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- Edward N. Wolff, research associate of the Levy Institute and professor of economics at New York University, finds scant evidence of the deskilling of the workforce during the 1980s .
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The Jerome Levy Economics Institute of Bard College, founded in 1986, is a nonprofit, nonpartisan, independently funded research organization devoted to public service. Through scholarship and economic forecasting 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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Lecture Series

CLAIR BROWN: American Standards of Living

Presidential candidates and policymakers across the nation are asserting that the standard of living in the United States is declining. Clair Brown, professor of economics at the University of California at Berkeley, challenged this assertion and stated that a focus on a deteriorating standard of living is misplaced. Instead, the focus should be on economic security, defined as change in the rate of saving.

To analyze questions such as how do people spend their income and how are spending patterns different across classes, Brown applied three standard of living (SoL) indexes (basics, variety, and status) to three classes of families (laborer, wage earner, and salaried) in order to relate work, consumption, and social roles. Basics spending is expenditures to meet fundamental physical needs and minimum requirements for social integration. Variety spending is expenditures that provide greater diversity, making life more interesting and comfortable. Status spending is expenditures on higher-quality items that provide social status. Laborer families are unskilled and service workers. Wage earner families are semiskilled and skilled workers. Salaried families are professionals and managers who are not self-employed.

Brown produced three standard of living indexes and a composite index (by aggregating the three indexes) for each worker type for five years: 1918, 1935, 1950, 1973, and 1988. During the 1918 to 1988 period family budgets shifted from food and clothing to recreation, transportation, and insurance. Economic dependence on the marketplace grew as dependence on the home and family declined. The larger, more complex economy required integration of the family into the economy in work and consumption activities.

In comparing the 1988 indexes to the 1973 indexes (see Exhibit 1), Brown found that although income declined 10 percent from 1973 to 1988 for laborer families, their total SoL index increased from 1.36 to 1.48. Standards of living increased for wage earner and salaried families more rapidly than their income. Brown noted that much of the growth in the standard of living for all three classes of families occurred in their increased spending on status and variety items. For all three classes of worker families, growth in standards of living outpaced growth in income. According to Brown, this imbalance was made possible by a general reduction in saving, or dissaving. Americans continue to improve their standards of living by saving less.

Brown concluded that the standard of living has not declined, but economic insecurity has risen. Americans need a wage increase so that they can increase their saving. Policy discussion should focus on economic security and saving.

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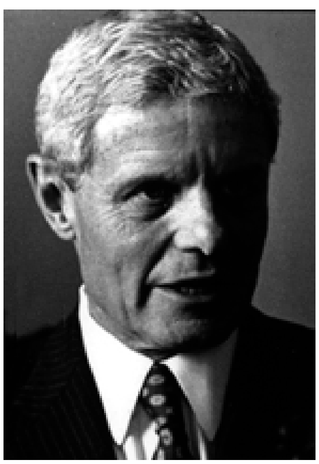
The Levy *Report* Interview



Edward V. Regan Discusses Fiscal Responsibility, General Economic Conditions, and Politics

Edward V. Regan is policy advisor and member of the Board of Advisors of The Jerome Levy Economics Institute and chairman of the Municipal Assistance Corporation (MAC) for New York City. MAC's mission is to protect New York's access to credit markets; MAC is highly rated and has several billion dollars in outstanding debt. Previously, Regan served for 14 years as Republican comptroller of New York State. He has written on infrastructure investment and New York State's unique Medicaid situation, provided congressional testimony on the balanced budget amendment, and spoken on the Republican revolution of 1994 and removal of the tax-exempt status of municipal bonds. Regan spoke to Theresa Ford, research associate of the Levy Institute, about these and other issues on March 7, 1996.

Fiscal Responsibility

Ford: You have testified against the balanced budget amendment. As the former comptroller of New York State, why are you opposed to such an amendment?

Regan: Based on my experience in New York State, and the experiences of comptrollers and fiscal officers in other states, an amendment to force balance will lead to more government manipulation and sometimes outright chicanery. When Congress or the president find that they cannot balance the budget and maintain a healthy civic and social environment, they will find ways to get around the amendment. State constitutional and statutory balanced budget requirements contain tight language; nevertheless, most of them are ignored at one time or another. The same thing will happen at the federal level. The result is that fiscal decision making is driven underground. It adds to the public's cynicism. One could say, "Well, let Congress have it, because they'll ignore it anyway!" But I am not for encouraging any more manipulation; I favor less.

Ford: Would you favor a balanced budget requirement with a capital budget provision?

Regan: That changes it a bit. But capital budgeting at the federal level is one of the more complex subjects I have ever encountered in my government experience. With a capital budget, Congress could borrow money and build infrastructure and still balance the operating budget. The answer to your question could be yes, when somebody gives me a clear answer as to what a capital budget at the federal level would look like, how it would work, and how it would affect decision making.

Ford: Do you believe that the goal of a balanced budget and the goal of public investment are mutually exclusive?

Regan: No. Policymakers could get around a balanced budget requirement if they needed to or wanted to invest. Balanced budgets and public investment do not have to be mutually exclusive. Currently, we do not have a balanced budget amendment "barrier," yet public investment is weak. Compared to federal and municipal investment in public works 20 years ago and compared to such investment in other industrialized countries, U.S. public investment is weak.

Ford: You have written a Levy Institute Public Policy Brief on infrastructure investment. What are some of the incentives for state and local government officials to defer maintenance of their infrastructure?

Regan: The incentives to defer are, for the most part, political. A dollar in the maintenance budget is a dollar that has to be taxed by the governor or mayor, whereas a dollar in the capital budget is only five cents or less that has to be taxed each year. Therefore, public officials have had a tendency to underfund or rob-that is the accurate phrase-the maintenance budget. As we all know, potholes appear and bridges deteriorate. What should have been a routine maintenance project converts into a major rehabilitation or capital project that can be financed by borrowing. Twenty- or thirty-year bonds have a minimal impact on the taxpayer and a maximum impact on an official's chances for reelection-less taxes, more ribbon cuttings. Mayors and governors readily admit that they do not maintain enough. When their budget is squeezed, the first place they look for funds is the maintenance budget. They know the project can eventually be a capital program. While taxpayers are still paying for the borrowing 20 and 30 years into the future, the public official has been reelected and then moved on to another position or retired.

Ford: What can be done to alter the incentive to defer infrastructure maintenance?

Regan: Barring a change in the culture of this country, I think the solution lies in the use of bond covenants. I once had a conversation with the mayor of Toronto, who is now minister of infrastructure for the current Ottawa government, about deferring maintenance in infrastructure, but he had trouble following me. Finally, he said, "Mr. Regan, if there is so much as a pothole on Bloore Street, my reelection would be in jeopardy." I am oversimplifying, if only a bit, but there is a difference in cultures. Other countries preserve and have good land use control; the culture in this country is guided by the "frontier" spirit-slash, burn, and move on. The use-it-up-and-move-on culture is also why we have, unfortunately, 20 or 30 hollowed out central cities in this country.

