The Levy Economics Institute of Bard College

Report

June 2004 Vol. 14, No. 2

GREENSPAN AND ALL THAT RED INK

L. RANDALL WRAY

When President Bush took office in 2001, respectable projections put medium-term (10-to-25-year) budget surpluses at $4.5 trillion to $5.6 trillion—sufficient to retire all government debt. Today, we have now returned to projections of decades of red ink. Like many commentators, Federal Reserve Board Chairman Alan Greenspan has credited President Bush's tax relief and spending stimulus (as well as prompt Federal Reserve loosening!) for the incipient recovery. GDP growth reached 4.2 percent last quarter, with war spending contributing 0.7 percentage points to growth. Consumer spending, fueled by tax cuts and mortgage refinancings, grew at only a 3.8-percent clip. This means the budget is playing a positive role by injecting $500 billion of net stimulus. (When the government runs a deficit, by definition disposable income is higher, since the government is giving households more than it is taking away.)

By contrast, under President Clinton, the budget surplus represented a leakage from aggregate demand that peaked at 2.5 percent of GDP in 2000. Since then, the federal budget turnaround has been on the order of 6.5 percent of GDP. At the same time, the current account balance has worsened by about 1 percent of GDP, so that the net improvement to the U.S. private sector balance amounts to 5.5 percent of GDP. Hence, tax cuts as well as favorable lending terms encouraged Americans to spend, albeit at a reduced rate, in the face of job losses, while an injection of defense spending equal to nearly 1 percent of GDP was sufficient to raise economic growth last quarter above the 4 percent rate required to marginally improve labor market performance.

Continued on page 3 ►

Contents

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: Cynthia Werthamer
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).

Comment *Continued from page 1*

Chairman Greenspan, however, emphasizes that all is not rosy. He is not concerned with budget deficits that are projected to continue in the $500 billion range for the next decade. Indeed, he insists that the market has already incorporated these into price and interest rate formation. The real problem lies far into the future—75 years and more—when unfunded entitlements swamp government's capacity to meet promised benefits. The chairman recognizes that such long-term projections are subject to large errors, but warns that even the most optimistic scenarios leave the federal government tens of trillions of dollars short. Further, given the negative supply-side effects of tax increases, the only real hope lies in scaling back government entitlements. Hence, it is necessary to slash spending today to match the Bush tax cuts so that they may become a permanent feature of the budgetary landscape. Further draconian spending cuts will still be needed to avoid the doomsday feared by commentators across the political spectrum.

The net present value of the entitlement "shortfall" was originally estimated at $44 trillion over the infinite future (nearly two-thirds of which will be incurred after 2077); that has been increased by the International Monetary Fund (IMF) and others to $51 trillion to account for the newly enacted drug benefits for seniors. Almost 85 percent of that shortfall is due to one federal government program: Medicare. Indeed, as a recent study by Dean Baker and David Rosnick demonstrates, three-quarters of that supposed entitlements deficit is simply due to extrapolation of today's rapid increase of health care costs into the infinite future. If health care prices were to grow only as fast as GDP (that is, factoring out any demographically induced rising costs), the total shortfall declines to just $10 trillion, or just 1.5 percent of future GDP. In truth, if health care inflation is not brought under control over the next century, Medicare will be the least of our worries; the private sector won't be able to afford private health coverage, either. As the late economist Kenneth Boulding used to say, "Unsustainable trends won't continue forever." We already have the world's most expensive health care delivery system, and the developed world teems with better and cheaper models that can be mimicked. We can reform our system long before financial Armageddon strikes.

