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New Public Policy Brief No. 93

MINSKY'S CUSHIONS OF SAFETY: SYSTEMIC RISK AND THE CRISIS IN THE U.S. SUBPRIME MORTGAGE MARKET

JAN KREGEL

The idea behind Hyman P. Minsky's hypothesis of endogenous instability is that the safety margin of risk in financial transactions gradually erodes in a climate of economic boom due to an overoptimistic view of its durability. In this public policy brief, Senior Scholar Jan Kregel argues that the current crisis, and the policy shift required for its resolution, differs from the traditional Minsky hypothesis. Rather, Kregel says, its roots lie in the United States' unregulated financial structure.

Contrary to the restrictions of the Glass-Steagall Act of 1933, the banking system that emerged from the 1980s real estate crisis was based on the ability of the banks' proprietary trading desks to generate profits, and on affiliates to produce fee and commission income. The Gramm-Leach-Bliley Act (1999) and Basel II (2004) further expanded the role and activities of banks, and allowed the creation of affiliates with no previous record of such activities, making it possible for banks to move risky mortgages off their balance sheets.

Kregel explains how the credit rating agencies have replaced bank loan officers and credit committees in determining the appropriate margins of safety. In the previous crises, banks insisted on a margin of safety based on borrowers' personal credit history. It is the slow relaxation of this policy during a period of economic expansion that leads to instability. However, in the current situation the credit rating agencies responsible for the determination of this margin lack any personal knowledge of the borrowers, assessing risk by statistical correlations between groups of assets selected to meet a particular probability of repayment in order to assign it the investment grade necessary to qualify for purchase by institutional investors. This feature represents one of the basic differences between the new banking model and Minsky's original analysis of declining safety margins. In the latter, margins declined only *gradually*, while in the former, says Kregel, "the cushions of safety have been insufficient from the beginning—they are a structural result of how creditworthiness is

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The Levy Economics Institute of Bard College, founded in 1986, is a nonprofit, nonpartisan research organization devoted to public service. Through scholarship and economic research it generates viable, effective public policy responses to important economic problems that profoundly affect the quality of life in the United States and abroad.

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assessed.” The author attributes this outcome to the fact that the current risk-takers are not the same as those responsible for the evaluation of risk and creditworthiness.

Finally, Kregel rejects the description of the current turmoil in the financial system as simply “repricing” of cheap credit that requires policies to support asset prices, as under the Minsky model. Indeed, since credit generation is now largely in private hands, he questions the ability of the Federal Reserve to ensure stability and control the growth rate of the money supply. Kregel recommends that banking regulators find a way to bring off-balance-sheet (bank) affiliates under the effective control of financial supervisors. The task that confronts the U.S. financial system today, he says, is to eliminate fragility that emerges as a direct result of flaws in the structure and the regulation of the system itself.

For the complete text, go to www.levy.org/pubs/ppb_93.pdf.

New Working Papers

Public Employment and Women: The Impact of Argentina’s *Jefes* Program on Female Heads of Poor Households

PAVLINA R. TCHERNEVA and L. RANDALL WRAY

Working Paper No. 519

In 2002, Argentina implemented a large-scale public employment program to deal with the country’s massive unemployment and poverty. The program, known as *Plan Jefes*, offered part-time work to unemployed heads of households. In this working paper, Research Associate Pavlina R. Tcherneva and Senior Scholar L. Randall Wray, University of Missouri–Kansas City and the Center for Full Employment and Price Stability, assess the impacts of *Jefes* and the prospects for the alternative government program soon to replace it.

The *Jefes* program provides a payment of 150 pesos per month to a head of household for a minimum of four hours of work per day. To qualify, the household must contain a child under the age of 18, a handicapped person, or a pregnant woman, and participation is limited to one member per household.

Despite these restrictions, *Jefes* has been successful in reducing indigence (extreme) poverty as measured as the income necessary to purchase minimum food calories per day: by April 2002, only four months into the program, indigence rates fell by 25 percent among *Jefes* households, and 18 percent among *Jefes* individuals. The program data shows that participants were mainly heads of households with inadequate housing and sanitation, very high dependency ratios, and low income and education. This would suggest, the authors note, that if *Jefes* were not restricted to one participant per family, it is likely that in many households both husband and wife would join the program, with far greater impact on poverty reduction. Moreover, one of the most surprising results of *Jefes* has been the large influx of women into the program—60 percent at the program’s start in 2002 and rising to 75 percent by 2005, making participation in *Jefes* overwhelmingly female.