Our frontier culture, of course, has made us the most competitive nation in the world. It probably cannot and should not change. So the next best thing is to force upkeep of our infrastructure through bond covenants. When a mayor or governor borrows to build a bridge, a covenant in the bond provides a contract between the lender and the borrower for adequate maintenance of the bridge according to routine architectural and engineering standards. If upon inspection it is found that the government is not keeping up the maintenance, a bondholder, through a trustee, can take that government to court. A bond covenant is an easily enforceable contract.

Ford: Can you explain why you advocate the removal of the tax-exempt status of municipal bonds?

Regan: The tax-exempt status is a highly inefficient way to provide a subsidy for state and local governments' borrowing. It has not benefited anyone-civically, socially, or financially-except for a tiny sliver of the very rich. Those in the highest tax brackets who buy these bonds get a benefit that is provided to them, in a roundabout way through the tax code, by the average taxpayer. It is an upstream wealth transfer. In the meantime, it creates a barrier to privatization; it blocks pension funds, foundations, and endowments, worth five trillion dollars, from bidding on municipal bonds; it creates a highly specialized market in which we have Orange County, California, type problems, because there is none of the oversight that comes from the normal credit markets. Each time a governor or mayor borrows in the tax-exempt market, the average taxpayer loses.

Ford: In an age of devolution, what are some of the essential functions and responsibilities of the federal government?

Regan: Everyone has a different version of the federal government's essential functions. We are in the midst of yet another debate on the subject. Where national standards and an enforcement of constitutional and civil rights are involved, the national government must predominate.

Environmental degradation, the results of which have a way of crossing state borders, must remain under federal control. Those are pretty clear cases.

Beyond those clear cases, defining the essential functions of the federal government becomes murky. For instance, if the federal government sets minimum standards for welfare, could it then let the states administer it? I would say yes. Having operated in state government and having admired most governors with whom I have worked, I would say states could do a better job. The same could apply to some of the health programs, such as Medicaid, and to mass transportation. In these situations, a contract is made between the federal government and the states, and timely federal audits, which are public, insure standards are upheld. The federal government gives states flexibility; perhaps the states achieve lower costs or they devolve responsibility for such programs to counties and cities, and perhaps counties and cities devolve it to the private sector. The keys, here, are flexibility for the states followed up by a strong federal audit component.

Ford: Given New York State's extraordinarily high costs for Medicaid and the state's unusual practice of requiring New York City and the upstate counties to pay for part of those costs, how would you resolve the state's Medicaid budget problem?

Regan: Cut big and cut fast-as long as we have a backup program ready to ameliorate all the genuine hardships that are bound to arise, but cannot be anticipated. New York State spends 17 percent of the nation's Medicaid funds, with 7 percent of the population and only 9 percent of Medicaid clients. We spend three times what California spends per client or per taxpayer. There is no excuse for this. There are no significant demographic differences between Los Angeles and New York or San Francisco and Buffalo. The answer is to cut, and for every dollar that is cut at the state level, there is close to a dollar of spending eliminated at the municipal level.

Ford: Where do you begin cutting?

Regan: You cut across the board-in home health care, hospital reimbursement, and number of visits allowed to physicians. The best health care program in New York State is Medicaid. It is far better than what New York State provides for its own employees and far better than what the private sector provides for its employees.

It has to be cut back in terms of eligibility, number of programs, reimbursement, and the like. At the same time the state would have to ease up on its complex health care regulatory requirements, which have, for example, construction standards for nursing homes and hospitals beyond what are required in the high service states in the country. No governor has wanted to tackle this problem until the current governor; when he attempted this type of reform, he was thwarted in his efforts. Legislators on both sides of the aisle fought him because of client and provider special interests. However, the problem can be solved. It has to be.

Economic Conditions

Ford: Anthony P. Carnevale, in a Levy Institute conference, noted that people's anxiety during a period of economic recovery suggests a fundamental structural problem in the economy, namely, a change in the old relationship between employer and employee. Has this social contract been eliminated, and if so, what has replaced it?

Regan: It has not been eliminated, but it certainly has been eroded. Companies are now flexible. They open a plant and they close a plant. They merge, they contract out, they move sources of supply offshore, and they hire people and then let them go. Technological applications change swiftly, as U.S. corporations strive to be high-quality, low-cost producers in global markets. We have achieved this goal in the majority of product lines in global markets. Therefore, the United States today is the most competitive nation in the world. As a result, we have lower rates of unemployment, higher prosperity, and a far better quality of life than any other country in the world. Nonetheless, this "flexibility" that is enjoyed by American corporations has created what Tony Carnevale properly labels "anxiety," and it has eroded the relationship between employer and employee.

The way to try to ameliorate worker anxiety is not the European way. Europe has not created a new job in 20 years. The United States creates on average two million jobs annually. The European way is characterized by big bureaucracies and regulations about when a firm can open or close a plant, the length of time a firm must keep an employee, and a variety of statist requirements, which have hobbled European corporations and global markets.

The response is to match flexibility with flexibility. If, in fact, American corporations want this freedom to open and close plants; move jobs; contract out work; and transfer, hire, and fire employees, then employees need the same degree of flexibility. Employees should have vouchers for retraining and portable and funded pensions and health care. This would give them a degree of security if they are restructured out of a job. Such employee "tool kits" would provide mutual flexibility. It moves us in the right direction.

Ford: Who would be responsible for funding vouchers for retraining and portable pensions and health care?

Regan: We cannot kid ourselves. Ultimately the employer pays-either through higher taxes for government programs or expenses (deductible) for their own. If a plant can open and close easily in this country, workers should be protected between jobs more than they are now. This issue clearly transcends the current political campaign.

Ford: Is it the responsibility of the private sector, the public sector, the nonprofit sector, or the individual to resolve the social and economic problems resulting from growing wage inequality and lost jobs due to corporate downsizing?

Regan: Resolving those problems is enormously difficult. One hopes that what has always occurred in this country-growing levels of economic activity, leading to increased productivity, ultimately leading to higher paychecks-will continue. It seems to be a little slow in coming now. Disparity in income is the real problem. The top two fifths in this country, on average, are doing fine, and the bottom three fifths or certainly the bottom two fifths are not doing as well. It's hard to find a solution. Members of Congress have introduced legislation to treat corporations differently depending on the steps they take to ameliorate the tax status of this situation; those programs never seem to work though.

On the other hand, with a 5.5 percent rate of unemployment, there are jobs. Average rates of unemployment in Europe are about 10 percent. In spite of "downsizing" headlines, we create about two million new jobs each year. What we need is a growth rate higher than 2.5 percent a year, more people graduating from college, and more investment to generate higher productivity and to produce value-added goods so that employers can afford to pay their employees more without triggering inflation.

Politics

Ford: Was the 1994 Republican election victory, gaining majorities in both houses of Congress, a short-term aberration or a major political realignment?

Regan: It is both. The political realignment has been occurring for several decades. The Democratic party leadership, though it held power in Congress, did not reflect the views of the majority in the country, and a change occurred.