Is there any value in making five- or 10- or 75-year projections of budget deficits (let alone infinite-horizon fantastical calculations)? Not only are these certain to be incorrect, but more importantly, they are wrongheaded because they provide no useful information. Over any given period, there is a "proper" fiscal stance that depends on the private sector's desired level of spending, given its income, and the foreign balance. If the U.S. trade deficit continues at 5 percent of GDP, and if the private sector wishes to balance spending with its income, the budget will be in deficit at 5 percent of GDP. (By definition, the government and private deficits add up to the foreign deficit.) Should the federal government refuse to allow its budget to "relax," then the private sector will find its income less than expected, sales will fall, unemployment will rise, and tax revenue will decline. A government deficit will be created, but at a lower overall level of economic activity and with higher unemployment.

This is mostly what has happened under President Bush. According to an IMF study, about half the budget turnaround since 2000 can be attributed to loss of taxable income, bonuses, and capital gains following the downturn and Wall Street reversal. Another quarter is due to the Bush tax cuts (partially justified by the recession), and the final quarter is due to the wars against Iraq and terrorism. Hence, the government budget balance is largely nondiscretionary. In any case, the best indicator of the proper fiscal stance is involuntary unemployment: if there are people without jobs who want to work (or workers with part-time jobs who want more hours), then the fiscal stance is too restrictive. And this is just as true in 2004 as it will be in 2077.

L. Randall Wray is a senior scholar at the Levy Institute, research director at the Center for Full Employment and Price Stability, and a professor of economics at the University of Missouri–Kansas City.

New Strategic Analysis

Is Deficit-Financed Growth Limited? Policies and Prospects in an Election Year

DIMITRI B. PAPADIMITRIOU, ANWAR M. SHAIKH,
CLAUDIO H. DOS SANTOS, AND GENNARO ZEZZA
www.levy.org/pubs/sa/stratan-apr-04.pdf

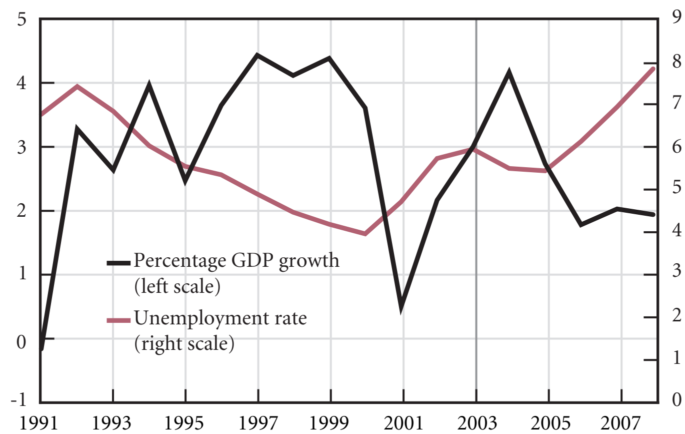
In recent quarters, economic growth in the United States has been fairly strong, but unemployment remains stubbornly high.

Also disturbing is the fact that the current account deficit is reaching historic levels relative to GDP. (The current account deficit is, roughly speaking, the foreign trade deficit plus the deficit of certain interest payments and other cross-border income from capital. When this deficit is high, Americans are borrowing more from foreigners than they are lending.) A new strategic analysis by Levy Institute President Dimitri B. Papadimitriou, Senior Scholar Anwar M. Shaikh of New School University, Research Scholar Claudio H. Dos Santos, and Research Scholar Gennaro Zezza of the University of Cassino, Italy, addresses such economic worries.

The authors first survey the current economic situation. As they have been expecting, the private sector, burdened with a heavy debt load, is no longer acting as the primary driving force of the economy. The private sector is no longer engaging in huge amounts of net borrowing from other sectors. Fortunately, government deficits have risen to take the place of private borrowing, and as a result, the economy has been growing at a reasonable pace for the past two years or more. However, the rate of job creation has not been fast enough to absorb new entrants to the job market, so unemployment has remained high despite economic growth. Moreover, while profits have increased, owing to massive government deficits, workers' earnings have not grown along with the overall economy. Meanwhile, households are burdened with debt and would be vulnerable to any future increase in interest rates. Perhaps the most ominous sign is the ever-growing current account deficit. Each deficit adds to the past legacy of debt, a process that cannot continue forever.

