



Report

October 2004

Vol. 14, No. 3

New Strategic Analysis

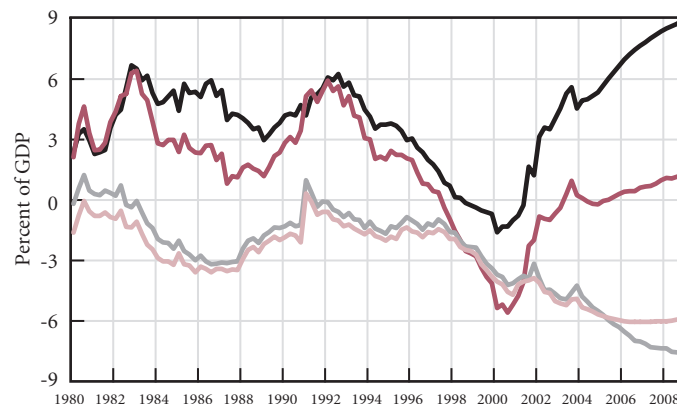
PROSPECTS AND POLICIES FOR THE U.S. ECONOMY: WHY NET EXPORTS MUST NOW BE THE MOTOR FOR U.S. GROWTH

WYNNE GODLEY, ALEX IZURIETA, AND GENNARO ZEZZA

www.levy.org/pubs/sa/stratan-jul-04.pdf

Several possible future scenarios are the focus of a new strategic analysis by Distinguished Scholar Wynne Godley and Research Associate Alex Izurieta, both of the Cambridge Endowment for Research in Finance, along with Research Scholar Gennaro Zezza of the University of Cassino. The authors argue that while the current economic expansion in the United States may continue through 2004 and beyond, medium-term growth is seriously threatened by the looming foreign debt.

The Main Balances Projected, According to Baseline



- Public Sector Borrowing Requirement
- Private Sector Financial Surplus
- Current Account Balance
- Primary Account Balance

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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.

The *Report* is published three times per year by The Levy Economics Institute of Bard College.

Editor: Greg Hannsgen

Text Editor: René Houtrides

Photographer: Don Hamerman

To be placed on the *Report* mailing list, order publications, or inquire about or comment on research and events, contact the Levy Institute:

The Levy Economics Institute of Bard College, Blithewood, PO Box 5000, Annandale-on-Hudson, NY 12504-5000

Tel: 845-758-7700, 202-887-8464 (in Washington, D.C.); Fax: 845-758-1149; E-mail: info@levy.org

All publications are available on the Institute’s website (www.levy.org).

As in previous strategic analyses, Godley, Izurieta, and Zezza make use of the often misunderstood identity involving the three “sectoral balances”: the private sector’s financial surplus must equal the government deficit plus the current account balance. This relationship must hold as a matter of accounting, given the manner in which the terms are defined. Between 1992 and 2000, the government deficit and the current account balance were both falling. Since both those trends reduced the demand for goods and services, it is clear that the strong growth of the period was driven by private borrowing. Indeed, during the boom of the 1990s, private expenditure grew faster than income, by the equivalent of 12 percent of GDP. The Levy Institute has been expecting this trend to end for some time, and it is showing some signs of waning, with government deficits taking the place of private borrowing.

The strategic analysis is based upon three scenarios for the medium term (from now until 2008). None of these scenarios is a prediction; rather, each is meant to draw out the implications of certain assumptions about the future. The authors’ first scenario presumes a growth rate of 3.2 percent.

The “baseline” scenario assumes that the pace of personal borrowing would recede somewhat, but not to its historical average. Also included is the working hypothesis that interest rates would continue to rise, leading to the implication that, by 2008, the net stock of foreign assets would reach about 55 percent of GDP—much more foreign debt than the United States owes now. These paths for the foreign and private balances imply (because of the accounting identity mentioned earlier) that the ratio of the government deficit to GDP would rise to nearly 9 percent.

The first alternative to this bleak baseline scenario assumes that the dollar would be allowed to depreciate 5 percent per annum, until 2008. This assumption suggests that the current account deficit would fall, as imports became more expensive within the United States and U.S. goods became more competitive abroad. This scenario also assumes a reduction in private borrowing. The outcome would be that net overseas assets (in dollars) would rise to negative 10 percent of GDP by 2008. But Godley, Izurieta, and Zezza argue that the rest of the world—some Asian countries in particular—might not cooperate with an effort to devalue the dollar.

The final scenario entertains the notion that the federal government would tighten its fiscal stance, as both political

parties have promised to do if elected in November. The result would be an improvement in both the current account deficit and the government deficit. However, this desirable development would be accompanied by a reduction in the rate of growth of GDP, from 3.2 percent to 1.2 percent. Hence, it would be preferable to tackle America’s imbalances by means of a devaluation, instead of deliberate tax increases. But no reason exists to expect the needed devaluation to materialize spontaneously, as some observers posit.

Levy Institute Measure of Economic Well-Being: United States, 1989, 1995, 2000, and 2001

EDWARD N. WOLFF, AJIT ZACHARIAS, AND ASENA CANER
www.levy.org/pubs/limew/limew0504.pdf

Earlier this year, the Levy Institute Measure of Economic Well-Being (LIMEW) team issued its first report. This group comprises Senior Scholar Edward N. Wolff of New York University and Research Scholars Ajit Zacharias and Asena Caner. Now, in a new LIMEW publication, the team presents findings for additional years, compares its figures with the U.S. Census Bureau’s most comprehensive measure of income, and uses several yardsticks to examine the factors contributing to inequality.

To review briefly the LIMEW’s methodology, some of the salient differences between LIMEW gauges and standard measures of income are LIMEW’s (1) inclusion of household production, such as child care; (2) addition of the benefits of government programs minus taxes; and (3) addition of the income equivalent of net worth. Even those components of well-being that are recognized in some Census Bureau figures are counted differently by the Levy Institute. For example, to gauge the contribution of nonhome wealth to well-being, the LIMEW team obtains its yearly figure, roughly, by dividing assets by an estimate of the remaining years of a person’s life. More traditional metrics only count realized capital gains and property income. Such differences in methodology and contents make for some interesting results that often contrast with the findings of studies that rely on traditional data.

From 1989 to 2001 the median LIMEW (the LIMEW of the household richer than 50 percent of the population) rose from \$63,590 to \$72,014, in 2001 dollars. This increase was greater, in percentage terms, than the growth of median money income, the most familiar Census Bureau measure. On the other hand,

the higher level of well-being came at a high price; the median American worked 238 more hours in 2001 than in 1989, including work performed within the household. The well-being gap between whites and nonwhites in 2001 was lower when the metric was changed from conventional money income to LIMEW. However, the disparity, at \$17,152, remained very large. The inclusion of well-being derived from government programs narrowed the gap, while income from wealth (excluded from Census Bureau data) widened it. Wealth also improved the situation of the elderly, relative to younger groups.

