Modern Money Theory and Employment Guarantee

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Brief Outline

• Modern Monetary Theory (MMT)
  • Some basic definitions
    – Financial sovereignty
    – Accounting Balances
    – KSA Accounting Balances

• Youth Unemployment in Saudi Arabia:
  – Facts
  – Challenges
  – Opportunities

• The Job Guarantee Program
  – How Does it Work?
  – Its Benefits
  – Examples

• Job Guarantee Options for KSA
  – Social Entrepreneurship
  – Social Venture Partnerships
What is Financial Sovereignty?

- A financially sovereign government is a government that:
  - issues its own currency,
  - collects taxes/fees in its own currency, and
  - only issues bonds denominated in its own currency

- Financially sovereign countries include: US, UK, Canada, Japan, Australia, and KSA → Currency Issuers

- **Currency users** are not financially sovereign: examples, private sector firms, households, and governments who borrow foreign currencies (Tunisia, Egypt, Jordan, etc.)
Accounting Identity

Gov. budget balance + Private sector balance + Foreign sector balance = 0

This is always true in any country in the world
KSA Sectoral Balances

KSA Government Surplus

Percentage of GDP


-40 -30 -20 -10  0  10  20  30  40

Government Sector  Domestic Private Sector  Foreign Sector
KSA Sectoral Balances

- KSA Government Surplus
- KSA Private Sector Surplus

Percentage of GDP

Year: 1992 to 2012

- Government Sector
- Domestic Private Sector
- Foreign Sector
KSA Sectoral Balances

KSA Government Surplus

KSA Trade Surplus

KSA Private Sector Surplus

Percentage of GDP


Government Sector  Domestic Private Sector  Foreign Sector
KSA Accounting Identity in 2012

Gov. balance (13.27%) + Private balance (18.27%) + Foreign sector (-31.96) = 0
MMT and Job Creation in KSA
Private Sector Labour Force (2010; SAMA)

- Saudi: 10%
- Non-Saudi: 90%
Saudi Unemployment Rates

Year       | Male | Female | Total
-------|-----|-------|------
2012.Q1   |     |       |      
2012.Q2   |     |       |      
2012.Q3   |     |       |      
2012.Q4   |     |       |      
2013.Q1   |     |       |      
2013.Q2   |     |       |      
2012.Q3   |     |       |      
2012.Q4   |     |       |      

Legend: Male, Female, Total
Non-Saudi Unemployment Rates

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<th>Female</th>
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Costs of Unemployment in KSA

• KSA can increase annual GDP growth by 2.3% if youth employment-to-population ratio increases to Australia’s level (ILO).

• KSA can grow at 8-9% annually if women’s labor force participation is the same as men’s (Nasser Saidi & Associates).

• The longer a person is unemployed, the harder it gets to find a job.
Other Costs of Unemployment

• Social costs, poverty, crime, divorce, family/social fabric breakdown

• Health costs (physical and psychological)

• Deterioration of skills with long-term unemployment
Employment Guarantee

• Take workers as they are
• Jobs first, training later
• On the job training
• These are not traditional government sector jobs
• And not private sector jobs
• These are community service jobs that pay a fixed living wage
• Funding for the program can come from Government grants or private sector grants (CSR accounts)
Community-driven Job Guarantee

• Local community groups identify their needs

• They identify the existing skills of the local unemployed population

• Employ the existing skills creatively to serve the specific needs of the local community

• If the local skills are not sufficient, then work on building those skills through on-the-job training.

• Countercyclical adjustment
How does it affect the private sector?

- Community service jobs do not compete with private sector production; they complement it.
- Private sector employers can obtain labor at a mark-up over the Community Service fixed wage.
- These jobs will reduce uncertainty and smooth out business cycle fluctuations.
Rethinking “public works”

- Focus on civic engagement and local community development
- Community capital
- Enriching the social fabric
- Examples:
  - Assistance to the elderly and the disabled
  - Oral history projects to preserve valuable community values, traditions, and achievements
  - Leverage digital and media resources to invest in community development
  - Recycling projects
  - Environmental cleanup
  - Installation of solar energy packages
Projects for Skilled Workers

- Public school tutors, public school and/or community artists
- After school programs, youth development
- Websites and Social Media devoted to information dissipation, conservation of local/regional history, culture, and traditions
- Community health care consultants, recycling consultants, community historians, community ethnographers, community statisticians, community tech. assistants, community web developers and webmasters, social media consultants
- Arts/culture revival projects, conservation of cultural heritage
More Examples

- environmental cleanup, seashore cleanup
- anti-salinization, flood control, storage of runoff waters
- creation/expansions of community gardens
- recycling projects, installation of solar energy packages
- soil conservations, small-dam construction, watersheds protection from erosion, management of renewable resources such as groundwater supplies
- Connecting with Science and Technology universities and companies to drive innovation to address community needs
Community Service Jobs Program in Argentina (*Jefes*)

- Created 2 million jobs
- Increased GDP
- Increased labor force participation
- Raised community/civic engagement
- Increased re-entry into private sector jobs
Jefes Beneficiaries

Steady Decline in Jefes Beneficiaries

SOURCE: Ministry of Labor, Employment and Social Security, Argentina
Re-entry into the Private Sector

Reentry Into the Private Sector:
Evolution in the insertion rate of beneficiaries into the labor market

Source: Ministry of Labor, Employment and Social Security, Argentina
A Social Entrepreneurship Model

• Problem Identification
• Root Cause Analysis
• Asset Mapping
• Social Innovation
Social Venture Partnerships

- Venture Capital Model applied to address community needs

- Venture Philanthropy: Gives "$Money$ + Brain Power" in order to maximize positive social impact.
Concluding Remarks

• The current unemployment situation calls for urgent and bold actions
• The traditional employment policies have not been very effective
• KSA can be a role model for the entire region
• Full employment is possible, desirable, and affordable