The Republican majorities could very well be short term, but the realignment is clearly long term and here to stay. You could conceivably see the Democrats gaining a majority again in the House and the Senate. I doubt this will occur, but if it does, those majorities will reflect the long-term realignment. After all, President Clinton has adopted two-thirds of the Republican agenda-balanced budgets, devolution, cutting welfare, cutting Medicaid, and cutting taxes.

Ford: What are the prospects for the Republicans' winning a super majority in the Senate?

Regan: They will keep their majority, but I doubt it will be veto-proof.

Ford: What are the prospects for the Democrats' winning a majority in the House of Representatives?

Regan: It is a possibility. The president currently looks strong, and with a "landslide" situation he could pull congressional Democrats with him. But it appears that the presidential race will be a tight contest. That means that the Republicans will probably keep their majority.

Ford: What will be the defining issue or issues for the presidential campaign in the general election?

Regan: There are three issues. The economy will be the first issue, and the size and intrusiveness of government will be the second issue. The credibility of the two candidates will rest in a major way on who can best continue the path that has begun-who can keep the deficit on a downward trajectory, who can deregulate, who can control entitlement spending. If entitlements are not controlled now they will cause spending to explode within 10 to 15 years. The third issue, which is always strong in a presidential race, is character and values. You elect someone because that person's character and values reflect the needs of the times.

Ford: Will there be a third-party candidate in the general election?

Regan: If Buchanan can find a home and some major financing, yes. There is no stopping him now; he will keep right on going. My guess is he will not find a home, and he will be marginalized.

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Symposium: Global Capital Flows in Economic Development

On March 8 and 9 the Levy Institute hosted a symposium on the globalization of financial markets entitled "Global Capital Flows in Economic Development." The symposium was co-sponsored by the Levy Institute, the United Nations Conference on Trade and Development (UNCTAD), and the Intergovernmental Group of Twenty-Four on International Monetary Affairs. Two sessions concentrated on general global financial instability and another session focused on a regional perspective, with lessons from Latin America, Africa, and East Asia. The conference concluded with a policy roundtable.

Sessions

Andrew Cornford of UNCTAD and Jan Kregel of the University of Bologna viewed the benefits of capital flows in terms of their contribution to stability and increased efficiency of the system. They found that an increase in volatility in financial markets has led to pricing problems and changes in investment strategies and that deregulation of financial markets has not tended to produce more stability. They reviewed regulatory measures, such as taxes and direct limits on capital transactions, and noted evidence that a low-rate tax could produce a positive effect. In the discussion, Barry Eichengreen of the University of California at Berkeley suggested that Cornford and Kregel's paper could have been enhanced by the use of models of multiple equilibria, which provide a more systematic approach to analyzing instability in foreign exchange markets.

Robert N. McCauley examined the generalized increase in volatility in bond markets of industrialized countries. He found that bear markets increase volatility, volatility spills over from certain markets into others, and volatility may increase with substantial withdrawals of foreign investments. He concluded that the turbulence of 1994 showed more evidence of the bond market's own dynamics at work than of uncertainty about fundamental macroeconomic and financial factors. Andrew Posen of the Federal Reserve Bank of New York suggested in his discussion that economic fundamentals may have played a bigger role in bond market volatility. David Felix of Washington University in St. Louis discussed the need to put "sand in the gears of the global financial markets." His first step would be the adoption of the Tobin tax, which he thought would be a less severe means of regulating the international financial market than exchange-rate bands and coordination of monetary and fiscal policy. The Tobin tax is a globally levied, uniform tax on foreign exchange transactions. Disagreeing with Felix, John Williamson of the Institute of International Economics said that wide exchange-rate bands at a global level would be more useful than the Tobin tax.

E. V. K. FitzGerald of Oxford University stated that there is general agreement that international capital markets are incomplete and segmented. Instability has resulted from the changing financial structure in both developing and developed countries. He suggested that there is a need for an international system of prudential regulation with regional, rather than global, processing centers. Advantages of such regulation would be (1) the products of countries that opted to join the system would be more reputable and
(2) increased stability would be of particular benefit to developing countries, which are often subject to volatility.

In the session on regional perspectives Carlos Budnevich of the Central Bank of Chile attributed the relatively successful macroeconomic performance of both Chile and Colombia not only to consistent macroeconomic policies and microeconomic incentives, but also to effective capital account regulations. The benefits of financial integration include an efficient financial sector and greater diversification. Louis Kasekende of the Bank of Uganda analyzed the characteristics of capital inflows of six countries in Sub-Saharan Africa. Capital inflows have been relatively large, but are volatile and unsustainable. The volatility makes a strong case for monitoring the inflows and minimizing their destabilizing macroeconomic effects. Yung Chul Park of the Korea Institute of Finance reviewed capital inflows of four East Asian countries. He noted that Korea's capital account liberalization is expected to accelerate, and capital inflow has supported a high rate of investment and output in Indonesia, Malaysia, and Thailand. Such a growth-oriented policy could suffer from an increase in the volatility of short-term capital flows. Taxes on short-term financial assets, reserve requirements against foreign borrowing, limits on banks' offshore borrowing, and limits on consumption credit are likely to be considered to offset any negative effects of speculative short-term capital.

Policy Roundtable

The conference concluded with a roundtable on economic development within the global financial system, chaired by Roger Lawrence, deputy to the secretary-general of UNCTAD. Paul Streeten of Boston University said that an international economic system concerned with development involves (1) a current account surplus generated by a country or group of countries, (2) financial institutions able to convert the current account surplus into long-term loans or direct investment on acceptable terms, (3) a center producing the industrial goods upon which the loans are made, and (4) a military power to enforce contracts and maintain peace. Since the 1970s these functions have not existed within one country and been coordinated into a single system, but have been divided among different groups of countries. According to Streeten, a global institution carrying out the functions is needed. One way to coordinate them would be to consolidate three sources of underutilized resources: (1) Japan's current account surplus, (2) the surplus of labor and industrial capacity of the countries of the Organization for Cooperation and Economic Development, and (3) the surplus of semiskilled and unskilled labor in the third world.

John Williamson found it more logical to ask whether we still need a World Bank at all, let alone Streeten's "super World Bank," to channel the Japanese surplus to developing countries. He contended that the "missing market" that motivated the creation of the World Bank has reappeared; there is an international financial market today that performs the function of financial intermediation on the international level.

Since international and domestic financial markets are prone to market failure because of externalities and information asymmetries, there is a need, according to Yung Chul Park, for an international regulatory framework to manage international finance in a more efficient manner. He thought this institutional regulation would operate more efficiently at the regional than at the global level. Predictions that only twenty or so large, multinational, financial institutions with commercial banking, insurance, and investment operations will survive over the next five or ten years make the need for such supervision seem more pressing.

Williamson listed six rules to consider when arriving at a policy prescription. First, level of debt is important; a country can have too much debt. Second, there is a real difference between debt and equity, and equity should be sought over debt. It should be sought in the form of foreign direct investment and equity market investment in both multinational corporations and local corporations. Additionally, long-term loans should be preferred to short-term loans. Third, a country should not be too modest with capital controls, but also should not expect too much from them. Fourth, it is important to focus on market fundamentals. Fifth, orderly work-out procedures are important. Sixth, the bonus system of traders and managers needs to be altered so that they receive remuneration over a long-term rather than a short-term period.