All major well-being measures of the Census Bureau and LIMEW were in agreement that the overall level of economic inequality rose from 1989 to 2001. The LIMEW showed the smallest increase in inequality, but indicated the largest jump during the last six years of that time period. The Census Bureau and the LIMEW team came to differing conclusions regarding the sources of inequality. According to Census Bureau estimates of “extended income,” all of net inequality can be accounted for without taking into consideration income from wealth or net government expenditures. The LIMEW team arrived at the opposite conclusion: Inequality in well-being springs, to a much greater extent, from wealth disparities than it does from differences in earnings or other widely recognized forms of income. Thus, Census Bureau data may misstate the quantitative importance of various aspects of inequality.

New Policy Note

Those “D” Words: Deficits, Debt, Deflation, and Depreciation

L. RANDALL WRAY

Policy Note 2004/2

www.levy.org/pubs/pn/pn04_2.pdf

Recently, and within a short period of time, the concerns of many economists have shifted from the threat of deflation to the possibility of significant inflation. Economists’ concerns about three other “D” words—deficits, debt, and depreciation—have continued for a long time. L. Randall Wray argues, in a new policy note, that some of these worries are overdrawn or misplaced. For example, many worry that government budget deficits are at an

“unsustainable” level. But, it is inevitable that the U.S. federal government will go into debt at a time when private borrowing is retreating from its own unsustainable levels. Moreover, the number that really matters, the ratio of the deficit to GDP, is nowhere near historical highs. Finally, since a sovereign government with a flexible exchange rate can always pay its domestic-currency-denominated debts with fresh currency, current account deficits should be less of a concern than attaining full employment. Low unemployment can be achieved at a relatively low fiscal cost, if money is spent on direct job creation (rather than on programs that use small amounts of unskilled labor). Many observers argue that drastic devaluation or inflation might result from a full-employment fiscal policy. However, other nations have important reasons for wanting dollars, and, in this time of intense global competition, prices have been kept in check. Wray argues for the institution of a massive government-jobs program, along with fiscal help for financially strapped states and localities.

New Working Papers

Some Simple, Consistent Models of the Monetary Circuit

GENNARO ZEZZA

Working Paper No. 405

www.levy.org/pubs/wp/405.pdf

In recent years, a new theory of monetary economics has crossed the Atlantic. The theory of the monetary circuit, developed mostly by continental Europeans known as “circuitists,” provides a unique account of how money is created and how it is related to economic activity. The general notion can be illustrated with a very simple story. Firms wishing to produce goods take out loans from banks in order to pay their wage bill. In this process, workers wind up with bank deposits that did not exist before, so money has been created. Next, workers pay for the goods that they have just produced, bringing most of the new money back to firms. Finally, firms use their revenues to pay off their loans, and the deposits disappear from circulation.

Two features of this model make it consistent with a strongly Keynesian or post-Keynesian theory of macroeconomics. First, in deciding how much output to produce, companies are not

constrained by a scarcity of funds, unless bankers deliberately ration loans. Thus, firms can produce without prior savings from some sector of the economy. Furthermore, government can stimulate private-sector spending without raising concerns about a shortage of savings. Second, in the circuitist model, there is no such thing as an excess of money that may, potentially, cause inflation. Money is always created as part of the same process that generates output. Moreover, any “excess” money is returned to banks and extinguished as the circuit is closed.

Zezza concentrates, in his paper, on resolving some apparent problems within the theory of the circuit. These problems relate to how various quantities of funds must “add up” if the model is to be coherent. Zezza applies the stock-flow consistent approach to modeling, an approach whose distinctive feature is that it accounts for all flows to and from each economic actor.

The problem addressed by Zezza has long been recognized by the circuitists’ intellectual friends and foes alike. Consider the typical circuitist story outlined above. According to that story, firms get their borrowed funds back when consumers purchase the firms’ goods. But, this sum of money is the same amount as that which the firms initially paid their work force. So, where do companies find adequate funds to pay their interest costs to banks? What about profits for the shareholders? Zezza shows that the puzzle can be solved if one assumes that firms borrow an amount that covers their wage bill plus their future interest costs. The theory of the monetary circuit, therefore, survives the “adding-up” critique.

Investigating the Intellectual Origins of Euroland’s Macroeconomic Policy Regime: Central Banking Institutions and Traditions in West Germany After the War

JÖRG BIBOW

Working Paper No. 406

www.levy.org/pubs/wp/406.pdf

The Deutsche Bundesbank, Germany’s former central bank, had a long history of independence from political officials and of strongly antiinflationary policy, a tradition that continues to have influence, in the form of today’s European Central Bank. A new paper by Research Associate Jörg Bibow examines the origins of Germany’s independent central bank.

In the early post–World War II years, there was a great deal of bureaucratic and political conflict over the nature of the new central bank. Some leaders in the government sought to subordinate the central bank to whatever economic goals the government established. On the other hand, the Bank deutscher Länder, the precursor of the Bundesbank, sought to become independent. The outlines of the independent central bank emerged with a 1951 interim law, which strongly influenced the final creation of a central bank in 1957. Contrary to the desires of many officials, the bank won the power to decide, for itself, how far to go in supporting government policy.

Bibow assesses the main intellectual influences on the outcome of this power struggle. Contrary to much of what has been written about the German central banking tradition, central bank independence was not the product of that stream of economic thought known as “ordoliberalism.” According to Walter Eucken, the leading ordoliberal of the time, the two most important principles of government policy were to prevent the concentration of economic power and avoid intervention into the economic process.

Central bank independence is, in fact, not consistent with this philosophy of government. Ordoliberals such as Eucken envisioned a world in which interest rates were set by the market and reflected the supply and demand of savings. They sought ways in which the money creation process could be put, essentially, on autopilot, a view not unlike Milton Friedman’s support of a fixed rate of growth of the money supply. A central bank that actively and freely manipulates rates would not seem desirable to those holding these ordoliberal opinions.

Keynes’s economic ideas, which were influential elsewhere in Europe in the immediate post–World War II period, also had little impact on the contours of the German central banking system. It may come as some surprise that Keynes supported the idea of an independent central bank. However, as one might expect, Keynes felt governments should be responsible for setting the ultimate goals of macroeconomic policy. It is sometimes thought that Karl Schiller, West Germany’s economics minister, belatedly brought Keynesian policy to his country in 1967 with the Stability and Growth Act. But Schiller respected the complete independence of the central bank, so monetary policy played no role in any blossoming of Keynesianism. Thus, contemporary economic thought had little impact on the ultimate shape of the Bundesbank; rather, historical accidents and personal idiosyncrasies account for the strong independence of the bank.

Changes in Household Wealth in the 1980s and 1990s in the U.S.

EDWARD N. WOLFF

Working Paper No. 407

www.levy.org/pubs/wp/407.pdf

Senior Scholar Edward N. Wolff has released a new working paper that provides up-to-date information on the amount and distribution of wealth among American households. He begins by discussing average and median wealth, both of which grew rapidly during the 1990s. The median net worth of American households expanded at a rate of 1.32 percent from 1989 to 2001, compared with 1.13 percent from 1983 to 1989. Wolff's data also show that financial wealth, including securities, deposits, and other paper assets, expanded even more rapidly than did broader definitions of wealth, a development that had much to do with the stock market boom of the late 1990s.