The government is currently replacing *Jefes* with a program of child welfare payments with no work option, to which female participants in the current program will be transferred. One official criticism of *Jefes* is that it creates a moral hazard, in that guaranteed employment adversely affects the motivation to find a job, and to work hard if employed; the implication is that people would rather stay at home and receive welfare benefits than work outside the home. This is contradicted by the authors’ own findings. They report that, without exception, all female participants interviewed during their site visits indicated their preference for outside work over child welfare payments, suggesting they value other benefits from the program besides monetary income (e.g., the acquisition of new skills and a greater probability of employment in the formal sector).

For the complete text, go to www.levy.org/pubs/wp_519.pdf.

Nurkse and the Role of Finance in Development Economics

JAN KREGEL

Working Paper No. 520

Ragnar Nurkse was a pioneer of postwar development economics whose works provided important insights into how employment policy can be relied on to mobilize domestic resources. On the 100th anniversary of Nurkse’s birth, Senior Scholar Jan Kregel provides a critical retrospective of his contributions to development economics.

Nurkse held that the advanced economy's demand for a wide range of primary products could not be maintained at a sufficient rate to absorb the necessary expansion of labor and capital in developing countries. His prescription was for internal growth through domestic industrialization, but he was also keenly aware that relying on domestically driven economic growth was a huge problem for a developing economy due to the small size of its market. He found the solution in employment policy, or, more specifically, in the hidden potential of rural disguised unemployment. Although disguised unemployment was a central concept in most postwar approaches to development—most notably, in the Lewis model of unlimited labor supply—Nurkse's novel contribution was to argue that it offers a substantial source of *saving* to finance economic development.

Urban workers support rural surplus laborers because the former produce more than they consume. Therefore, Nurkse argued, this difference constitutes “virtual” saving that can be converted into effective saving, available as development finance, by transferring rural workers into more productive employment of new capital goods. Moreover, this goal can be achieved without any decrease in the overall level of consumption within the economy or an increase in saving via the multiplier-chain effect. Nurkse's disguised unemployment is thus formulated to highlight an unexploited source of resources that can be made available for capital formation simply through employment transfers.

Nurkse proposed “balanced” growth to overcome the hurdle posed by the small market size to the realization of this potential source of development finance. This can be summed up as an extension of Adam Smith's dictum that the division of labor depends on the extent of the market. Nurkse rejected the idea that individual entrepreneurs alone can fuel an overall expansion. If disguised unemployed workers are given employment in a factory but do not spend all their wages on its products, then the factory will realize losses, and will not be able to maintain a higher level of employment. However, if these workers are given employment in a variety of industries that produce the bulk of the goods on which the workers spend their wages, then the expansion process will create its own additional market. This is balanced expansion, since investment occurs in a range of complementary activities simultaneously, promoting increases in outputs that are diversified in accordance with domestic income elasticities and thus providing internal markets for each sector of production.

For the complete text, go to www.levy.org/pubs/wp_520.pdf.

Earnings Functions and the Measurement of the Determinants of Wage Dispersion: Extending Oaxaca's Approach

JOSEPH DEUTSCH and JACQUES SILBER

Working Paper No. 521

The Oaxaca decomposition of earnings inequality between two population subgroups into two components based on differences in education and on “discrimination” (variation across individuals for a given level of education) has proved an important method for the analysis of earnings inequality. In this working paper, Joseph Deutsch and Research Associate Jacques Silber, Bar-Ilan University, Israel, extend that method to any number of groups, and combine techniques used in the fields of income inequality measurement and labor economics. The emphasis of the paper is on the comparison of wage dispersion between natives and immigrants, drawn from three cross-sectional income surveys conducted in Israel in 1982, 1990, and 1998. The authors limit their analysis to the Jewish male population according to region of birth—Israel, Asia or Africa, and Europe or America (immigrating before and after 1972)—and note the massive wave of immigration to Israel in the early 1990s, after the collapse of the Soviet Union.

