

The Mosler Palestinian Development Plan

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I. Introduction

The continuing economic depression in the West Bank and Gaza is the prime source of misery and unrest. Unemployment is well over 30%, with estimates ranging up to 70% since employment in Israel was suspended. That the violence is not even more intense under these extreme conditions is perhaps a reflection of the inherently peaceful nature of most Palestinians.

The Palestinian Authority (PA) relies almost exclusively on 'donor funding.' No other sources of funds have emerged. The current plan is to maintain the approximately \$50 million per month of external donor funding that supports the PA's current payroll. Loss of sufficient donor funding would equate to further loss of public services and PA infrastructure, and the increased probability of increasingly desperate behavior.

To compound matters, the world economy is in a cyclical retreat, making further external assistance problematic. Weak economies lead to general fiscal cutbacks, and they also tend to reduce energy consumption, which could mean sharply lower oil prices. As current PA funding seems to be coming mainly from oil producing neighbors, this funding could also be at risk.

The backbone of all societies is public service. The legal system, educational facilities, transportation infrastructure, water and sewer infrastructure, and environmental standards characterize a modern economy. The Mosler Plan presents an institutional framework for implementing a public service program that will both provide the essential public services and foster private-sector development and growth. It is internally stable and requires no external finance.

The Mosler plan empowers the government to provide public service jobs without limit to anyone willing and able to work in a region with devastating unemployment. By providing a means for the government to employ all the labor that is currently idle in the public sector until private sector demand for labor increases, a peaceful and prosperous environment is promoted. And throughout history a government that can provide full employment and prosperity has always commanded the respect of both its citizens and the world at large.

II. Community Service Hours: Program Outline

1. The PA will impose a requirement that all residence owners submit receipts for 200 hours of qualifying public service per residence, including both single family and multi family residences.

This requirement is to submit receipts for public service, which means that residence owners have the choice of doing public service work themselves or obtaining the

receipts from someone who bought or otherwise obtained the receipts.

The immediate effect of this requirement is the creation an immediate need for public service receipts by residence owners. This incents them to either apply for public service work with the PA to directly earn the needed receipts, or offer for sale goods and services to other private citizens in exchange for the needed receipts.

2. The PA will offer qualifying public-service employment to anyone willing and able to work.

The requirement in (1) above caused residents to seek employment that pays them the receipts needed to satisfy their requirement. And by offering employment to anyone seeking it, those who own residents will readily be able to do public service work and earn the receipts necessary to preserve ownership of their property.

3. The PA will issue freely-transferable receipts for the number of hours worked. Paper receipts are to be issued by the PA as evidence of hours worked with the inscription 'this is a receipt for community service labor,' with denominations of 1, 5, and 10 hours. Additionally, receipts could be further subdivided, perhaps into ten '6 minute' coins.

The suggested annual liability of receipts for 200 hours of service represents about 4 hours per week, which is about 10% of a typical work year. (The PA, of course, will make the actual decision of the size of the requirement.) PARs (Palestinian Authority Receipts) are freely transferable and can be acquired either directly from the PA through public service or from others who earned them from the PA.

III. Implications

Automatic Full Employment

Anyone willing and able to do public service work in return for PARs will be given employment by the PA. Residents will desire to be employed in exchange for PAR because they either have a requirement to submit them, or because they will see that real goods and services being offered for sale in exchange for PARs by others who need them.

Total PA Issuance of Receipts is Market Determined

The quantity of receipts issued by the PA is 'market demanded' as workers can obtain as many receipts from the PA that they are willing to work for.

No Payment of Interest

With the Mosler Plan the PA has no need for finance or borrowing, and there is no PA involvement in the payment or receipt of interest. It is therefore compatible with both Shari'a and Western law.

The Value of a PAR

The market value of a one hour PAR will be a function of the difficulty of obtaining PARs from the PA. Value is determined in the marketplace by what other residence owners would pay to buy PARs from someone else, rather than do the public service work themselves. For example, the more difficult the public service tasks, the higher the market value of the PAR.

The value of the PAR is therefore independent of the quantity issued or received by the PA, providing that the PA only issues PARs for public service labor and does not refuse to hire anyone willing and able to work. As long as workers must work for an hour to obtain a receipt for one hours work, the value will remain equal to one hour of labor. It will be internally stable without foreign exchange reserves and independent of international trade balances.

IV. Expanding the PA's use of PARs

This analysis has been limited to public service labor. However, it is likely that shortly after the program is initiated, many other goods and services will be offered by businesses and individuals in exchange for PARs. This will be a function of the number of PARs residence owners, at some rate of exchange, would rather trade something than do the actual public service themselves. These people may be fully employed at other occupations, or simply prefer other types of work than the public service positions available.

At this point the PA will have the option of purchasing these other goods and services with PARs. As before, spending will be operationally limited only by what is offered in exchange PARs. However, this additional PAR spending does reduce the need of residence owners to obtain PARs through public service labor. This in turn will reduce the amount of public service labor they offer to the PA. Therefore, PAR spending by the PA beyond that of public service labor should be limited so as to make sure a credible number of workers must still seek public service employment.