One of Wolff's main interests is in how evenly wealth is distributed among households. He finds that the inequality of wealth, as measured in several ways, did not change much during the 1990s. Nevertheless, the distribution, as always, has been very lopsided, even when compared with the distribution of income. For example, the wealthiest 1 percent of Americans owns nearly a third of all net wealth. Despite the stability of the overall wealth distribution, the number of extremely wealthy households (i.e., those with a net worth of more than \$1 million, \$5 million, or \$10 million) exploded between 1989 and 2001. Another statistic that hints at unfairness is obtained if one divides the growth in the total wealth of each group of households by the total increase in net worth of all American households. This calculation provides a measure of how much of the increase in wealth wound up in the hands of each sector of society. The results are striking. The richest 1 percent received about one third of the total increase in wealth; the next 4 percent received another third; and the next 15 percent reaped a quarter. This left the bottom 80 percent with only 11 percent of the benefits of the total increase in wealth.

Wealth inequality between races and ethnic groups grew in the 1990s. The ratio of the median wealth of non-Hispanic African Americans to the wealth of non-Hispanic whites was 10 percent. This contrasts with an income ratio of 57 percent. Thus, a comparison of earnings, or of income alone, understates the disparities that remain among racial and ethnic groups. Nevertheless, the average net worth of African-American house-

holds grew at a significant rate during the period of the study—but not as fast as that of white households.

Because the stock market has been volatile recently, it is interesting to track stock ownership separately from other forms of wealth. The share of households with some stock owned directly or indirectly through mutual funds, trusts, or pension accounts grew from 31.7 to 51.9 percent. However, relatively few households owned large amounts of stock (i.e., stock valued at more than \$25,000).

Keynesian Theorizing During Hard Times: Stock-Flow Consistent Models as an Unexplored "Frontier" of Keynesian Macroeconomics

CLAUDIO H. DOS SANTOS

Working Paper No. 408

www.levy.org/pubs/wp/408.pdf

In a new working paper, Research Scholar Claudio H. Dos Santos continues his project of modeling the economy using stock-flow consistent models. Dos Santos shows that his theoretical framework can encompass the specific theories of a diverse group of Keynesian economists who wrote in the 1970s. He also illustrates the importance of the issues raised by his macroeconomic approach and surveys a large terrain that has yet to be thoroughly explored by stock-flow consistent modelers.

The stock-flow consistent approach to developing macroeconomic models, developed in large part by Levy Institute Distinguished Scholar Wynne Godley, stands behind the projections reported in the Institute's strategic analyses. Briefly, the principle behind this type of model is that all flows of money and other assets should be accounted for. If, for example, a theory assumes that firms finance investment by floating bonds, the economist should model how the stock of bonds held by the public changes as new securities are issued.

Dos Santos first sets forth three tables that comprehensively model the asset holdings and transactions of five economic sectors: households, firms, banks, the central bank, and the government. For example, one of the tables contains a column that lists all changes (during a certain period of time) in the household sector's holdings of assets such as cash and bank deposits. The sum of these changes must equal the net savings of all households.

Dos Santos's next task is to posit various alternative "closures" that specify how various entries in the tables are determined. He discusses closures that have been proposed by post-Keynesian scholars, such as Paul Davidson, as well as those proposed by more traditional Keynesians, including James Tobin. One key component examined in the paper is the household sector's consumption decisions. Many Keynesians have assumed that consumption expenditures depend entirely upon income and its distribution, but Dos Santos favors a closure in which consumption decisions are part of a general process of allocating funds among various types of assets and purchases of goods and services. In principle, then, purchases of commodities can depend upon the rates of return of various financial assets. Dos Santos ends the paper by posing some macroeconomic questions that potentially could be answered with the help of stock-flow consistent models.

Assessing the ECB's Performance since the Global Slowdown: A Structural Policy Bias Coming Home to Roost?

JÖRG BIBOW

Working Paper No. 409

www.levy.org/pubs/wp/409.pdf

In a new working paper, Jörg Bibow argues that the timing of the growth slowdown in the euro area since 2001 is not consistent with the claim that the slowdown is rooted in events occurring abroad. There is no doubt that increases in oil prices, the U.S. recession, and other world events contributed to the recession in Europe, but these events generally occurred after the European slowdown began. The European Central Bank (ECB), with its tight-money policy, was also to blame, despite the denials of ECB officials. Restrictive central bank policies probably also had the unintended effect of weakening the euro.

ECB rate increases continued until the recession in domestic demand was well under way, with the last hike coming in October 2000. When it became clear that a slowdown was beginning, the ECB stopped downplaying the potential impact of a U.S. recession and began blaming developments in America for the ECB's own poor performance. After the worst of the 2001 U.S. recession was over, the ECB was optimistic about the prospects for growth in Europe, and it redirected attention from its own tight policies to the need for "structural reforms,"

such as cutbacks in social programs. Even after the ECB shaved some basis points from its policy rate, growth was still at approximately zero, with only the export market preventing a deep recession. Nevertheless, the ECB remained concerned, primarily, with the prospect of inflation. It denied that policymakers needed to find some way to counteract the fiscal drag caused by the Stability and Growth Pact (which limits deficits of eurozone countries). Indeed, the ECB argued that fiscal consolidation would have a positive effect on growth. However, the government budgets of member nations were not the only threat to growth; the euro rose rapidly from 2000 to 2002, a development that had the potential to cut off Europe's export lifeline. It was not until mid-2003 that Europe began to recover, and this turnaround was due, primarily, to export growth. Bibow suggests that, because the recovery was not the result of domestic spending, the interest-rate hawks should not be given any credit for it.

This history of ECB incompetence indicates a flawed notion of the role of a central bank. Although it is often viewed as an inflation targeter, the ECB has, in fact, taken many actions that have exacerbated inflation. More important, the ECB has reacted much more strongly to excessive inflation than it has to disinflationary conditions, thus demonstrating an approach that is far too asymmetric to qualify as inflation targeting.

Bibow concludes that the blame for the euro area's weak performance lies with inappropriately tight macroeconomic policy, for which the ECB is largely at fault. He completes the paper by making several suggestions for reforms of the central bank, including setting limits on its independence from the rest of the government.

Gibson's Paradox, Monetary Policy, and the Emergence of Cycles

GREG HANNSGEN

Working Paper No. 410

www.levy.org/pubs/wp/410.pdf

In its concern over an apparent threat of inflation, the Federal Reserve Open Market Committee has signaled its intent to raise interest rates gradually over the coming months and years. But interest-rate increases do not always have their intended effect. In the late 1970s and early 1980s, the Fed, in its effort to contain prices, raised interest rates to nearly 20 percent. Moreover,

economists have observed, at least since Keynes's time, a phenomenon known as Gibson's Paradox, which states that price levels (along with inflation) are positively correlated with interest rates. Has conventional economic theory (and the Federal Reserve) misunderstood the relationship between interest rates and prices?

For many years, some economists who have observed Gibson's Paradox have attributed the inflationary effect of high interest rates to their placement on the cost side of firms' ledgers. When the Fed raises interest rates, businesses must pay more interest, a cost that they pass along to their customers. (Monetarists, by contrast, offer the explanation that investors demand higher nominal rates in times of high inflation in order to compensate for the potential erosion of their spending power.)