Deutsch and Silber discuss predictions about the native immigrant wage gap based on supply- and demand-side effects. On the supply side, the Soviet immigrants in Israel had a relatively high level of education, but if education and experience were measured only in years, the rate of return on human capital should be lower for new immigrants. On the demand side, “globalization”—imports of goods produced by a relatively cheaper, unskilled labor force—would reduce home demand for unskilled relative to skilled labor; the same is true of the skills bias inherent in technological change. Both effects suggest increasing wage dispersion. However, studies also suggest that, over time, immigrants' skills adapt to the host country's labor market; that is, they earn less than the natives upon arrival but gradually accumulate the specific skills that are rewarded by the host economy, and thus experience faster wage growth.

The authors employ the well-known human capital framework proposed by Jacob Mincer, in which individual earning is regressed on a set of explanatory variables, most notably, on years of education and on experience. This allows separate measurement of the effects of the variables, their coefficients, and the error term (factors not taken into account) on the average earn-

ings of population subgroups. Moreover, they further decompose the impact of these three elements (variables, coefficients, and error term) into within-group, between-group, and overlapping components for several population subgroups over time, thus generalizing the Oaxaca approach. Although the final results are quite complex, some clear general features nonetheless emerge.

First, during the subperiods 1982–90 and 1990–98, between-groups wage dispersion first decreased, then increased, with regression coefficients the most significant contributing factor. Second, within-groups dispersion increased during both periods, a pattern also observed for the explanatory variables. Finally, the overlapping components first increased, then decreased, apparently a consequence of a sharp decline in the regression coefficients observed for new immigrants. The authors also examine more detailed decomposition results over time, and find, for example, that between 1990 and 1998 more than half of the increase in the overall wage dispersion was the consequence of an increase in the contribution of the regression coefficients.

For the complete text, go to www.levy.org/pubs/wp_521.pdf.

Lessons from the Subprime Meltdown

L. RANDALL WRAY

Working Paper No. 522

Many have characterized the current subprime mortgage crisis as an outcome long anticipated by Hyman P. Minsky’s analysis of financial market fragility. In this working paper, Senior Scholar L. Randall Wray, University of Missouri–Kansas City, examines the origin and development of the current crisis in light of Minsky’s approach.

Wray notes that the 1999 repeal of the Glass-Steagall Act, which in the 1930s established clear boundaries between commercial and investment banking, allowed banks to engage in a broader range of activities in order to compete with the unregulated financial markets. This accelerated a shift from a bank-based to a market-based financial system. Banks were now able to earn income on the loans they originated by moving these mortgages to their affiliated investment banks, which are not subject to legal reserve and capital requirement limits, and off their balance sheets. Investment banks would purchase the mortgages, securitize them, and pay ratings agencies to provide favorable grades to attract investors—for example, pension

funds and insurance companies—to purchase them. In a federal policy environment of low interest rates, investors turned away from the money markets and toward the higher-risk subprime mortgage market. Demand for high risk–high return financial packages in turn encouraged more lax lending standards, with few checks on borrowers’ ability to meet their debt obligations.

A variety of “enhancements” were employed to make the more risky mortgages attractive (e.g., high borrower penalties for early repayment, long-term insurance coverage, and so on). To ensure continuing demand, adjustable rate mortgages were offered with low introductory “teaser” rates, enabling high-risk borrowers to obtain loans far in excess of what they could repay. Moreover, risky mortgages were pooled, then sliced into a variety of risk classes, with differential pricing to cover risks so that investors could choose their desired risk-return trade-off. As long as real estate prices continued to rise, there would be strong demand for riskier, higher return products. If the borrowers were able to service any part of the mortgages, lower-risk senior-class investors would be paid first, while more junior, noninvestment-grade assets and exceedingly riskier tranches, usually bought by hedge funds, would receive payment only after the senior securities had been fully serviced.

