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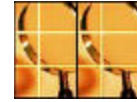
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PALESTINIAN DEVELOPMENT PLAN

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The Palestinian Authority, established and approved by Israel and the Palestine Liberation Organization in the 1993 Oslo Accords, was designed as a governing body that performs the functions of a State. The primary goal in its institution-building efforts is to provide the Palestinian People living in the West Bank and Gaza with a quality of life that is desirable and indispensable.

The following plan has been presented to a number of individuals and groups with an interest in the Middle East Peace Process and development in Palestine. This report offers an institutional framework for implementing a public service program that will enhance growth and development in the private sector, improve social services and public infrastructure, and foster economic performance.

I. Community Service: Program Outline

1. The Palestinian Authority [PA] will institute a public-service requirement on all residence owners under its jurisdiction.
2. The PA will offer public-service employment to anyone *willing and able* to work.
3. The PA will issue freely-transferable vouchers in return for the number of hours worked in the community.
4. Residence owners will be in compliance with the public service requirement by submitting vouchers to the PA.

The first condition applies to all homeowners including those of rental units. The conditions of the program induce residents to participate in public service to obtain the vouchers to meet their requirement. Vouchers will be issued by the PA with the inscription “this note represents one hour of community service labor,” and denominated in 1, 5, and 10-hour notes. Each homeowner will have an obligation of, for example, 200 hours of public service per year, payable in PA vouchers. As homeowners retire their liabilities, the PA may either stockpile the vouchers for future use or simply destroy them and issue new ones in future payment.

II. Important Program Properties

1. Spending Comes First

The PA cannot collect vouchers in proceeds before it has first spent them for public service hours worked. Additionally, it cannot collect more than it has paid out. In fact, a ‘balanced budget,’ with (voucher) revenues equal to its spending, is the theoretical and practical limit. Almost certainly, however, the PA will run a deficit in the first year, as some vouchers are lost or hoarded for future use. Any surplus in later years will be limited by the quantity of vouchers issued in previous years.

2. No Financial Constraints

The PA’s spending on public service labor is in no way dependent on its receipts.

It is limited only by the number of workers desiring to hold community sector jobs. Spending is 'market determined' in that workers obtain the number of vouchers corresponding to the hours they are willing to work. Voucher revenues maintain the incentive for work in the public sector; they *do not* fund public service operations. Similarly, the role of the vouchers is to induce employment in the public sector. In other words, the PA does not impose voucher requirements in order to ensure that vouchers flow into its coffers, but rather to ensure that labor flows into community service.

3. Value of a Voucher

The market value of a voucher will be a function of the difficulty of obtaining vouchers from the PA. Value is determined in the market place by what other homeowners would pay to buy them from workers (rather than perform the public service work themselves). The more difficult the public service tasks, the higher the market value of the vouchers. The value of the voucher is independent of the quantity of vouchers issued (or received) by the PA, providing that the PA only pays vouchers for public-service labor and does not refuse to hire anyone willing and able to work. Nor does it depend on whether the PA runs a deficit, a balanced budget, or a surplus in a particular year. As long as workers must work for an hour to obtain a voucher, the value of the voucher will remain equal to one hour of labor.

4. Unemployment is eliminated

There will be homeowners unwilling to do community service in exchange for vouchers. Perhaps they will prefer to obtain the vouchers by buying them from those people who have already performed community service. Private transactions denominated in vouchers will thus develop. The unemployed will quickly realize that they can buy food (or other goods and services) in the private market in exchange for vouchers and so will show up at PA offices to perform community service. In

other words, anyone willing and able to work for vouchers can obtain a job. Only if the PA restricted the number of vouchers it is willing to issue below the amount desired would workers be unable to find public service employment. The result would be unemployment.

5. Evaluating Performance

The requirement imposed should be determined by the needs of the government for community service balanced against the costs of removing the labor from the private sector. Program success would be assessed by careful evaluation of the actual accomplishments of the community services provided, and by the impact that community employment had on the workers themselves.

If community service needs are met, yet new workers continue to show up for work at PA offices, the PA may reduce the requirement. Conversely, if not enough labor is induced into the public sector, the requirement can be increased.

6. Automatic Stabilizer

With large numbers of workers being paid in vouchers, private markets will develop and vouchers in private hands will be used to hire workers previously employed in the PA's public offices. As public-service work hours decline, the PA will issue fewer vouchers for that work. This reduces the excess vouchers in the hands of the private sector to the point where the ratio of private sector to public sector workers stabilizes. Certainly, there will always be workers moving from private to public employment, and vice versa. The voucher system provides a continuous automatic stabilizer to ensure equilibrium of demand and supply of vouchers.

A deviation from equilibrium sets in motion forces to restore the equilibrium, not to exacerbate it. For example, a fall in private-sector output (a reduction in private-sector employment) automatically increases public-sector employment. This puts more vouchers in the hands of workers to spend in the private sector, which in turn raises

private-sector employment. Everyone willing and able to work will be working, either in the private sector or the public sector. There are never any unemployed workers.

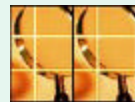
III. Conclusion

The Palestinian people currently suffer from an official unemployment rate at Great Depression-era levels. The uncertainties stemming from political instability discourage investment or other long term projects and commitments. Higher rates of employment, infrastructure revitalization, and community organization can help

improve the lives of the Palestinian people and their society, and can contribute to a better future for themselves and their neighbors. The program proposed herein will act as an engine of growth, providing a stimulus for private-sector activity, an internally-stable currency, and full employment, without any external debt. The program will act as an automatic stabilizer in times of economic prosperity or downturns. With a fully independent government, the West Bank will reveal unprecedented economic power. The program may then be extended to Gaza.

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The Center for Full Employment and Price Stability is a non-partisan, non-profit policy institute at the University of Missouri - Kansas City dedicated to promoting research on and public discussion of issues related to macroeconomic and monetary policy, especially employment and budgetary policy. The Center is interested in your feedback on the ideas put forward in its publications. You can contact us at:

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