In his new working paper, Greg Hannsgen constructs a model using the "cost-push" theory of the role of interest rates. The model has several other features familiar from Sraffian and Minskyan models: interest rate "accelerations" and utilization of existing capital goods affect investment; prices are determined by costs; and the profit rate adjusts to equality with the interest rate.

Hannsgen has long been concerned not only with the long-run tendencies of the economy, but also with short-run adjustments, including the business cycle. An interesting feature of his model is that it can generate cycles. That is, if the behavior of inflation and other economic variables is as Hannsgen hypothesizes, a simple calculation shows that the economy fluctuates between boom and recession and between rapid and slow inflation. Otherwise, the economy has a "corridor of stability." As is stated in one of Hannsgen's earlier working papers, a number of factors, including overly aggressive central bank policy, can make for high-amplitude cycles or a narrow corridor of stability. One implication of the Hannsgen paper is that the Fed should keep interest rates fairly stable and that its policies may influence the distribution of income between labor and capital. A further implication is that a price system that reacts rapidly to changes in the forces of supply and demand may or may not have a beneficial effect on the stability of the economy.

Financial Liberalization and Poverty: Channels of Influence

PHILIP ARESTIS AND ASENA CANER

Working Paper No. 411

www.levy.org/pubs/wp/411.pdf

In a new working paper, Institute Professor of Economics Philip Arestis and Research Scholar Asena Caner assess the evidence as to the effects of financial liberalization on poverty in developing countries. In their definition of financial liberalization, the authors include the opening of stock markets to foreign investors, freeing of transactions on the capital account, and domestic financial deregulation. Some of the regulations that are eliminated by liberalization include caps on various interest rates and limits on borrowing from foreign investors.

Arestis and Caner hypothesize that liberalization could affect poverty in three ways. First of all, if liberalization improves overall growth, and growth helps the poor, then liberalization may ameliorate poverty. There is reason to expect liberalization to spur growth. The financial-repression thesis holds that artificially low interest rates, which tend to characterize low levels of financial development and liberalization, reduce savings, which can, in turn, reduce the availability of capital. The evidence in support of this financial-repression thesis, however, is decidedly mixed, and the theory is also subject to major critiques on theoretical grounds. On the other hand, the evidence on the link between growth and the alleviation of poverty is quite strong.

Another channel through which financial liberalization might be expected to affect poverty is the financial-crises channel. In recent years, a number of financial crises have occurred in undeveloped countries, and some economists have linked these debacles to liberalization. For example, once an economy becomes dependent upon foreign capital, it may be vulnerable to speculative vicissitudes in financial markets. The impact on the poor can take the form of cuts in social programs (due to ensuing fiscal austerity measures), effects on job markets in the formal and informal sectors, and changes in the distribution of real income. The authors find all of these arguments relating to the crises channel to be empirically and theoretically convincing.

Finally, liberalization can affect the poor directly by impeding or improving their access to credit. Unfortunately, many poor people lack access to credit markets, so liberalization does not

benefit them directly. Also, liberalization can direct funds away from informal lenders, who cater to the poor to a much greater extent than do big international institutions.

Arestis and Caner conclude their paper by offering some proposals to ensure that capital markets work on behalf of the poor. Countries should see to it that credit and lending criteria of financial institutions are made more “friendly” to small-scale borrowers. Policymakers should also provide the institutional structure that would allow alternative forms of finance, such as microcredit, to flourish.

Conference

14th Annual Hyman P. Minsky Conference on Financial Structure: Can the Recovery Be Sustained? U.S. and International Perspectives

Representatives of academe, the Federal Open Market Committee, and business met on April 23–24 to discuss Minskyan insights into today’s economic climate. Participants generally agreed that the current recovery was fragile. Some participants expressed concern that the household sector had accumulated an enormous debt burden and that policymakers did not appreciate the role government could play in restoring stability. Once again, the works of Hyman P. Minsky proved fruitful and provocative.

Session 1. The State of the U.S. and World Economies

The session was moderated by Dimitri B. Papadimitriou, president of the Levy Institute. Presentations were made by Lakshman Achuthan, managing director, Economic Cycle Research Institute; Senior Scholar James K. Galbraith of the University of Texas at Austin; and James W. Paulsen, chief investment strategist, Wells Capital Management.

Papadimitriou welcomed the conference participants and highlighted the Institute’s special relationship with Hyman P. Minsky. Minsky finished his career at the Institute, and a close link exists between the economic thought of Minsky and that of Leon Levy, the late founder of the Institute, and of Jerome Levy, his father. Papadimitriou cited one of Minsky’s most important ideas, as summarized in Leon Levy’s book, *The Mind of Wall Street*: “Prosperity leads to its own decline by ultimately producing speculative excess. As good times roll along, people

lose sight of risk. Eventually these excesses lead to a point where people can’t meet their obligations, and bad times begin.”

Papadimitriou went on to present findings from the April 2004 Levy Institute strategic analysis (see p. 1 for a report on the most recent strategic analysis) and stated that, although the economy was gaining speed, it was unlikely to regain the momentum it had during the late 1990s. Moreover, the job market was still very weak. Papadimitriou noted that it would be incorrect to attribute slow job growth to productivity gains. He based his analysis on the accounting identity that states that the sum of the private and public sector deficits must equal the foreign (current account) deficit. In recent years, the private sector deficit has receded and a large and growing government deficit has taken its place. It is this development that accounts for the recent resurgence of growth.

Many observers, including Alan Greenspan, chairman of the Federal Reserve Board, are optimistic about the current situation. However, the Levy Institute remains concerned about the possibility that the private sector will rein in its finances because of its already high debt-service burden. Moreover, Papadimitriou expressed concern that foreign lenders may not continue to finance the U.S. deficit by purchasing American securities.

Papadimitriou examined three possible scenarios, extending to 2008. Each was based on a different approach to policy. The baseline scenario was constructed under the assumption that current fiscal and monetary policy would continue. The second scenario was based upon the assumption that the government would halve its deficit by cutting spending. The third scenario rested on the premise that the government would cut its deficit in half by raising taxes.

Papadimitriou and his coworkers found that, in the baseline scenario, the government and foreign deficits would balloon to 5.8 percent. In 2004, GDP growth would rise from 4.1 percent and stay between 4.1 and 4.4 percent thereafter. The authors of the strategic analysis reject this scenario as undesirable because it implies that foreign and government debt would grow explosively.

The second scenario looks better from the perspective of sectoral balances, but the authors’ calculations show that it would lead to very weak growth (around 2 percent after 2005). In the third scenario, which involves rescinding the recent tax cuts, the sectoral balances behave in a way similar to that described in the second scenario, but growth is higher. Growth is predicted at 4.1 percent in 2004, 3.8 percent in 2005, and



Dimitri B. Papadimitriou

3.2 percent in 2008. Therefore, if the federal deficit were to be cut, the analysis shows that the government would do well to raise taxes, rather than to cut spending.