The growth of securitization led to a huge increase in leverage ratios, to 15-to-1 and higher, with the owners (e.g., hedge funds and pension funds) putting up very little of their own money. When losses on the subprime mortgages began to exceed expectations and the prices of securities began to fall, owners faced huge losses, and were forced to deleverage by selling on a very large scale to reduce exposure—thus putting more downward pressure on prices and drying up the market for mortgage securities. Wray notes that the problems with liquidity shortages alone, though manageable with a lender-of-last-resort option, would have been severe enough. However, these shortages were made much worse by a very substantial volume of what Minsky termed “Ponzi” loans—that is, loans granted to those whose commitments exceeded their income, in a climate of poor income growth prospects.

For the complete text, go to www.levy.org/pubs/wp_522.pdf.

The Natural Instability of Financial Markets

JAN KREGEL

Working Paper No. 523

The history of modern U.S. recessions provides fertile ground for the plausibility of the Keynes-Minsky hypothesis of the inherent fragility of financial markets. In this working paper, Senior Scholar Jan Kregel examines the parallels between past (1920s and 1930s) and recent (1980s onward) developments in U.S. financial markets in order to suggest policy solutions for the current crisis.

Kregel discusses the view of economic exchange based on disappointed expectations and unfulfilled future commitments advocated by Keynes and Minsky, for whom the main issue was how to prevent the natural transaction failures caused by unforeseen future events from creating chronic instability. Fragility results from changes in the liquidity preferences of bankers and businessmen as represented by changes in the margins of safety required on liquidity creation produced by maturity transformation (maturity mismatching remains constant as bankers lend against more risky assets). Kregel notes that the New Deal legislation did little to eliminate the potential for financial fragility, but regulation may play a role in preventing the transformation of fragility into major instability.

The author notes that in the U.S. financial system before 1920, corporate borrowing in the capital market was not extensive; entrepreneurs financed their own expenditure on consumption and investment from their own profits. He also notes that the growth in size of firms changed that practice, and the breakup of large firms extended the ownership of capital assets to the general public. After that date, there is excessive expansion of bank reserves, resulting in deterioration in the quality of assets held by financial institutions, which Kregel regards as the basic cause of the breakdown of the financial system. Many of that period's features are with us today—for example, the earlier boom in real estate fuelled by cheap finance and the subsequent fall in lending, which caused a decline in asset prices and increasing indebtedness.

A remedy in line with the chartering of the Reconstruction Finance Corporation in 1932, along with reregulation of the system, the author argues, offers the best approach to prevent a 1920s-style depression from happening again.

For the complete text, go to www.levy.org/pubs/wp_523.pdf.

Promotion Nationale: Forty-Five Years of Experience of Public Works in Morocco

HIND JALAL

Working Paper No. 524

Morocco's *Promotion Nationale* (PN) is an autonomous public entity in charge of mobilizing an underemployed and unemployed workforce for the implementation of labor-intensive projects. In this working paper, Hind Jalal, Ministry of Economy and Privatization, Morocco, discusses the achievements and shortcomings of this program since its commencement in 1961.

PN rural projects cover the construction of water supply channels, the digging of wells, the construction of rural roads, and reforestation; urban projects contribute to the cleaning and maintenance of parks, improvement of the environment, construction and maintenance of hospitals and health centers, and recruitment of secretaries, cleaners, and nurse's aides. PN currently employs 50,000 people annually, 20 percent of whom are women. Remuneration is indexed to the minimum wage and is paid twice a month. PN is implemented through a number of initiatives—such as the Social Priorities Program, which provides basic education and health, and the Southern Province Program, which promotes employment and development in the Saharan provinces—that, over 2002–03, generated a total of 10,609,871 PN working days.

However, Jalal notes that PN's expenditure per capita at the provincial level was not correlated with the incidence of poverty, and in some rich provinces these expenditures were as high as 15 times the average. Thus, PN programs do not seem to reach the rural poor effectively. Another problem, especially in urban areas, has been dismissal of the employed to ensure turnover for new PN participants—a direct contradiction of PN's stated objective of creating provisional employment. The author suggests that PN works should not become a source of permanent employment and sufficient income, otherwise farmers are likely to give up their land. Future PN projects will be more effective if they offer employment spread out over time and complementary to traditional activities such as seasonal farming.

For the complete text, go to www.levy.org/pubs/wp_524.pdf.