There has been a huge increase not only in the international mobility of finance, noted H. Peter Gray of Rutgers University, but also in the maneuverability of direct investment. The question is what has been the effect of the new mobility of capital. It probably has not benefited the low-income and low-middle-income developing countries, because preventing capital flight becomes more difficult, but has benefited the high-income developing countries. According to Gray, capital controls are going to be more expensive and less efficient throughout the world. He found volume and control to be the problems of the inflow of portfolio investment. He concluded that poorer developing countries would become poorer and richer developing countries would become richer, but that downstreaming foreign direct investment would be one of the dampening effects on this polarization process.

Gerry Helleiner of the University of Toronto pointed out that there is an extensive econometric literature that suggests that financial deepening is important to the efficiency of investment and growth processes. Nevertheless, he asked whether at the global level financial deepening generates different effects and whether deepening involves some negative externalities for some of the players. Perhaps the lower-middle-income and low-income developing countries are disproportionate losers. At the international level change and volatility in financial indicators do matter for real phenomena, at least in so far as they affect real exchange rates. Helleiner outlined five policy concerns. First, provisions on financial services of international organizations, such as the World Trade Organization and the International Monetary Fund, should be reasonably consistent with one another. Second, many policies may not be in the best interests of developing countries. Third, some international financial institutions and governance bodies should be strengthened. Fourth, there is a lack of knowledge or certainty about the different motivations and behaviors of different actors in financial markets. Fifth, equity-like instruments in which sovereign borrowers could have their servicing obligations linked to something that describes their economic performance would reduce the need for debt work-outs. It is the equity characteristic, the risk-sharing element, that is missing from sovereign debt discussions.

Scheduled for completion in April is a G-7 committee report that will recommend institutional reforms to deal with sovereign debt servicing difficulties in a systematic way. Barry Eichengreen contributed to the report and discussed some of his recommendations related to an international bankruptcy court. Bankruptcy codes and laws have several good objectives, according to Eichengreen. They encourage adherence to the terms of loan contracts, innovations in the structure of loan contracts, and efficient levels of investment. They prevent creditors from dismantling an enterprise in which the assets are worth more in place. They have the power to implement a reorganization plan and to protect other stake holders. Good bankruptcy codes minimize direct insolvency costs. Finally, they provide incentives for sharing information and encourage voluntary negotiated work-outs.

Because of the problem of moral hazard and the dramatic heterogeneity in bankruptcy practices across countries, Eichengreen concluded that an international bankruptcy court would ultimately not be feasible. Nevertheless, he asserted that some of the positive effects of a bankruptcy court could work through a set of more modest proposals. His policy prescription included government and International Monetary Fund (IMF) recognition of bondholder steering committees to represent creditors in negotiations; establishing a mediation and conciliation service affiliated with, but independent from, the IMF; and changes in bond covenants to permit a majority of creditors, instead of all, to alter the terms of settlements. The IMF could play an expanded role in the process to reinforce the ex-ante bonding role of debt and to be the source of new money that sometimes must be injected.

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New Working Papers

Technology and the Demand for Skills

Among the major structural changes in the U.S. economy since 1950 are the shift in employment from goods-producing industries to service industries and the restructuring of firms' operations and organization made possible by the availability of information technologies. Such changes are likely to have important effects on the level and type of skills required in the U.S. workplace. Trends in changes in skill levels have significant policy implications because they help determine educational and training needs, notes Edward N. Wolff, Levy Institute research associate and professor of economics at New York University, in Working Paper No. 153. Wolff documents changes in aggregate skill levels in the workplace from 1950 to 1990 and attributes these changes to changes in skill requirements within industries (changes in technology) or to shifts in employment patterns across industries (shifting patterns of demand).

Wolff employs five measures of skills: general educational development (GED), substantive complexity (SC), interactive skills (IS), motor skills (MS), and median years of schooling for each occupation in 1970 (EDUC-1970). GED and SC are cognitive measures. If skill requirements of each occupation remain constant over time, then EDUC-1970 serves as an indicator of changes in the educational requirements of the workplace. Wolff constructs three measures of educational attainment, which can be interpreted as indicators of workforce skills, in each of the Census years from 1950 to 1990: (1) percent of adult population with a high school degree,
(2) percent of adult population with a college degree, and (3) mean years of schooling of the workforce.

Shifts in employment patterns raised aggregate skill requirements of jobs between 1950 and 1990. Four of the five measures increased from 7 to 16 percent; only motor skills experienced a slight decline from 1950 to 1990. Measures of educational attainment grew substantially over the period, dwarfing the growth in measures of skill requirements. After rapid acceleration in the 1950s and 1960s, there was a marked slowdown in the rate of growth for all but one (IS) of the five measures of workplace skills between the 1960s and 1980s. Overall, there is no evidence of "deskilling" in the 1980s, except for a decrease in motor skills.

According to Wolff, patterns of skill growth generally correlate with changes in the broad occupational composition of the labor force. The growth in all but the motor skill measure reflects the increasing share of professionals and managers in the workforce, and the decline in motor skills reflects the decreasing share of craft workers and operatives. Wolff emphasizes that changes in the workplace demand for cognitive skills (reflected in the direct skill measures) do not correspond to changes in the workforce supply of such skills (reflected in the educational attainment of the population).

Skill requirements differ among industries and between production workers (those in blue-collar jobs, excluding service jobs) and nonproduction workers (those in white-collar and service jobs). Wolff notes that although case studies have suggested that deskilling has been due to the decline in skill content of many blue-collar jobs, his industry results indicate that changes in occupation employment patterns within industries also contribute to less demand for manual skills. Wolff stresses that it is important to consider multiple skills and multiple dimensions of skills rather than a single one, such as educational attainment, which is used in most studies. Production workers score much higher than nonproduction workers in some skills, but have a less pronounced difference in educational attainment. Wolff finds that nonproduction workers are a more heterogeneous group than production workers, suggesting further caution when using production versus nonproduction workers as a demarcation between skilled and unskilled workers.

Broad changes in employment composition over the postwar period include a decline in agriculture from 14 percent of employment in 1950 to 3 percent in 1993 and a decline in manufacturing from 29 to 16 percent over the same period. Wolff notes that much of the decline in manufacturing is due to high labor productivity; manufacturing accounted for almost the same share of total output in the early 1990s as it did in the early 1950s. The share of employment also fell in mining, transport, and utilities. The service sectors-including wholesale and retail trade; finance, insurance, and real estate; and business and personal services-absorbed most of the employment growth in the postwar period.

Changes in overall skill levels are a result of changes in the skill levels within industries through changes in occupational mix (occupation effect) and employment shifts among industries (industry effect). From 1950 to 1990 changes in average SC and MS levels were nearly equally attributable to the occupation effect and the industry effect. About two-thirds of the increase in IS levels and over 70 percent of the increase in EDUC-1970 were accounted for by the occupation effect.