Achuthan stated that recent developments reflect a dramatic change in the world economy. As evidence of a sea change, he pointed to the divergence, in recent quarters, between GDP growth and job growth. In particular, Achuthan pointed to a rapid loss of manufacturing jobs during the recovery from the 2001 recession. Since the beginning of the recession, 134 percent of net job losses have been in the manufacturing sector, and, overall, 10 percent of manufacturing jobs have disappeared during the recovery. Achuthan drew a parallel between the United States in the 2000s and recent times in New Zealand, which have also been marked by simultaneous economic growth and job loss. In accounting for structural change in the U.S. economy, Achuthan cited two forces that have reduced industry's pricing power: antiinflationary monetary policy and the availability of inexpensive labor abroad. Both of these factors have put pressure on firms to reduce their costs, and the result has been a loss of jobs. Achuthan expressed optimism that the United States will be able to retain many high-paying jobs, especially in the area of intellectual property.

Galbraith was not optimistic about the future course of the American economy, especially beyond the election date in November. First, the technology boom has left a great deal of excess capacity, which might limit the speed of the recovery, in its wake. Second, households' debt service ratios remain near record levels. Third, the states will be forced to raise taxes or cut spending in order to close their budget gaps (a situation that

calls for federal help). Fourth, pressures are building, both within this country and externally, for hikes in interest rates. Fifth, the high U.S. trade deficit acts as a drain on domestic demand for American products. Finally, uncertainty about the situation in Iraq and Afghanistan has been discouraging investment. Galbraith went on to say that a program of deficit reduction would not help an economy in which businesses were reluctant to invest. In fact, he suggested that the best way to deal with uncertainty in the private economy would be to undertake new governmental activities, especially those that increase the security of the country. One example would be to fund alternatives to fossil fuels.

Paulsen expressed the view that, over the near term, inflation would be more of a concern than recession; growth, profitability, the stock markets, interest rates, and inflation were likely to rise. He also noted that most observers have failed to note these upward trends because of their overriding fears of deflation and the "near-death" experiences of investors, and others, in recent years. Paulsen listed several factors that are now stimulating the economy: a steep yield curve, a massive government deficit, and low mortgage rates. He warned against assuming that the nation would be able to keep inflation low and growth high, as it had done in the period leading up to 2001. Paulsen suggested that the nation is always preoccupied with one economic policy obsession or another. Starting in the late 1970s, the main obsession was with containing inflation, a preoccupation that led to overly zealous antiinflationary policies. Now, said Paulsen, the nation may be about to suffer the consequences of an obsession with deflation.

Speaker: MICHAEL H. MOSKOW

Moskow, president of the Federal Reserve Bank of Chicago, spoke about the "output gap" and its relevance to setting economic policy, the condition of the labor market, and the outlook for growth and inflation. The output gap is the difference between the actual and potential levels of GDP. If the output gap is large (and negative), the monetary authorities have leeway to stimulate the economy without generating inflation. As the gap shrinks, cuts in interest rates become riskier, because of the danger of an inflationary boom. Moskow pointed out that the gap "is not something that can be measured with precision." Thus, estimating the gap requires judgment. However, at the time of Moskow's speech, a number of statisti-

cal indicators and models suggested, as he put it, “that the current level of actual output is still below potential.” Therefore, Moskow suggested, policymakers needed to close the gap, while simultaneously taking care not to go too far at some point in the future.

According to Moskow, the current output gap is the result of a shallow recession and a slow recovery, the latter of which saw an average rate of growth of about 2.75 percent. He blamed the pace of the recovery largely on a series of economic shocks, including the war on terrorism, revelations of corporate fraud, and preparations for the war in Iraq. He added that, despite its slow and weak comeback, the nation has enjoyed “significant progress in narrowing the output gap.”

Moskow next offered some possible explanations for the lack of significant job growth in recent months, a factor he referred to as “the missing link for much of the recovery.” In the two years following a typical recession, U.S. employment has risen by about 5 percent, on average; payrolls are still below the levels attained at the end of the recession. One popular explanation is that the unusually rapid pace of economic change has required the rapid movement of employees between sectors. Since such reallocation takes time, some workers have been left, temporarily, without work. But, according to Moskow, the data show that the problem is the result of slow job creation, rather than the rapid destruction of existing jobs. He also called into question those analyses that blame the trend on outsourcing, while, at the same time, acknowledging that society must “ease the transition for [affected] workers and their families” into new jobs.

One likely reason job growth has not been strong, according to Moskow, may be new employment practices that allow firms to hire and fire workers rapidly. The ability to hire on a temporary basis, for example, allows firms to maintain a smaller permanent stock of employees during times of weak demand.

Moskow asserted that growth would remain solid and employment would accelerate. Among the factors he cited as making for strong growth were low interest rates, government budget deficits, replacement demand for capital equipment, and improvement in the economies of American trading partners. Many inflationary risks are present, Moskow noted, but, though inflation was up, it still stands at a relatively low level. He suggested that vigilance is the order of the day in dealing with the inflationary threat. The Federal Reserve will not be able to maintain an easy policy stance indefinitely.



Michael H. Moskow

Session 2. The Macroeconomic Prospects for the U.S. Economy

The session was moderated by Resident Research Associate Greg Hannsgen. There were presentations by Robert Z. Aliber of the University of Chicago; Robert W. Parenteau of RCM Global Investors; and Senior Scholar L. Randall Wray of the University of Missouri–Kansas City.

Aliber remarked that, in the late 1990s, he correctly anticipated future currency crises, but incorrectly predicted asset prices. He said he was working on a book on the monetary history of the past 30 years, a period that he regards as among the most tumultuous of the past two centuries. He sought to explain what has happened during that time. He emphasized asset bubbles, such as the real estate bubble in Japan and the stock market bubble of the 1990s in the United States, noting that the two, in his view, did not develop independently. He discussed various shocks, saying that they could be divided into asset and liability sides of the balance sheet. He also labeled certain shocks as “bad news” or “good news,” a classification that can vary when viewed from the perspective of different economies. With regard to the recent asset-price “bad news” in the United States, Aliber said he had been much more successful in anticipating the rise of the euro than in predicting movements in Asian markets. Aliber also discussed the role of the so-called “transfer problem”—the adjustment of domestic savings to foreign capital flows—in inaugurating major shifts in asset prices.

Parenteau commented on the relationship between household balance sheets and Federal Reserve policy in recent years. He pointed out that, despite the recent crash of the stock market, households continue to add to their already large stock of debt.

Contrary to the opinions of some economists, Parenteau (along with Distinguished Scholar Wynne Godley) believes that this imbalance is a matter of concern, as well as a bit of a puzzle. Why are people building up debt, when historical precedent would lead one to expect the reverse? Parenteau offered two explanations. First, people are borrowing money at today's attractive low rates and "parking" the funds in liquid assets, such as bank accounts, to be converted to investments when the time is right. Second, the wealthy are indeed saving, as one might expect, but cash-strapped low- and moderate-income households are borrowing out of necessity.

Wray outlined his views of the "D" words—deficits, debt, deflation, and depreciation—that are notable in today's economic literature. A summary of his presentation appears as Policy Note 2004/2 on page 4.