Financialization: What It Is and Why It Matters

THOMAS I. PALLEY

Working Paper No. 525

The dominant role of the financial sector in the United States and in many European economies raises questions about the impact of this development on the domestic economy. In this working paper, Research Associate Thomas I. Palley, Economics for Democratic and Open Societies, takes a broad look at different aspects of what he calls financialization—a process whereby financial markets, financial institutions, and financial elites gain influence over economic policy and economic outcomes.

Elevation of finance over other sectors and interests in the economy, however, comes at considerable macro- and micro-economic costs. The process is associated with periods of low economic growth; unsustainably high volumes of debt, leading to increased financial fragility; disconnection of wages from productivity; and rising income inequality.

The author outlines the features of financialization in the United States by pointing to a rise in total debt from 140.0 to 328.6 percent of GDP over 1973–2005. Financial sector debt grew much faster than nonfinancial sector debt; mortgage lending accounted for a very large part of the latter, which climbed sharply after 2000, mainly due to rising household sector debt. Moreover, average annual growth has fallen since 1979, in the United States and in most European economies, which in addition shows a gradual slowing trend and falling gross investment as a share of GDP. The pre-1979 pattern of wages and productivity growing in tandem has been replaced by increased productivity, stagnant wage growth, and rising income inequality, a trend closely related to the explosive rise in CEO pay compensation. Another important development in this process is the growth in stock option pay, seen as a means of aligning the interests of the managers with those of the shareholders, though the staggering sums paid to top management make the benefits to shareholders uncertain. Finally, the process has brought about a change in corporate behavior. Before 1980, firms borrowed in order to finance investment; since 1980, borrowing has primarily been used for equity buybacks, contributing to a rise in the debt-to-equity ratio. This explains financial markets' preference that corporations use debt, rather than highly taxed dividends, to finance investment activities, and profits to repurchase stock, which generates lower-taxed capital gains.

For the complete text, go to www.levy.org/pubs/wp_525.pdf.

American Jewish Opinion about the Future of the West Bank: A Reanalysis of American Jewish Committee Surveys

JOEL PERLMANN

Working Paper No. 526

The attitude of American Jews to the future of the West Bank, including the status of East Jerusalem, is an important part of broader Jewish public opinion affecting the viability of a solution to the Arab-Israeli conflict. Senior Scholar Joel Perlmann addresses this issue by analyzing the individual-level datasets from annual surveys carried out by the American Jewish Committee (AJC) between 2000 and 2005. Perlmann notes that the AJC surveys include only those people who identify themselves as Jewish by religion. He finds that American Jews favor compromise about proposed changes in the West Bank (e.g., support for a Palestinian state and the dismantling of Jewish settlements) if the status of Jerusalem is excluded. However, their opinions are divided when the issue of Jerusalem is included in the proposals.

Perlmann separates the Orthodox views from those of the rest of the population because of Orthodox Jews' strong sentiments against any proposed changes in the West Bank. Eliminating the Orthodox views, for example, shows that religious differences are strikingly less important in explaining the diversity of political opinion. Another puzzling finding is that party affiliation has no impact on the acceptance of West Bank territorial compromise. Moreover, with regard to the non-Orthodox views, the author finds a weak negative association in terms of traditional religious orientation and Jewish (emotional) attachment.

The combined impact of the explanatory variables appears to account for a modest proportion of the diversity of views. A substantial percentage of the diversity in non-Orthodox acceptance of proposed West Bank changes cannot be explained, however. The diversity of feeling about Israel's basic vulnerability or respondents' emotional attachment to Israel might well be associated with the diversity of acceptance of proposed West Bank changes. The author notes, however, that there are no survey questions that deal specifically with concerns about Israel's vulnerability.

For the complete text, go to www.levy.org/pubs/wp_526.pdf.

Financing Job Guarantee Schemes by Oil Revenue: The Case of Iran

ZAHRA KARIMI

Working Paper No. 527

Iran has allocated large sums of its budget to a policy of highly subsidized loans to the private sector for job creation, yet the unemployment rate keeps rising, and the policy has made a substantial contribution to the rapid rise of an already high rate of inflation. In this working paper, Zahra Karimi, University of Mazandaran, examines the drawbacks of Iran's current employment policy, contrasts them with the advantages offered by employment guarantee schemes (EGS), and discusses a proposal for financing them.