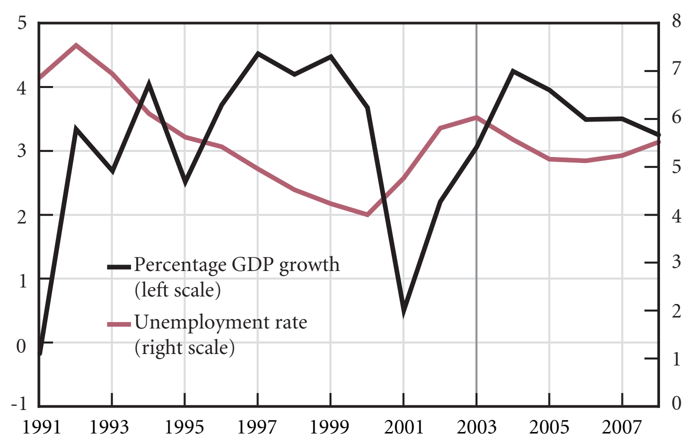
The last portion of the strategic analysis describes three hypothetical scenarios, designed to illuminate the likely effects of differing approaches to fiscal policy. The first scenario assumes that fiscal policy stays its current course. George W. Bush's tax cuts would be extended in this scenario, and spending would continue as projected by the Congressional Budget Office. This policy option would be favorable for growth, according to the authors' computer calculations, but it would lead to a rise of the ratio of foreign debt, from 28 to 47 percent of GDP. For this reason, the authors consider possible ways of reducing the current account deficit by reducing its "twin," the government deficit. In the next scenario, they assume that the government reduces its deficit by cutting spending, as President Bush seems to favor. In the final scenario, the government halves the deficit by rescinding its cuts of personal taxes. Both of the latter scenarios succeed in reducing deficits, but they have vastly differing implications for the future course of economic growth. The estimated outcomes of the deficit-reduction scenarios are shown in Figures 1 and 2. In the spending-cut scenario (shown in Figure 1), growth would slow immediately, and then hover around 2 percent after 2005. By contrast, in the scenario in which the tax cuts are rescinded (Figure 2), growth falls very little, from 4.1 percent in 2004 to 3.8 percent in 2005, and then to 3.2 percent in 2008. Reversing some of the recent tax cuts therefore seems to be the best way of reducing anticipated government deficits, but such actions would not solve the foreign debt problem.

Figure 1 **Real GDP Growth and Unemployment Cutting Government Expenditures**



Sources: BEA and authorsí calculations

Figure 2 **Real GDP Growth and Unemployment Rescinding Tax Cuts**



Sources: BEA and authors' calculations

New Policy Note

Inflation Targeting and the Natural Rate of Unemployment

WILLEM THORBECKE
Policy Note 2004/1
www.levy.org/pubs/pn/pn04_1.pdf

Inflation targeting is perhaps the most frequently discussed and recommended form of monetary policy making among economists today. This might come as a surprise to people who are unfamiliar with the discourse of economists but are aware of the relatively strong performance of the U.S. economy under a much different policy regime.

An inflation-targeting central bank raises interest rates when inflation is above the target and lowers them when inflation is under control. In a new policy note, Research Associate Willem Thorbecke of George Mason University analyzes the case for inflation targeting. This case is based on the theory of the natural rate of unemployment. The theory states that when unemployment falls below a certain critical level, inflation accelerates. Hence, it is futile to attempt to target a very low rate of unemployment. According to the theory, the best the central bank can do in the long run is keep inflation under control. Targeting inflation will allow the central bank to do this by moving the economy to a point where unemployment is equal to its natural rate.