Session 3. Financial Instability in a Global Economy

The session was moderated by Institute Professor Philip Arestis. There were presentations by Ilene Grabel of the University of Denver and Doreen Isenberg of the University of Redlands.

Grabel discussed some policy measures that might improve the financial stability of developing economies. She referred to her approach as "trip wires and speed bumps." This contrasts with the more conventional strategy of attempting to predict crises and to head them off by informing international investors. The conventional strategy is aimed at taking some of the air out of bubbles before they reach the bursting point. Grabel's approach, on the other hand, would not rely on investors alone. She would create a trip wire, for each of several types of risk often incurred by developing economies, and speed bumps that would be put in place as a trip wire was passed. For example, one trip wire might be a critical level of reserves in relation to short-term external obligations. Once this level was breached, governments would intervene in currency markets or restrict currency convertibility, moves that would reduce the risk of a currency debacle. The speed bump intervention could be mandated in advance or instituted at the discretion of the government. These approaches might reduce the risk of the kinds of crises seen in Mexico, Asia, and elsewhere, in recent years.

Isenberg described the Basel II Accord on banking regulation and analyzed the likely effects of its adoption. Like Basel I, the new agreement is designed to level the playing field of the

financial sector and enhance stability. The effects of the accord will include altering capital requirements, increasing regulatory flexibility, and promoting greater reliance on market discipline to control risk. One important and novel element in the philosophy of Basel II is its acknowledgment of the extent to which banks accept risks and its use of private sector models to analyze the acceptability of risk. One of the positive aspects of Basel II is that, in contrast to Basil I, it reduces disincentives to making loans to countries that do not belong to the Organization for Economic Co-operation and Development. After discussing many aspects of Basel II, Isenberg listed four categories of impact that will result from the new rules: cost reduction; reduction in the amount of competition among financial firms; a tendency to accentuate the business cycle, rather than dampen it; and changes in the role of regulators. Isenberg concluded by relating Basel II to Minsky's theory, which describes the financial system as a web of uncertainties held together with a series of promises.

Session 4. The Changing Role of Fiscal Policy

The session was moderated by Senior Scholar Thomas L. Hungerford. There were presentations by Institute Professor Philip Arestis, Senior Scholar L. Randall Wray of the University of Missouri–Kansas City, and Research Associate Steven M. Fazzari of Washington University in St. Louis.

In a coauthored study with Senior Scholar Malcolm Sawyer of the Leeds University Business School, Arestis noted that macroeconomic policy has usually focused on monetary policy rather than fiscal policy. He disagreed with economic theories, such as the "new consensus," that suggest fiscal policy has a limited role to play in influencing aggregate demand. Fiscal policy should be reinstated as a tool of macroeconomic policy, an action with which Minsky would agree, asserted Arestis. A summary of the coauthored paper appears as Working Paper no. 381 on page 7 of the September 2003 *Report*.

In a coauthored paper with Stephanie Bell of the University of Missouri–Kansas City, Wray outlined a Minskyan assessment of the War on Poverty after 40 years. A summary of his presentation appears as Working Paper no. 404 on page 8 of the June 2004 *Report*.

Fazzari's presentation was based upon a paper that he wrote with Pierro Ferri of the University of Bergamo, Italy, and Edward Greenberg, a colleague of Fazzari's at Washington

University in St. Louis. Fazzari spoke about Minsky's theory of the cycle, then proceeded to present a model inspired by that theory. Minsky believed that capitalist economies were always cyclical, moving inevitably from boom to bust. This was not due to shocks to the system from outside but, rather, the result of a tendency for capitalist economies to fluctuate on their own. He argued that firms tended to become overly indebted during booms, forgetting the lessons of past financial debacles and abandoning financial prudence in order to accelerate investment. Eventually levels of debt became unsustainable, leading to widespread bankruptcies and a collapse of investment. The state of the financial system, and banks in particular, was a crucial variable throughout the cycle, a fact overlooked by most macroeconomists, of all stripes. The model of Fazzari, Ferri, and Greenberg matched Minsky's theory well. Within it, the economy, as a whole, followed an oscillating pattern over time, a finding consistent with the behavior of most actual economies.

Speaker: MARTIN SHUBIK

In addressing the sustainability of the current recovery, Shubik, of Yale University, made a number of points about forecasting. He noted that different approaches to forecasting are appropriate for different contexts. It is possible to base predictions upon projections of current trends, a method that often works in the short term and does not require fancy mathematical tools. But unexpected events outside the scope of one's model—such as a terrorist attack—can ruin a forecaster's efforts.

Shubik commented on the efficacy of three different types of economics: "microeconomics, useful macroeconomics, and useful business economics." Like his friend Hyman P. Minsky, Shubik was skeptical of general equilibrium theory, a form of microeconomics. This type of microeconomics involves modeling the markets for all the goods and services exchanged in an economy. Although Kenneth Arrow, Gérard Debreu, and other general equilibrium theorists proved the existence of a set of prices for all goods that would balance supply and demand, Shubik agreed with Minsky that this theory lacked institutional detail. In his own work, Minsky had developed an institutionally rich, largely nonmathematical theory of the macroeconomy that allowed him to paint a nuanced picture of the evolution of the economy. Shubik dropped the assumption of equilibrium and concentrated his attention on how institutions might arise from rational behavior. He argued that, while



Martin Shubik

all societies have institutions to perform certain key functions (such as care of the elderly), there remains the interesting question as to how and why particular institutions arise. This question cannot be answered by institutionless equilibrium economics. However, suggested Shubik, one can arrive at solutions to these problems by modeling the economy as a game.

Shubik also criticized other forms of economics that neglect the context within which rational decisions are made. For example, he expressed skepticism about some modern forms of finance, specifically those that analyze securities as if they were lottery tickets. He noted that this approach neglects an analysis of the underlying capabilities of a firm to make a profit.

Returning to the question of forecasting, Shubik said that, if a quick answer were needed, it was not necessary to use a fancy microeconomic model. He emphasized that, in such forecasts, using the right variables was critical.

Shubik stated that prediction or forecasting was not always the most important task at hand. It is sometimes possible to control outcomes, in a desirable way, without using exact predictions. As an example, Shubik cited two possible approaches to reducing suicides on a particular bridge: erecting fences or hiring psychiatrists. Shubik offered, as another example of the non-forecasting approach, an analysis to determine the right size government sufficient to muffle the fluctuations of the private sector. Shubik speculated that a public sector that accounted for about 20 to 30 percent of GDP would probably be appropriate.

Speaker: MAURICE HINCHEY

Hinchey, who was elected to the U.S. House of Representatives in 1992, began by observing that the U.S. economy was still performing poorly, by most measures, even as economic growth continued. News on wages, discouraged workers, poverty, health care costs, and other aspects of the economy suggest that national policy has moved in the wrong direction. Hinchey highlighted the changes in fiscal policy since George W. Bush took office and suggested that most of the deterioration of the federal budgetary position could be attributed to the tax cuts that Bush promoted and signed into law. Hinchey cited the example of Canada, whose government has implemented fiscal policies that are much more friendly to the middle class. While that country's economy has grown at roughly the same rate as the American economy over the past four years, one million new jobs have been generated in Canada during that period, in contrast to the two million jobs that have vanished in the United States. Along with tax cuts for the poor and middle class, the Canadian government has offered its citizens inexpensive, universal health insurance, a factor which helps to keep the costs of hiring new workers reasonable.