Karimi notes that unemployment growth accelerated sharply after 1996, due to the entry into the labor market of Iran's baby boom generation of the 1980s, and to a sharp rise in the number of graduates, most of them women, after 2000. Between 1996 and 2000, the average annual addition to the labor force was 744,000, while the economy created only 590,000 jobs during the 1990s as a whole. At the same time, women's share of unemployment witnessed a sharp rise, from 13.45 percent in 2001 to 23.35 percent in 2006, compared to an increase from 8.5 percent to 10.8 percent over the same period for men. The policy of providing subsidized credit facilities to the private sector increased by over 35 percent each year between 2000 and 2006, yet it achieved only 77 percent of the job creation target envisaged in the government's third development plan (2000–04). The author notes that this outcome was the result of a climate of rent-seeking behavior.

As an alternative, the author proposes an EGS financed from Iran's Oil Stabilization Fund, initially implemented in the seven provinces with the highest rate of poverty and focusing on unskilled and semiskilled job creation. All generated jobs, with a cap of 2 million, would be temporary and part-time, of an average duration of four months, and would provide a minimum wage set at about 50 percent of the official rate, since in practice most private sector wages amount to only 40–60 percent of this rate. This would then largely avoid displacement of private sector employment. Karimi notes that such a program could be financed using only about 10 percent of the existing Fund.

For the complete text, go to www.levy.org/pubs/wp_527.pdf.

Financial Flows and International Imbalances: The Role of Catching Up by Late-industrializing Developing Countries

JAN KREGEL

Working Paper No. 528

Current international trade and financial imbalances across countries are exceptional by historical standards. In this working paper, Senior Scholar Jan Kregel examines the relevance of the traditional balance-of-payments adjustment theory in light of current economic and financial developments, specifically assessing three major issues closely related to such imbalances.

First, Kregel argues that the breakdown of the gold standard and the Bretton Woods system was due to the lack of a functional, symmetric adjustment mechanism combined with the ability of deficit countries to circumvent the multilateral adjustment process using private financial flows. That did not mean such adjustment could be permanently avoided. Indeed, adjustment came in the form of default in the 1980s and financial crisis (currency depreciation) in the 1990s.

The second issue is the financial imbalances of developing countries. The current imbalances are in part the result of a number of developing countries' choice to support domestic resource mobilization through external demand over less attractive alternatives. The underdevelopment of domestic capital markets makes government borrowing to finance demand unviable, while the costly Latin American experience with foreign-financed development undermined any increase in domestic demand. The alternative policy of foreign lending to finance external surpluses (in the form of large foreign-exchange reserves held in U.S. dollars), appears more appealing.

Kregel argues that the Asian economies would have to forego their policies supporting domestic employment if they wanted to reduce their rate of increase in lending to the United States. Indeed, if the cost of lending is measured by the difference between domestic interest rates and external rates earned on reserves, the low interest rates in many Asian countries suggest that such costs would be negligible. However, the author maintains that such measurement may not be appropriate, since the use of external lending and export-led growth provides manufacturing employment. Hence, there are gains from the transfer of rural labor to employment in urban manufacturing for developing countries adopting this strategy.

Finally, Kregel notes that traditional balance-of-payments accounting procedures ignore the dominant role of interindustry trade: the increasing importance of semifinished intermediate goods. For example, the U.S. deficit on goods and services in 2005 was \$134.4 billion less than the \$716.7 billion deficit recorded using the conventional international accounts framework.

For the complete text, go to www.levy.org/pubs/wp_528.pdf.

Levy Institute News

Upcoming Event: 17th Annual Hyman P. Minsky Conference Credit, Markets, and the Real Economy: Is the Financial System Working?

April 17–18, 2008

Blithewood

Annandale-on-Hudson, New York

This year's conference focuses on the current economic and financial crisis in the United States and its effects on the world economy. Topics include: causes and consequences of the "Minsky moment"; the impact of the credit crunch on the economic and financial market outlook; dislocations and policy options; the rehabilitation of fiscal policy; margins of safety, systemic risk, and the U.S. subprime mortgage market; lessons from earlier times to rehabilitate mortgage financing and the banks; financial markets regulation-reregulation; the inefficiency of computer-driven markets; currency markets fluctuations; and exchange rate misalignment.