Thorbecke argues that the natural rate theory is not applicable to the economy of the 1990s and 2000s. A number of factors—absent during previous inflations—now work to keep prices under control. Thorbecke cites fierce competition from abroad as one factor that discourages U.S. firms from raising their prices. Also, a booming economy tends to raise the natural rate of unemployment because it improves the motivation of workers and worker productivity, or output per hour worked. If each worker produces more, firms can provide pay raises without having to raise their prices. The introduction of modern technology has played an important role in this process. Another factor working to keep inflation low is the fact that when the economy booms, low-skilled workers constitute the majority of those who rejoin the workforce. Workers in low-skilled occupations have a hard time winning wage concessions even when demand is high for their services.

Thorbecke concludes that the current strategy of U.S. monetary policy, which emphasizes both economic growth and inflation containment, need not be abandoned. It is no accident that unemployment has stayed relatively low until the recent recession, and that inflation shows no signs of reemerging, even without the implementation of an inflation target.

New Working Papers

Does Financial Structure Matter?

PHILIP ARESTIS, AMBIKA D. LUINTEL, AND KUL B. LUINTEL
Working Paper No. 399
www.levy.org/pubs/wp/399.pdf

Adam Smith, in a section of *The Wealth of Nations,* described how Scottish towns with banks had grown more rapidly than those without. He credited Scotland's highly developed banking system with spurring its economic growth. Economists today believe that banking and finance are important aspects of growth. But many wonder if a strong banking system provides more impetus to growth than a system based on stocks and bonds.

There are several economic theories that support the superiority of banking or securities finance. Many economists have argued that banks can concentrate resources in specific strategic industries. They also argue that banks do a better job of monitoring borrowers and making sure investors' money is not misused. But banks may often unduly favor well-established firms at the expense of dynamic innovators and may make their funds available only at a premium.

In a new working paper, Institute Professor Philip Arestis, Ambika D. Luintel of London South Bank University, and Kul B. Luintel of Brunel University try to assess the relative virtues of banks and financial markets. Previous studies have not found any consistent results on this issue. The authors of this paper use data from six countries at widely varying stages of economic development. They construct a measure of financial structure based on the ratio of the extent of securities market to bank loans.

What makes this paper novel is its use of modern techniques, applied to a broad sample of nations, that allow one to make inferences about the similarity or differences of the effects of financial structure across countries. This approach proves to be successful, because the authors' calculations reveal that different types of financial systems work best in different countries. Bank-based finance appears to be most conducive to growth in South Africa, while financial markets work best in Greece, India, South Korea, and Taiwan, and both systems are equally effective in the Philippines. The wide range of the effects of the financial structure variable may account for the fact that studies that combine data from a number of economies are often inconclusive: good effects and ill effects may average to no statistically significant effect at all.

Fiscal Consolidation: Contrasting Strategies and Lessons from International Experiences

JÖRG BIBOW
Working Paper No. 400
www.levy.org/pubs/wp/400.pdf

Recently, the sum of the government budgets of the Organization for Economic Cooperation and Development (OECD) countries reached a balance for the first time since the late 1960s. Just as this balance was achieved, the U.S. budget swung wildly into deficit. Should policymakers in the United States be concerned about this development, and are drastic spending cuts and tax increases the appropriate response? In a new working paper, Jörg Bibow analyzes the factors that determine government deficits and the likely effects of fiscal austerity.

Bibow's main argument is against the notion that governments can achieve budget balances and rapid growth at the same time. Some argue that not only do fiscal restraints improve budget balances, but they increase the rate of economic growth, in both the long run and the short run. These notions form the philosophical backdrop to ongoing efforts to close budget gaps in much of Europe, and especially in Germany.

Bibow argues to the contrary that efforts to cut deficits can be self-defeating. The ratio of government debt to total output rises if the rate of growth of the economy is greater than the ratio of the deficit to total GDP. The debt-to-GDP ratio is crucial, because GDP is a measure of what is called the tax base: the total flow of income out of which taxes must be paid. Budget cuts can erode the tax base, because they reduce the amount of money available to buy goods and services.