Hinchey pointed to several factors that make the current recovery very fragile, both for the macroeconomy and individuals. Home ownership is at a record high, but so is mortgage debt. Other forms of consumer credit have also been exploited by households seeking to maintain spending; the stock of private debt now poses a looming threat, one that will intensify when the era of cheap borrowing ends.

Hinchey discussed, in detail, the current administration's budget policies and their effects. Recent tax cuts account for three quarters of the growth in the deficit in recent years. The federal government has failed to support states and localities since the economy first turned sour, a failure that has led to property- and sales-tax increases, along with cuts in essential services. Aggravating the fiscal straits experienced by government at all levels, an increasing proportion of federal tax revenue has been diverted to interest payments. Little effort has been made to use federal spending to solve the nation's most pressing problems, such as the health care crisis. Furthermore, new spending rules adopted by Congress prevent a future remedy for this neglect.

Hinchey summed up by saying that the administration's policies have made the economy vulnerable to economic distress, a condition that will make the next administration's work very difficult.



Maurice Hinchey

Session 5. Money, Risk, and Policy

The session was moderated by Resident Research Associate W. Ray Towle. There were presentations by Research Scholar Claudio H. Dos Santos, Resident Research Associate Greg Hannsgen, and Robert Prasch of Middlebury College.

According to Dos Santos, models associated with the formal Minskyan literature present underdeveloped financial structures and treat financing issues with oversimplified hypotheses that do not do justice to the richness of Minsky's analyses. A summary of his presentation appears as Working Paper no. 403 on page 16 of the June 2004 *Report*.

Hannsgen used Minsky's financial-fragility hypothesis and financial theory of the business cycle to formulate a model and study the effects of monetary policy, while simultaneously omitting those elements that Minsky's critics find objectionable. A summary of Hannsgen's paper appears as Working Paper no. 384 on page 16 of the February 2004 *Report*.

Prasch began his discussion of risk by citing the case of senior executives of the struggling Delta Air Lines, who quietly set aside money to fund their pensions at a time when bankruptcy was imminent, and the pensions of rank-and-file employees were in jeopardy. Prasch believes that risks, in particular financial risks, have been systematically shifted in recent years toward the middle and lower classes. This development runs counter to the notion from financial theory that a trade-off exists between risk and reward. Prasch mentioned three factors that have contributed to the separation of risk from reward: the limited liability partnership, which allows partners in accounting firms to ignore wrongdoing by other partners, secure in the

knowledge that they are not liable; asymmetric information, which allows insiders to foist risky financial products on ill-informed buyers; and externalities, which arise from the fact that many of the costs of financial debacles have ripple effects not taken into account by individuals.

Levy Institute News

Upcoming Event

Conference: The Distributional Effects of Government Spending and Taxation

October 15–16, 2004

Annandale-on-Hudson, New York

New Board Members

The Levy Institute welcomes two new members to its Board of Governors. **Lakshman Achuthan** is the managing director of the Economic Cycle Research Institute (ECRI), an independent organization focused on business cycle research and forecasting in the tradition established by Geoffrey H. Moore.

Achuthan plays a key role in helping asset managers, corporate strategists, and policymakers use cyclical forecasts in their decision-making process. He is the managing editor of ECRI's publications and participates regularly in a wide range of public economic discussions on television, radio, and in the financial press. Achuthan is a member of *Time* magazine's board of economists and the New York City Economic Advisory Panel and is the treasurer of the Downtown Economists Club.

Achuthan is coauthor of *Beating the Business Cycle*, published by Doubleday.

J. Ezra Merkin has been the managing partner of Gabriel Capital Group and its predecessor firm since 1985. He manages more than \$3 billion in a family of hedge funds.

Merkin graduated from Columbia College and Harvard Law School. He is a trustee and chairs the investment committees of Yeshiva University and UJA–Federation of New York. In addition, he is a trustee of Carnegie Hall in New York; the Beyeler Foundation and Museum in Basel, Switzerland; and the Gruss Foundation. He is a member of the Board of Visitors of Columbia College in New York. Merkin serves as president of

the Fifth Avenue Synagogue and vice chairman of the Ramaz School, both in New York City.

New Book

What Has Happened to the Quality of Life in the Advanced Industrialized Nations?

Edward N. Wolff, ed.

Cheltenham, U.K. and Northampton, Massachusetts: Edward Elgar Publishing Ltd. and The Levy Economics Institute, 2004

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

PHILIP ARESTIS *Institute Professor of Economics*

Publications: “European Union Must End the Stability and Growth Pact and Reform the European Central Bank” (with M. C. Sawyer), *Ekonomia*, Vol. 6, No. 1, Summer 2003; “Dollar Weakness is the Key Driver” (with E. Karakitsos), *Financial Times*, March 3; “Threshold Effects in the U.S. Budget Deficit” (with A. Cipollini and B. Fattouh), *Economic Inquiry*, Vol. 42, No. 2, April; “Regime de Metas de Inflação Ainda Divide Especialistas,” interview and debate with Frederic Mishkin, Columbia University, on inflation targeting, published in the Brazilian newspaper *Folha De S. Paulo*, May 24; “Financial Globalisation and Regulation” (with S. Basu), *Research in International Business and Finance*, Vol. 12, No. 1, July; “Can Monetary Policy Affect the Real Economy?” (with M. C. Sawyer), *European Review of Economics and Finance*, Vol. 3, No. 3, July; “Financial Sector Reforms in Developing Countries with Special Reference to Egypt,” in R. Arena and N. Salvadori, eds., *Money Credit and the Role of the State: Essays in Honour of Augusto Graziani*, Ashgate Publishing Limited, 2004; “El BCE y el Pacto de Estabilidad son culpables del bajo crecimiento de la UE,” interview by Ana Barandiaran and published in the Spanish newspaper, *El Correo*, July 17.

Presentations: “New Consensus Monetary Policy: A Critique” (with M. C. Sawyer), On the “New” Monetary Policy: Implications and Relevance conference, Cambridge Centre for Economic and Public Policy, Cambridge, U.K., March 18–20; “Current Trends in Macroeconomic Theory and Policy,” State

University of New York (SUNY) seminar at New Paltz, April 22; “Reinstating Fiscal Policy” (with M. C. Sawyer), The Changing Role of Fiscal Policy session at the 14th Annual Hyman P. Minsky Conference on Financial Structure, The Levy Economics Institute of Bard College, Annandale-on-Hudson, New York, April 23–24; “Inflation Targeting and Asset Bubbles” and “Does Financial Structure Matter?” at the Federal Reserve Leadership Education Programme conference organized by the Financial Markets Center, Maritime Institute for Technology and Graduate Studies, Linthicum Heights, Maryland, May 14–15; “Inflation Targeting: A Critical Appraisal” (with M. C. Sawyer), New Macroeconomics and Monetary Policy session, “Financial Liberalization and Poverty: Channels of Influence” (with A. Caner), Finance session, and “Does Financial Structure Matter?” (with A. Luintel and K. Luintel), Growth session, at the International Conference of the Department of Applied Economics V, coorganized by the University of the Basque Country and the Cambridge Centre for Economic and Public Policy, Bilbao, Spain, July 15–16.