Program and registration information is available online at www.levy.org.

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

JAMES K. GALBRAITH *Senior Scholar*

Publications: "Sons of Affluence," review of *Consumed: How Markets Corrupt Children, Infantilize Adults, and Swallow Citizens Whole* by B. Barber and *Deep Economy: The Wealth of Communities and the Durable Future* by B. McKibben, *The Washington Monthly*, July–August 2007; "Global Inequality and Global Macroeconomics," *Journal of Policy Modeling*, Vol. 29, No. 4, July–August; "Economic Equality and Victory in War: An Empirical Investigation" (with C. Priest and G. Purcell), *Defense and Peace Economics*, Vol. 18, No. 5, October; "Between-sector Earnings Inequality in the United States" (with T. Hale), University of Texas Inequality Project (UTIP) Working Paper No. 43, December 10; "Is China Really Running a Trade Surplus?" (with S. Hsu and J. Li), UTIP Working Paper No. 45, December 30.

Presentations: "Death of the NAIRU," Meeting of the Southern Economic Association, New Orleans, November 19, 2007; "The Evolution of Inequality in America and the World: New Facts for a Stalemated Debate," The Frank M. Covey Jr. Loyola Lectures in Political Analysis, Chicago, February 5, 2008; "The Political-Economy of U.S.-China Relations," conference on "The Revival of Political Economy," Drew University, Madison, N.J., February 9.

GREG HANNSGEN *Research Scholar*

Publication: "The Welfare Economics of Macroeconomics and Chooser-dependent, Non-Expected Utility Preferences: A Senian Critique with an Application to the Costs of the Business Cycle," *The Journal of Socio-Economics*, October 2007.

JAN KREGEL *Senior Scholar*

Publication: "Rethinking Debt Sustainability in the Context of the Millennium Development Goals," *Banca Nazionale del Lavoro Quarterly Review*, Vol. 60, No. 242, September 2007.

Presentations: "Nurkse and the Role of Finance in Development Economics," conference on "Ragnar Nurkse (1907–2007): Classical Development Economics and Its Relevance for Today," Estonian Academy of Sciences, Tallinn, Estonia, August 31–September 1; "Financial Flows and International Imbalances: The Role of Catching Up by Late-industrializing Developing Countries," 11th Research Network

Macroeconomic Policies Workshop, “Finance-led Capitalism? Macroeconomic Effects of Changes in the Financial Sector,” Berlin, Germany, October 26–27; “The Natural Instability of Financial Markets,” conference on “The Political Economy of Financial Markets: A Methodological Account of a Multidisciplinary Approach,” Tjalling C. Koopmans Institute, Utrecht, Netherlands, November 16; “Sovereign Wealth Funds: Stealthy State Socialism or Lender of Last Resort?,” conference on “Global Macro Economy: Imbalances or Passive Outcomes,” Valance Co., Christiansted, St. Croix, U.S. Virgin Islands, January 11, 2008; “Global Financial Flows: Financing for Development,” ActionAid/IDEAs Global Economic Literacy and Budget Accountability Practitioners Workshop, Gurgaon (New Delhi), India, January 27; “Minsky’s ‘Cushions of Safety’: Systemic Risk and the Crisis in the U.S. Subprime Mortgage Market,” seminar on “Economic Structures, Growth, and Development,” Centre for Economic Studies and Planning, Jawaharlal Nehru University, January 31; “Savings Gaps, External Resources, and Debt Crises in Latin America: Towards a New Model of Development in Latin America,” conference on “The Revival of Political Economy,” Drew University, Madison, N.J., February 9.

THOMAS MASTERSON *Research Scholar*

Presentation: “Gender Bias in Household Expenditures on Food and Education in Paraguay, 2001,” Allied Social Science Associations Meeting, New Orleans, January 4–6.

DIMITRI B. PAPADIMITRIOU *President*

Publications: Hyman P. Minsky bibliographic entry, *International Encyclopedia of the Social Sciences*, 2nd edition, W. A. Darity Jr., ed., Detroit: Macmillan Reference USA, 2008; Introduction (with L. R. Wray), *Stabilizing an Unstable Economy* and *John Maynard Keynes* by H. P. Minsky, New York: McGraw-Hill, 2008.