It should also be anticipated that another class of government worker will be desirable. These will be individuals who have special skills (e.g., doctors, lawyers, accountants, engineers, teachers, etc.) needed by the PA, but who earn more than the value of one PAR per hour in the private sector. To attract these individuals to public service may require that they be paid "market wages" which exceed one PAR per hour. As explained above, the PA's spending of PARs on these individuals will reduce the number of hours worked by those given the stated rate of one PAR per hour.

In summary, the PA begins with the hiring of public service workers who will receive PARs stating their hours worked. As the program develops, the PA will spend PARs on other things, with a careful eye on the degree that such other spending is reducing the volume (in hours worked) of public service labor. If the volume of public service work is considered too high, other PAR spending can be increased and/or the residency requirement of 200 PAR per year reduced. Conversely, if the volume of public service is considered too low, other PAR spending can be reduced or the residency requirement can be increased.

V. Automatic Stabilization

When the program is initiated, the PA should be prepared for perhaps 25% or more of the working age population to apply for public service work. It should carefully prepare a list of the types of work it wants done and set up a well-thought out system to utilize and monitor the results. Public service work could include all the usual governmental functions, including road building, water and sewage projects, staffing of the educational system, legal system, mail delivery, child care, environmental and cleanup activity, etc. Initially these are likely to be labor intensive activities that do not require extensive capital goods or energy consumption. (Recall that Rome was built without any 'modern technology,' and their roads are still being used today!)

With large numbers of workers being paid in PARs, private markets will develop. PARs in private hands will be used by individuals to hire workers previously employed in PA public service. A drop in public-service work hours means that the PA will then be issuing fewer PARs. This reduces the excess PARs in the hands of the private sector, thereby limiting private sector employment. There will always be full employment, but the mix between private sector and public sector employment will vary, as there will always be workers going from private to public employment, and vice versa.

The system works as a stabilizing force. For example, a drop in private-sector output that reduces private sector employment automatically increases public-sector employment. That puts more PARs in the hands of workers to spend in the private sector, which in turn raises private-sector employment. And everyone willing and able to work is working, either in the private sector or the public sector. There are never any unemployed workers.

VI. Enforcement

The driving force behind the Mosler Plan is the requirement that residence owners submit PARs to the PA. This requirement is only as good as the enforcement process. If the PARs are not paid, the PA must have the right to sell the property and thereby attempt to collect the delinquent payments. The PA need not even know who the owner is.

This may seem harsh, but in practice the requirement is rather modest. Remember, public service work is always available, and any property owner need only work four hours per week for the PA to receive the needed PARs. Anyone unwilling to do at least that much for his community should receive little sympathy.

It is also expected that the PA would establish a policy for exceptions. For example, there could be exemptions for poor people that are disabled, aged, or suffering some

other hardship.

VII. Potential Areas of Difficulty

Many difficulties are inevitable in a modern society. These include crimes such as counterfeiting, forgery, and other types of fraud. And corruption in general can undermine any political entity.

There is one point of concern somewhat specific to this proposal. Single family residences are required to submit 200 PAR per year, while multi-family residences have a requirement of 200 PARs per year for each rental unit. This provides incentives for various manipulations, for example:

- (i) As many people as possible will want to be categorized as living in a single residential unit. This may lead to people taking steps to recategorize multi-unit buildings as single-unit buildings, perhaps by inserting a few doors into interior walls.
- (ii) People will want residences to be owned by an exempt person. The PA will need to carefully determine the language of the PAR requirement and be prepared to make adjustments if abuse becomes a problem.

VIII. Conclusion

The Mosler Plan addresses many of the critical, immediate needs of the region:

1. Providing the PA with the means to retain and expand its employees will allow it to build public infrastructure which will then be available for the immediate benefit of all. This includes roads, water and sewer systems, postal delivery, schools, hospitals, policemen, firemen, the legal system, etc, and administrators for all of the projects.
2. Keeping the population gainfully employed will tend to curtail political unrest.
3. As the PAR rapidly gains recognition as a medium of exchange throughout the region private sector economic activity will immediately benefit and begin to expand.
4. The region will be financially independent as it sustains itself internally, and will never be held hostage to outside funding.
5. With economic growth comes social and political stability which then further enhances economic growth, and attracts both domestic and foreign investment. For investors, a secure, peaceful, profitable business environment is the prime attraction. Note that the US attracts the highest levels of foreign direct investment even though wages are relatively high.

The Mosler plan presents a sound, practical means of advancing as a nation. It is a plan for an internally stable system that entails no foreign interference, no foreign debt, and no external finance. With a financially independent government able to establish and maintain full employment, the West Bank will reveal unprecedented economic power and prestige, while remaining far removed from financial burdens and instabilities that most emerging nations experience.

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