Bibow describes a number of factors beyond spending restraint and tax-rate hikes that are more likely to lead to an improvement in a nation's public deficit. First of all, if the central bank keeps interest rates low, the portion of the deficit due to interest payments on the debt will be contained. So, loose monetary policy can reduce deficits. Europe provides a number of examples of the benefits of low rates. Many nations in Europe were able to lower their interest rates in the 1990s, as monetary policies converged in anticipation of the monetary union. Hence, their debt burdens stayed moderate.

Another prerequisite to fiscal improvement lies in the timing of contractionary measures such as tax increases. Germany is the poster child for poor timing of fiscal tightenings, having attempted to close its budgetary gap during the recession of the early 1990s. The United States was able to achieve surpluses in the late 1990s, not by drastically cutting spending or raising taxes, but by first stimulating growth. The subsequent improvement in the U.S. budgetary position was largely the result of the increased tax revenues generated by a larger economy. The United States was thus able to control its debt without dragging its economy into recession, in sharp contrast to the German experience of the 1990s.

Borrowing Alone: The Theory and Policy Implications of the Commodification of Finance

GREG HANNSGEN
Working Paper No. 401
www.levy.org/pubs/wp/401.pdf

Over the past 20 years or so, traditional bank loans have been giving way to more modern types of finance. Instead of holding the mortgages of home buyers, banks have increasingly been selling them to agencies such as Fannie Mae, which bundle loans into securities that can be sold to investors worldwide. Fannie Mae and its sibling agency, Freddie Mac, now control over half of the mortgage market in the United States. Businesses are also relying less than they used to on traditional loans from local banks. They rely much more than they did 20 years ago on the bond market.

What such changes have in common, according to Resident Research Associate Greg Hannsgen, is that they turn loans into commodities. Loans become commodities in the sense that they are traded on impersonal markets among investors with little individualized knowledge of, and commitment to, the borrowers. This change is particularly important in finance, Hannsgen argues, because in the past, banks have relied heavily on special relationships with particular borrowers. Economists who study these relationships have observed that banks' "good customers" retain their credit in bad times, when other firms have difficulty borrowing. Those customers who enjoy special relationships with lending institutions tend to be able to borrow at a discount. Often the relationships go beyond business, entangling businesspeople and their families in a social web. Studies show that bankers often know their customers' families and take a personal interest in their economic and social success.

Economists have offered a number of theories to explain this apparent favoritism. Many economists believe that banks try to establish close relations with good customers in order to gain "inside information" about firms. Companies are willing to release information if they are assured that in return they will be given access to cheap capital. Hannsgen is skeptical about attempts to trace the roots of special relationships to strictly economic causes, such as the need to share information. He argues that social bonds often fail to follow economic logic, introducing as many inefficiencies as they eliminate. For example, tight bonds between businesspeople can breed corruption and shady deals.

This analysis of the functionality and dysfunctionality of capitalism's intimate side leads Hannsgen to a discussion of the possible policy implications of the recent transition to a less personal mode of doing business. Many observers are partisans of either market forms of finance or more traditional banking, but Hannsgen argues against undue attention to the stark dichotomy presented by these two choices. It is most important, Hannsgen argues, to introduce badly needed reforms throughout the financial system. The Grameen Bank, which provides microcredit to poor women in Bangladesh, is one example Hannsgen cites of the way credit can be democratized and brought to a clientele that has been underserved by more traditional banks.

A Post-Keynesian Stock-Flow Consistent Macroeconomic Growth Model: Preliminary Results

CLAUDIO H. DOS SANTOS AND GENNARO ZEZZA

Working Paper No. 402
www.levy.org/pubs/wp/402.pdf

Traditional Keynesian economists have based their models of the economy on hypotheses about the relationships between various economic variables such as interest rates and spending. These models do not always take account of how flows of money from one sector of the economy affect other sectors, or how ongoing flows of spending add to assets and debts. Economists such as Distinguished Scholar Wynne Godley have been developing new models of the economy that take comprehensive account of how money and securities flow from one sector of the economy to another. In a new working paper, Research Scholars Claudio H. Dos Santos and Gennaro Zezza produce and discuss one such "stock-flow consistent" model, building upon previous efforts by Godley and Marc Lavoie of the University of Ottawa.