In analyzing the relationship between skill change and technological advance, Wolff finds a general positive effect of the capital-labor ratio, the rate of computerization, and R&D intensity on IS and SC. However, he also finds a general negative effect of total factor productivity growth on skill growth; although this relationship is weak, it is consistent with product life cycle models that emphasize the pressure to make new technology routine so that there is less reliance on skilled workers.

The Consumer Price Index as a Measure of Inflation and Target of Monetary Policy

A consensus is emerging among economists and policymakers that the consumer price index (CPI) as a measure of cost of living has an upward bias. As a result, downward revisions of cost-of-living adjustments are frequently recommended, especially in discussions about deficit reduction. Such revisions would lower the rate of increase of some entitlements and raise the rate of increase of federal government revenue by reducing future adjustments to tax brackets. In a forthcoming Working Paper, Dimitri B. Papadimitriou, executive director of the Levy Institute, and L. Randall Wray, research associate of the Levy Institute and associate professor of economics at the University of Denver, express their surprise that this discussion has not been broadened to include the use of the CPI as a measure of inflation and a target of monetary policy. The Federal Reserve has increasingly pursued the single goal of price stability, or zero inflation, although according to Papadimitriou and Wray, it has been unable to find a target that it can hit and to demonstrate a consistent link between any of its targets and inflation. The authors argue that if the CPI overstates inflation and the Federal Reserve uses it as a target, the Fed is basing its policy on a measurement error. Given recent findings of measurement bias in the CPI, they contend that it is inappropriate at this time to identify zero inflation with a constant CPI. In a detailed analysis of the components of the CPI they conclude that the CPI is not a reliable guide for policy purposes. They question whether tight money can reduce inflation as measured by the CPI, and they note that the impact of such a policy could be perverse.

Ideally, the measure used for policy should reflect only market conditions that the Fed can influence. An imperfect index-one that includes components that the Fed cannot control-is problematic. If inflationary pressures arise from components over which the Fed has no control and the Fed responds to those pressures by deflating prices over which it does have control, the Fed could disrupt and harm the economy in the long run. Some economists have attempted to estimate "core inflation" by excluding food and energy prices. However, a Fed policy focused on core inflation would still exert deflationary pressures on other components of the CPI to offset secondary inflationary pressures caused by food and energy prices. According to Papadimitriou and Wray, zero inflation and core inflation policies are unreasonable goals. Furthermore, increases in the CPI in recent years have been driven by measurement error and nonmarket forces.

In an analysis of the components of the CPI, Papadimitriou and Wray estimate relative importance and weighted contribution of the major components since 1970. Relative importance is the nominal portion of expenditure for each item in the consumer basket that makes up the CPI, assuming the component weights do not change. Because baskets change over time, component weights are assigned and used for a decade or longer. Relative importance grows for items with above-average inflation rates. Weighted contribution is an estimate of the degree to which the inflation of an individual component contributes to overall inflation of the CPI. Components that tend to have inflation rates substantially above average will dominate overall inflation.

Using both measures, Papadimitriou and Wray found that food, energy, and housing accounted for most of the inflation during the 1970s and early 1980s and most of the disinflation since the mid 1980s. During peak inflationary periods the combined weighted contribution of these three components was about 95 percent. Excluding food and petroleum "price shocks," most inflation came from the service sector, of which housing is the most important component. Commodities, on the other hand, typically had inflation rates below average.

An analysis of the housing component reveals some of the problems in the Fed's use of the CPI. The shelter portion of the housing component accounts for 28 percent of the 1992 CPI; renters' costs account for 8 percent and homeowners' costs for 20 percent. Because of the method used for calculating imputed owners' equivalent rent (OER), the rate of increase in the rental portion of the market heavily influences estimates of the rate of increase in the owner-occupied portion of the market. Therefore, inflation of rentals is transmitted to total CPI. Taking the higher CPI as a signal of inflation, the Fed is induced to adopt tight policy. Potential homeowners postpone buying a home because of the increased costs associated with owning. This increases excess demand for rentals, raising the rate of inflation of rentals and the imputed OER, further increasing the CPI, and establishing a cycle of interest rate hikes, depressed real estate markets, and rising rents and imputed rents. Because the policy responds to a signal generated by a change in a small part of the market for housing, the larger part of the market for housing becomes destabilized. The bottom line, assert Papadimitriou and Wray, is that the Fed obtains incorrect signals from the CPI. Inflation as measured by the CPI does not accurately reflect market conditions for owner-occupied housing.

The authors conclude that the CPI is not a good guide for monetary policy and that a constant CPI is not a reasonable goal of monetary policy. The Fed should not focus on a single goal, especially a zero inflation goal, because of measurement problems, uncertainty about the appropriate targets to achieve the goal of price stability, and uncertainty about the impact of Fed actions on the performance of an index such as the CPI. At the same time the authors caution that they do not endorse any previous analysis of possible biases of the CPI when used as a cost-of-living index and oppose any premature reduction of scheduled cost-of-living adjustments to social spending.

Understanding the 1994 Election: Still No Realignment

In the 1994 midterm election not a single incumbent Republican lost his or her seat in Congress, and for the first time in forty years Republicans won a majority in both houses. In a forthcoming Working Paper, Oren M. Levin-Waldman, resident research associate of the Levy Institute, challenges the notion that the election represented a major realignment of party loyalty. He suggests instead that it was more of a continuation of a process of dealignment in which voters are becoming more independent and less affiliated with any party. Levin-Waldman asserts that the election was a definite rejection of incumbency, but questions whether the election was a major shift in party loyalty.

Realignment, as defined in the political science literature, is characterized by durability, magnitude, periodicity, electoral involvement, changes at multiple levels of government, and a polarizing issue or issues. Durability means a lasting shift in party loyalty. Magnitude indicates a sharpness of political divisions (a polarization of opinion). Periodicity assumes that realignments occur cyclically, every 30 years or so. Electoral involvement means a high voter turnout. Changes at multiple levels means the minority party becomes the majority party on several levels and in several institutions of government. Finally, a realignment has its origins in a new political issue or cluster of issues that divides the electorate along political lines. Some political scientists allow for a gradual shift in party loyalty, while others posit that the shift must be sudden.

Realignments have been identified in the Civil War period, the 1890s, and the New Deal era. Based on periodicity the next alignment should have occurred in the 1960s. Some proponents of the realignment model argue that the 1968 election was the beginning of the emergence of the Republican party as the dominant party, with regional shifts in party affiliation in the American heartland and the South. Other scholars have been frustrated in their search for the realignment that should have occurred in the 1960s. Critics contend that the model breaks down because there are no longer precise markers signifying shifts in American politics. There has been increasing fragmentation because of a decline in party loyalty since the 1960s.

Levin-Waldman reviews Gallup survey data and National Election Studies (NES) micro data looking for evidence of characteristics consistent with the realignment model. Republican conservatives hailed the 1994 election as a triumph of conservatism over liberalism. However, although Republican victories occurred at the state and national levels of government, voter turnout was not high. (This was not a new phenomenon, for turnout has been declining over the years.) Some suggest that voters used the midterm election to express dissatisfaction with President Clinton.

