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 than supporting international capital flows for development finance
THANK YOU

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