Presentations: Keynote speaker, 12th Regional Seminar for Labor-based Practitioners, “Prioritising Employment Creation in Government Policies, Programmes, and Investments,” sponsored by the International Labour Organization, Durban, South Africa, October 8–12, 2007; speaker, 11th Research Network Macroeconomic Policies Workshop, “Finance-led Capitalism? Macroeconomic Effects of Changes in the Financial Sector,” Berlin, Germany, October 26–27; interview regarding Federal Reserve rate cuts with Nicholas Rummell, *Financial Week*,

November 30; interview regarding the declining markets in the United States and overseas despite Federal Reserve rate cuts with Paul Kirby, *Daily Freeman* (Kingston, N.Y.), January 22, 2008; interview regarding Federal Reserve supervisory and regulatory authority with Craig Torres, *Bloomberg*, January 24; interview regarding the economy and recession with Sarah Bradshaw, *Poughkeepsie Journal*, January 29; interview regarding economic issues and the presidential primary with Laura Mandaro, *MarketWatch*, February 4; interview regarding the economics and finance dual-degree program at Bard College with Alison Damast, *BusinessWeek*, February 7; interview regarding Basel II and securitization with Marine Cole, *Financial Week*, February 12; interview regarding the economic timelines for the presidential frontrunners with Lenny Broymann, *RiskCenter*, February 22.

JOEL PERLMANN *Senior Scholar*

Publication: *Italians Then, Mexicans Now: Immigrant Origins and Second-generation Progress, 1890 to 2000*, paperbound ed., New York: Russell Sage Foundation and Annandale-on-Hudson, N.Y.: The Levy Economics Institute, 2007.

Presentations: Lecture on *Italians Then, Mexicans Now* and workshop on the use of the IPUMS census database, Teaching American History Professional Development Project, Bristol Community College, Massachusetts, November 19, 2007; “Americans of Jewish Origin in an Era of Inter-marriage: An Overview,” conference on “Social Statistics and Ethnic Diversity: Should We Count, How Should We Count, and Why?,” Université du Québec à Montréal, Canada, December 6–8.

EDWARD N. WOLFF *Senior Scholar*

Publications: “Introduction and Comments,” Part V, *Entrepreneurship, Innovation, and the Growth Mechanism of the Free-Enterprise Economies*, E. Sheshinsky, R. J. Strom, and W. J. Baumol, eds., Princeton, N.J.: Princeton University Press, 2007; “Racial and Ethnic Differences in Wealth” (with M. Gittleman), in *Race and Economic Opportunity in the Twenty-First Century*, M. Kim, ed., New York: Routledge; “Rate of Profit” and “Inequality, Wealth,” in *International Encyclopedia of the Social Sciences*, 2nd edition, W. A. Darity Jr., ed., Detroit: Macmillan Reference USA, 2008; review of *Capitalism Unleashed: Finance, Globalization, and Welfare* by A. Glyn, *Economic Journal*, Vol. 118, February.

Presentation: “How Well-Off Are America's Elderly? A New Perspective” (with A. Zacharias), Allied Social Science Associations Meeting, New Orleans, January 4–6.

AJIT ZACHARIAS *Senior Scholar*

Presentations: “Gender Disparities in Employment and Aggregate Profitability in the United States” (with M. Mahoney), “Caste and Wealth Inequality in India” (with V. Vakulabharanam), and “How Well-Off Are America's Elderly? A New Perspective” (with E. N. Wolff), Allied Social Science Associations Meeting, New Orleans, January 4–6.

GENNARO ZEZZA *Research Scholar*

Presentations: “U.S. Growth, Households Debt, and the Distribution of Income,” 4th International Conference on Developments in Economic Theory and Policy, Bilbao, Spain, July 5–6; 11th Research Network Macroeconomic Policies Workshop, “Finance-led Capitalism? Macroeconomic Effects of Changes in the Financial Sector,” Berlin, Germany, October 26–27; and conference on “The Institutional and Social Dynamics of Growth and Distribution,” Lucca, Italy, December 10–12, 2007.

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