Levin-Waldman notes that the case for realignment rests on the premise that people were dissatisfied. However, there didn't seem to be a single issue or set of issues that polarized voters. The survey data suggest that dissatisfaction with the economy, Clinton's handling of the economy, or family financial situations was not a critical issue in the 1994 election.

The Republicans claimed that the electorate voted for a Congress that would promote family values. Although, according to the survey data, people said they support more traditional family values, it is difficult to know how they define family values. Republicans also viewed the election as an affirmation of conservative values and the desire to have a more limited role for government. Some polling results indicate that respondents felt themselves to be conservative, but a majority wanted more or the same level of federal spending for most programs (see Exhibit 2). Levin-Waldman finds "to the extent that federal spending may be a measure of the size and presence of the federal government, there is little indication that its role should be reduced."

Survey results indicate that most respondents were dissatisfied with the way Congress operates and with members of Congress in general, but not with their own representatives. Term limits was an important issue that captured the public sentiment toward Congress.

A majority of respondents felt that neither party could do a better job than the other. However, there was a reversal from responses in 1992 as to which party could do a better job of solving specific problems, such as unemployment, health care, the economy, taxes, the deficit, and welfare. In 1992 a majority thought Democrats could do a better job, but in 1994 a majority thought Republicans could. However, Levin-Waldman questions whether the Republican victory in 1994 represents a trend, given the overwhelming Democratic victory in 1992.

Exhibit 2 Attitudes about Federal Spending

Policy	Increase	No Change	Decrease	Do Not Know	Inappropriate
Environment	39.2	47.8	10.5	1.9	0.5
Foreign aid	6.9	36.0	54.0	2.6	0.6
Social Security	50.3	42.5	4.7	1.8	0.8
Welfare programs	12.5	32.3	51.7	2.8	0.7
AIDS research	48.7	34.9	13.4	2.4	0.6
Food stamps	9.3	45.9	40.9	3.0	0.9
Public schools	66.8	24.5	6.6	1.6	0.6
Child care	54.0	33.1	9.1	3.0	0.
Crime	73.4	19.6	4.5	1.8	0.7
Health care	61.9	26.6	9.1	1.8	0.6
Defense	22.4	46.5	28.9	1.7	0.5

Source: National Election Studies, Survey Research Center and the Center for Political Studies of the Institute for Social Research at the University of Michigan.

Levin-Waldman suggests that health care reform may have been the most important issue in explaining the removal of the Democratic majority from power. It is not clear from the survey data whether public dissatisfaction with health care reform was a function of disapproval of the Democrats' specific reform proposal, disappointment at the Democratic majority's inability to work with a Democratic president, or general dissatisfaction over the failure to deliver reform.

Levin-Waldman finds that it is not clear from the survey results whether the electorate has changed its party affiliation. There seems to be no evidence of a polarizing issue, magnitude, electoral involvement, and durability consistent with the realignment model. Instead of a realignment, the data suggest that the election points toward a dealignment.

Unemployment, Inflation, and the Job Structure

In Working Paper No. 154, James K. Galbraith, professor of economics at the Lyndon B. Johnson School of Public Affairs at The University of Texas at Austin, rejects the analytical framework within which many economists operate. He does so on the basis that the microeconomic categories of supply, demand, price, and quantities "have little bearing on important policy questions." Markets that do have bearing on policy are either asset markets or not really markets at all, but a set of deeply structural social relations. According to such thinking, microeconomic issues become secondary in the policy arena and macroeconomic policy tools-spending, taxes, incomes policies, and interest rates-dominate.

According to Galbraith, the predominant theoretical constructs in economics today preclude active macroeconomic intervention. The current spectrum of policy rules ranges from a principled indifference to actual macroeconomic conditions to a limited role for intervention in extreme cases. The role that macroeconomic policy can take within these constructs appears to be confined to actions by the Federal Reserve. To conduct policy effectively, the Fed must be able to estimate the actual nonaccelerating inflation rate of unemployment (NAIRU). Galbraith notes two problems with such an assessment.

First, since the NAIRU is not stationary over time, it is difficult to arrive at an accurate estimate at any one point. Thus, attempts to evaluate the direction of policy become futile. Second, the components of current inflation cannot be explained by a theory underlying a natural rate of unemployment or a NAIRU. Such a theory would predict that inflation would stem from rising wage costs resulting from too low a level of unemployment, but, in reality, even nominal wage growth has remained relatively flat. Galbraith finds no evidence for a single natural rate or a rate that shifts in line with known changes in the supply of labor. He deduces that a labor "market" in which money wages change to equate the demand for and supply of labor does not exist. If this is so, concepts of a natural rate of unemployment or a NAIRU collapse, forcing economists to evaluate inflation and unemployment without assuming that the two are necessarily linked. Employment policy would then be concerned with linking individuals to specific tasks and inflation policy with management of particular elements of cost that transmit destabilizing pressures. Such a switch in the direction of policy would divert research from the abstract to the concrete and widen the scope of policy discussion.

Galbraith defines the job structure as "a historically, socially, and politically specific set of status and pay relationships in the economy, within and between firms, within and across industries" and uses this structure to explain wage disparities. He disputes the concept that wages are determined by the marginal productivity of labor by noting that there are no mechanisms for determining marginal productivity in a differentiated job structure. There is no evidence at the micro level that firms make any effort to calculate marginal value or that there is an automatic mechanism to calculate it for them.

Galbraith also recognizes that although the idea of wage differentials could be a function of labor rents, if all or most of the wage reflects compensation for the rental value of specific human capital, then the job structure must primarily be the result of segmentation. Again, the notion of an aggregate labor market dissolves. In turn, extreme segmentation and differentiation may mean that although labor demand could cause real wages to rise in specific jobs or industries, such pressure could be transmitted to wages in general only if some institutional mechanism existed.

Galbraith disputes the findings of the many studies that propose that the increased spread in wage differentials is the result of exogenous changes in technology that have raised productivity and wages, but only among those who know how to use the technology. Other explanations, such as a shift in profitability across industries, could be at least as responsible, and empirical studies thus far have made little serious effort to dismiss this possibility. Moreover, the effects of computerization should be uniform domestically and across countries irrespective of national income. However, relative wage advantages have accrued asymmetrically across countries. Such asymmetry is inconsistent with a technology-driven labor demand model of wage change, but is consistent with a North-South labor substitution model.

A structural approach starts with the proposition that no single solution to the labor-pricing problem can be given by patterns of demand and supply alone, but rather the solution is a matter of historical developments and social relations. "Market forces" can at best act as influences within a social matrix that could include factors such as quasi-political relationships. Using this definition, Galbraith found patterns of relationships between related industries in wage changes. This implies that acquisition of skills may be undertaken to become a member of a particular group and that such skills are not necessarily related to enhanced productivity and therefore higher wages. Such a pattern also raises questions about how appropriate specific education and training requirements are and what the wage differentials between industries should be. It should be recognized that such questions often are more political than economic, and they should be faced squarely in terms of that recognition.