ASENA CANER *Research Scholar*

Presentations: Organized and chaired, Poverty and Wealth: Measurement and Gender Issues session, and Savings of Low-Income Households session, annual meeting of the Eastern Economic Association, Washington D.C., February 20–22.

GREG HANNSGEN *Resident Research Associate*

Presentations: “Borrowing Alone: The Theory and Policy Implications of the Commodification of Finance,” World Congress of Social Economics, Albertville, France, June 8–11; “Minsky’s Acceleration Channel and the Role of Money,” Money, Risk, and Policy session at the 14th Annual Hyman P. Minsky Conference, The Levy Economics Institute of Bard College, Annandale-on-Hudson, New York, April 23–24.

MALCOLM SAWYER *Senior Scholar*

Publications: “European Union Must End the Stability and Growth Pact and Reform the European Central Bank” (with P. Arestis), *Ekonomia*, Vol. 6, No. 1, Summer 2003; “Can Monetary Policy Affect the Real Economy?” (with P. Arestis), *European Review of Economics and Finance*, Vol. 3, No. 3, July; “La Private Finance Initiative nel Regno Unito: una lettura critica,” *Economia Publica*, Vol. 34, No. 2, 2004.

Presentations: “Alternative Macroeconomic Policies for EMU,” University of Maastricht, Netherlands, April 5; “The Private Finance Initiative in the U.K.: A Critical Appraisal,” *Universita Degli Studi di Roma, La Sapienza*, Rome, April 16; “An Economic Evaluation of Alternative Arrangements for Retirement Pensions,” University of the Basque Country, Bilbao, Spain, May 26.

EDWARD N. WOLFF *Senior Scholar*

Publications: “Racial Differences in Patterns of Wealth Accumulation” (with M. Gittleman), *Journal of Human Resources*, Vol. 39, No. 1, Winter 2004; “What Has Happened to the Leontief Paradox?” in Erik Dietzenbacher and Michael L. Lahr, eds., *Wassily Leontief and Input-Output Economics*, Cambridge: Cambridge University Press, 2004; “Stakeholding and Inheritances,” *Politics and Society*, Vol. 32, No. 1, March 2004; *What Has Happened to the Quality of Life in the Advanced Industrialized Countries?* Cheltenham, U.K. and Northampton, Massachusetts: Edward Elgar Publishing Ltd. and The Levy Economics Institute, 2004.

Presentations: “The Transformation of the American Pension System, 1983–1998,” Sloan Conference on Work Options for Mature Americans, University of Notre Dame, Indiana, December 7–8, 2003; “Recent Trends in Living Standards in the United States,” Columbia Seminar on Full Employment, Social Welfare, and Equity, Columbia University, December 15, 2003; “The Transformation of the American Pension System,” National Academy of Social Insurance Conference, In Search of Retirement Security, Washington, D.C., January 22; interview with Steve Barrows, KNZZ NewsRadio, Grand Junction, Colorado, November 19, 2003; interview with Judy Martin, NPR *Marketplace Morning Report*, December 9, 2003 and January 8, 2004; interview with Bob Smith, WXXI Radio, February 20; “The Devolution of the American Pension System,” Bard College seminar, April 8; discussant, Conference on Puerto Ricans on the Island and in the Mainland: New Directions in Social Science Research, Russell Sage Foundation, New York, May 21–22; *Dolan’s Unscripted*, CNNfn, June 23; “Household Wealth, Public Consumption, and Economic Well-being in the United States,” SSHRC International Conference on Index Number Theory and the Measurement of Prices and Productivity, Vancouver, British Columbia, June 30 – July 3.

L. RANDALL WRAY *Research Scholar*

Publications: “The Adverse Economic Impact from Repeal of the Prevailing Wage Law in the State of Missouri” (with M. Forstater, K. Pinkham, and M. Kelsay), *Ingram’s magazine*, April; “Loanable Funds, Liquidity Preference, and Endogenous Money,” *Credit and State Theories of Money: the Contributions of A. Mitchell Innes*, Cheltenham, U.K.: Edward Elgar Ltd., 2004.

Presentations: “When are Interest Rates Exogenous?” Eastern Economic Association annual meeting, Washington, D.C., February 20-22; “International Aspects of Current Monetary Policy,” University of Cambridge, Cambridge, U.K., March 20; “Credit and State Theories of Money,” CFEPS conference on The Nature, Origin, and Role of Money, University of Missouri-Kansas City, March 30 - April 1; “Social Security,” the Shepherd Center, Kansas City, April 9; “Those ‘D’ Words: Deficits, Debt, Deflation, and Depreciation,” SUNY New Paltz, April 22; “The ‘War on Poverty’ after 40 Years: A Minskyan Assessment,” The Changing Role of Fiscal Policy session and “Those ‘D’ Words: Deficits, Debt, Deflation, and Depreciation,” The Macroeconomic Prospects for the U.S. Economy session at the 14th Annual Hyman P. Minsky Conference on Financial Structure, The Levy Economics Institute of Bard College, Annandale-on-Hudson, New York, April 23-24; “Currency Solvency and the Possibility of Full Employment,” “Can Interest Rate Hikes Stimulate the Economy?” (with L. Tauheed), and “International Aspects of Monetary Policy,” Eighth International Post-Keynesian Workshop, Kansas City, June 16-24.

AJIT ZACHARIAS *Research Scholar*

Publication: “Introduction” in Edward N. Wolff, ed., *What Has Happened to the Quality of Life in the Advanced Industrialized Nations?* Cheltenham, U.K. and Northampton, Massachusetts: Edward Elgar Publishing Ltd. and The Levy Economics Institute, 2004.

Presentation: “Accumulation and Gender Disparities in Paid Work in the United States” (with M. Mahoney), International Conference on Gender, Macroeconomics, and International Economics, Salt Lake City, Utah, June 20-22.

Recent Levy Institute Publications

Levy Institute Measure of Economic Well-Being

How Much Does Wealth Matter for Well-Being? Alternative Measures of Income from Wealth

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United States, 1989, 1995, 2000, and 2001

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Concept, Measurement, and Findings: United States, 1989 and 2000

EDWARD N. WOLFF, AJIT ZACHARIAS, and ASENA CANER
February 2004

Levy Institute Measure of Economic Well-Being

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WYNNE GODLEY
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PUBLIC POLICY BRIEFS

The War on Poverty after 40 Years

A Minskyan Assessment

STEPHANIE A. BELL AND L. RANDALL WRAY

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PHILIP ARESTIS and ELIAS KARAKITSOS

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JAMES K. GALBRAITH

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Can Monetary Policy Affect the Real Economy?

The Dubious Effectiveness of Interest Rate Policy

PHILIP ARESTIS and MALCOLM SAWYER

No. 71, 2003 (Highlights, No. 71A)

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