Acceptance of a theoretical structure that reduces macroeconomic policy to cases of deep recessions leaves a role for only microeconomic supply-side policies-training, education, relocation programs, and spending on R&D and infrastructure-aimed at enhancing productivity and competitiveness. Although such programs are generally considered positive steps, there is, according to Galbraith, "little direct evidence that they help the measured performance of the economy in any definite way." Education and training programs help only when there is a shortage of skilled labor (which there is not), not when there is a shortage of jobs (which there is). Galbraith asserts that R&D spending helps only the relatively highly paid workers in export-oriented, high-technology manufacturing firms. Finally, evidence that infrastructure spending reduces private sector costs and raises productivity is, according to Galbraith, thin, with most researchers relying on aggregate statistical measures and few on detailed analyses of the contribution of particular projects to private sector efficiency.

A structuralist framework for analyzing economic problems, however, leaves the door open much wider for macro policy. Questions regarding the distribution of incomes and the relative returns to risk, to capital and labor, and to high- and low-skill workers become relevant political issues to be resolved by political means, be they collective bargaining agreements, income and wealth taxes, or minimum wages. Wages would adjust according to average productivity growth, although this brings up the question of how those gains should be distributed. According to Galbraith, it is probably better to distribute such gains broadly and to avoid arbitrary disturbances to the structure. In addition, under a structural approach there no longer is an inflationary barrier to full employment; accordingly, stabilizing investment demand becomes the central macroeconomic issue related to employment.

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New *Public Policy Brief*

Reforming Unemployment Insurance: Toward Greater Employment

The main goal of the present unemployment insurance (UI) system is to maintain a basic income for a limited period of time for laid-off workers who are seeking reemployment. The system assumes that layoffs will be temporary and most workers will be called back to their jobs. However, deepening recessions, company downsizings, and plant and company closures have resulted in greater permanent displacement of workers. The unemployment insurance system is ill equipped to assist long-term unemployed workers in the postindustrial economy. In a forthcoming Public Policy Brief, Oren M. Levin-Waldman, resident research associate of the Levy Institute, proposes that the unemployment insurance system should be improved to reduce the incidence of layoffs and to help the long-term unemployed become marketable again.

Both the average duration of unemployment and the long-term unemployed as a share of the total unemployed population have increased over time. Using the Current Population Survey's (CPS) 1993 annual demographic file, Levin-Waldman finds that 80 percent of the unemployed population were unemployed for 26 weeks or less (the short-term unemployed) and 20 percent for 27 weeks or more (the long-term unemployed). Bureau of Labor Statistics (BLS) data also show that slightly more than 20 percent of the unemployed were long-term unemployed in the three years following the 1990&shyp;91 recession (see Exhibit 3). In 1995 the long-term unemployed made up over 17 percent of the total unemployed. In the postwar period the long-term unemployed as a percentage of the total unemployed peaked during recessions, but rarely returned to prerecession levels, indicating that the problem is not only cyclical, but structural and growing.

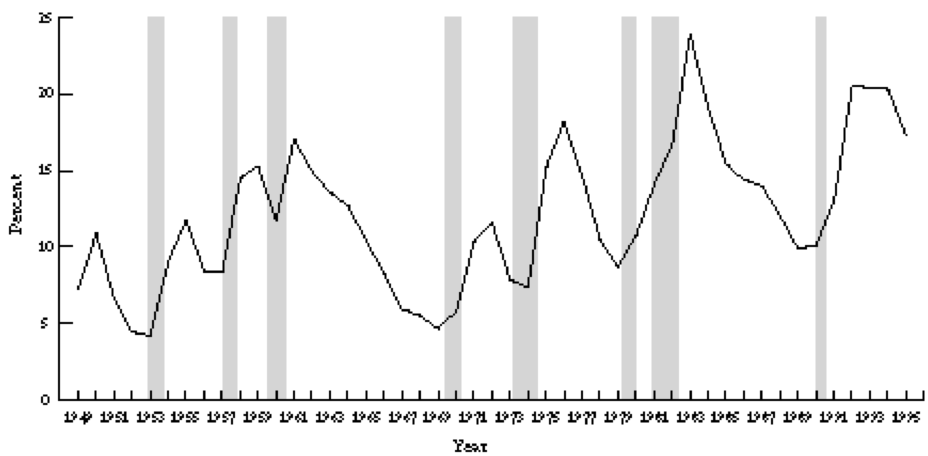
According to the 1993 CPS data, compared to the short-term unemployed, the long-term unemployed tend to be older, male, and better educated. Whites are a majority of both the short- and long-term unemployed populations; blacks are disproportionately represented in the long-term unemployed population. Levin-Waldman notes that the higher age and education levels of the long-term unemployed may lend support to the theory of reservation wages. Reservation wages are the minimum wages a worker would be willing to accept upon reemployment. The theory states that reservation wages provide a disincentive for workers to search intensively for work. One would expect one's wages to be higher based on experience in the labor force and educational attainment. Levin-Waldman argues that these factors alone may not be the only source of higher reservation wages.

According to the BLS's most recent survey of displaced workers, about half of full-time workers who lost their jobs between 1991 and 1993 were reemployed in full-time jobs by February 1994 at earnings equal to or greater than their last job. However, workers in the transportation, public utilities, construction, and manufacturing sectors were more likely to find new jobs at substantially lower wage rates. Their new compensation was likely to be 80 percent of their previous job's or less. Others found only part-time employment, remained unemployed, or dropped out of the labor force altogether.

Levin-Waldman notes that if a considerable proportion of displaced workers work at reduced wages or as contingent workers, the system is not helping them to find the appropriate match. The system could do more to help unemployed workers find reemployment that matches skills they have with skills required by employers or to help them obtain the skills necessary for a type of employment that will enable them to have standards of living similar to those they had in their prior employment.

Levin-Waldman argues that what is needed is a two-tiered system that distinguishes between short-term and long-term unemployed. The system should continue to function as an insurance program for 26 weeks to allow workers to search for employment that represents the best match with their experience, skills, and credentials. The first tier of the improved system would include reforms to reduce short-term unemployment by reducing the incidence of layoffs. The second tier would include programs to help the long-term unemployed develop skills that would make them more marketable.

Exhibit 3 Long-Term Unemployed as a Percentage of Total Unemployed



Note: Shaded areas represent recessions.
Source: Economic Report of the President, 1996.

The incidence of layoffs could be reduced by altering the way the UI system is financed and by adopting work-sharing agreements. Unemployment insurance benefits are financed by flat-rate payroll taxes; there is no relation between a firm's record of layoff and its tax liability. Experience-rated premiums would tax a firm according to its history of layoffs or the layoff patterns within its industry. An imperfect experience rating encourages unemployment; layoffs generate income for employees that has no corresponding cost for employers. A more perfect experience rating may reduce the incidence of layoffs. Some type of work-sharing program also may reduce layoffs. Employees would work reduced hours during slack time and would receive unemployment insurance benefits as partial compensation for hours of lost work. The objective is to maintain employment levels during periods of economic decline.

The second tier of Levin-Waldman's reformed system would make unemployment insurance benefits beyond 26 weeks contingent upon the worker's enrolling in a training program. He would begin with a current initiative, the Worker Profiling and Reemployment Service System, which is designed to identify unemployed workers early in their unemployment who are likely to become long-term unemployed. On the basis of their profiles, workers are directed to services according to their individual needs, such as reemployment assessment and workshops on writing resumes and interviewing. Workers who are referred to these services must participate to receive any unemployment insurance benefits.

The system would offer job training and job search assistance. Job training by the government and the private sector would be encouraged. Tax credits or vouchers for employers involved in on-the-job training programs could be financed from the funds that currently finance extended benefits and the savings from a more perfect experience rating.

Levin-Waldman concludes that the goal of reform is not "merely to achieve greater efficiency in facilitating reemployment, but to enhance a core value of American society: work."

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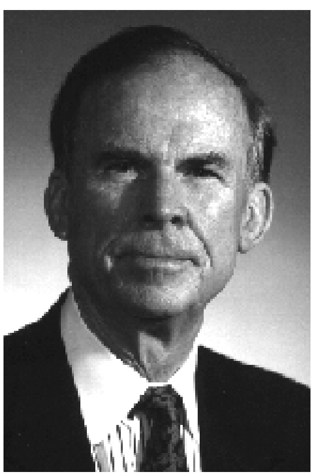
Levy Institute News



New Member of the Board of Advisors

The Levy Institute welcomes Preston Martin as the newest member of its Board of Advisors. Martin is currently chairman and chief executive officer of HomeVest Financial Group, Inc., and Martin & Associates, both financial service firms based in San Francisco. Prior to his current positions he served in several capacities in the public sector. He was vice chairman of the Federal Reserve Board of Governors. As chairman of the Federal Home Loan Bank Board, he was instrumental in establishing the Federal Home Loan Mortgage Corporation (Freddie Mac), which led to the development of conventional mortgage-backed securities. As California's savings and loan commissioner, he initiated the first adjustable rate mortgage legislation. Martin founded Neighborhood Housing Services of America, an organization promoting affordable housing in urban and rural areas throughout the nation, and the Social Compact, an affordable lender recognition group.

In the private sector, in partnership with William E. Simon, Martin acquired, restructured, and sold several savings and loan associations and real estate development firms. He founded several enterprises for Sears, including PMI Mortgage Insurance Co. and PMI Mortgage Corporation, where he was chairman and chief executive officer. Martin was chairman and chief executive officer of several other Sears real estate subsidiaries, including Seraco Enterprises, Homart

Development Company, and Allstate Savings and Loan.

In the academic world, Martin was professor of finance
and director of executive programs at the University of Southern California.

Levy Institute Participants in National Conferences

In February Executive Director Dimitri B. Papadimitriou addressed the Cash and Short-Term Investing Conference in New York City sponsored by the Investment Management Institute. In "Regulatory Update: A Review of the Last Twelve Months and Major Initiatives for 1996," he spoke on the status of banking legislation and federal reserve policy.

At the annual meeting of the Eastern Economics Association in March, papers were presented by Hyman P. Minsky, distinguished scholar; Dimitri B. Papadimitriou, executive director; Charles J. Whalen, resident scholar; Marlene Kim, resident scholar; Neil H. Buchanan, resident research associate; and L. Randall Wray, research associate. Whalen and Minsky, Papadimitriou and Wray, and Buchanan presented papers in a session entitled "The Employment Act: Fifty Years Later," organized by Whalen and chaired by James Tobin.

In the paper "Economic Insecurity and the Institutional Prerequisites for Successful Capitalism," Whalen and Minsky consider the U.S. economic performance of the past 50 years and the prospects for economic prosperity in the early twenty-first century. They explore the connection between the recent spread of economic insecurity and the ascendance of "money manager" capitalism.

In "The Consumer Price Index as a Measure of Inflation and Target of Monetary Policy," Papadimitriou and Wray analyze the components of the consumer price index (CPI) and conclude that it is not an appropriate measure of inflation for monetary policy purposes, it does not send correct signals to policymakers regarding the appropriate policy stance to adopt, and the Fed's single goal of price stability (zero inflation) is not reasonable.

In his paper, "Radical Tax Restructuring, Progressivity, and Full Employment," Buchanan outlines the appropriate goals of a tax system, with progressivity outweighing all other goals, and reviews the major current tax proposals. He concludes that tax systems designed to enhance growth through higher saving are unlikely to succeed and that a simplified graduated income tax holds the most promise for positive economic results.

A second session, "New Directions in Economics," also organized by Whalen, featured papers by Whalen and Kim. Whalen's paper "Beyond Neoclassical Economics: Elements of a 21st Century Political Economy" is based on Political Economy for the 21st Century (Sharpe, 1996), edited by Whalen. He outlines an institutionally and historically grounded approach to economic challenges of the late 1990s and early twenty-first century.

Kim's paper, "Poor Women Survey Poor Women: Feminist Research Methods in Survey Research," is a product of her work with a national women's organization that conducted a survey to explore barriers to self-sufficiency among low-income women. The survey was administered by women who were similarly situated. Kim examines the project in terms of its implications for feminist research methods.

Forum on Immigration and Ethnicity

The Levy Institute will host a forum entitled "Immigration, Economy, and Policy in America," to be held at Blithewood on May 3, beginning at 2:00 p.m. The forum is part of the Institute's research initiative "Ethnicity and Economy in America-Past and Present," under the guidance of Joel Perlmann, senior scholar and Levy Institute Research Professor of History at Bard College.

Session I. Economic Effects of Immigration: Past and Present
David Card, Princeton University
Stanley Engerman, University of Rochester

Session II. The Present Moment in Immigration Reform
Alexander Aleinikoff, U.S. Immigration and Naturalization Services
Frank D. Bean, University of Texas, Austin
Muzaffar Chishti, Union of Needletrades, Industrial, and Textile Employees (UNITE)

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- McKinley (Magellan) http://www.mckinley.com
- Rand Journal of Economics http://www.rand.org/misc/rse
- WebEc http://www.helsinki.fi/WebEc
- Yahoo http://yahoo.com

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Charles J. Whalen
No. 149, December 1995

Proposals for Changing the Functions of the International Monetary Fund (IMF)
Raymond F. Mikesell
No. 150, December 1995

The Working Poor and Welfare Recipiency
Marlene Kim and Thanos Mergoupis
No. 151, December 1995

Reforming Unemployment Insurance: Toward Greater Employment
Oren M. Levin-Waldman
No. 152, December 1995

Technology and the Demand for Skills
Edward N. Wolff
No. 153, December 1995

Unemployment, Inflation, and the Job Structure
James K. Galbraith
No. 154, January 1996

Public Policy Briefs

The Consolidated Assistance Program
Reforming Welfare by Synchronizing Public Assistance Benefits
Oren M. Levin-Waldman
No. 21/1995

Closing the R&D Gap
Evaluating the Sources of R&D Spending
Thomas Karier
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Wynne Godley
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No. 24/1996

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