Dos Santos and Zezza use scores of variables in their model and include effects that are neglected in smaller models, such as the effect of bank profits on household income. They use a number of assumptions common to post-Keynesian models. For example, investment depends upon the ratio of the stock market value of firms to the replacement cost of their capital. Inflation is the result of excess demand or conflicts between workers and business owners over shares of aggregate income.

Because of the complexity of their model, the authors must simulate the effects of various changes, or "shocks," using a computer program, rather than textbook techniques, for determining the paths of various variables. When the authors tested the effect of a decrease in consumers' saving rates, they found two possible outcomes. In one, increased consumption spending raised capacity utilization rates in industry, encouraging higher levels of investment. Meanwhile, lower rates of saving implied a reduced demand for stocks and bonds and, subsequently, a downturn in financial markets. In this sample case, the beneficial effects of increased spending outweighed these financial impacts, and a fall in the saving rate had a favorable effect on economic growth overall.

Some of the other results of the model ran counter to received ideas about growth. Under certain assumptions, an increase in government deficit spending caused an increase in growth, while improvements in productivity did not always increase growth. Many of the findings expressed in the paper are consistent with decades of Keynesian and post-Keynesian thinking, but the study is novel in that it corroborates its findings in a stock-flow consistent framework.

A Stock-Flow Consistent General Framework for Formal Minskyan Analysis of Closed Economies

CLAUDIO H. DOS SANTOS
Working Paper No. 403
www.levy.org/pubs/wp/403.pdf

Hyman P. Minsky's financial instability hypothesis has been associated with the Levy Institute since Minsky anchored the Levy staff in the 1990s. Minsky was a follower of economist John Maynard Keynes, and he made great strides in elaborating the financial aspects of Keynes's theory. He pointed out that the condition of the financial system was a major determinant of investment spending, and that modern capitalist economies often teetered on the edge of catastrophic financial collapse.

Numerous scholars have attempted to develop mathematical models of the phenomena Minsky described. In a new working paper, Research Scholar Claudio H. Dos Santos extends this literature by bringing to bear the insights of stock-flow consistent modeling.

This approach to economics, also represented by Working Paper No. 402 and innovated by Distinguished Scholar Wynne Godley, attempts to model comprehensively the economy's flows of income and stocks of assets as they evolve over time. For example, when people earn money, they must either spend it or convert it into some other form of financial asset. Some, more old-fashioned, models attempt to explain the amount of spending that takes place in the economy, but they do not account for how spending adds to sellers' assets and reduces those of the buyer. In stock-flow consistent modeling, the path of every dollar of spending is accounted for.

Dos Santos examines a number of previous attempts, beginning in the mid-1980s, to express Minsky's ideas in quantitative form. In general, these earlier studies were successful, but weak by the standards of stock-flow consistent modeling. Dos Santos shows that the essence of many of the previous models can be captured within a general model that respects the kind of "adding-up" conditions imposed by his approach. At the same time, Dos Santos's suggested model overcomes many of the various problems that have daunted Minskyan modelers until now. The model not only shows that Minskyan ideas can be successfully modeled; it also demonstrates the broad applicability of stock-flow consistent analysis.

The "War on Poverty" after 40 Years: A Minskyan Assessment

STEPHANIE A. BELL AND L. RANDALL WRAY
Working Paper No. 404
www.levy.org/pubs/wp/404.pdf

Forty years ago in January, President Lyndon Johnson declared war on poverty in the United States. Then, for a time, official poverty rates fell. But by 1970, poverty rates again began to edge upward. Poverty has fluctuated since then, but even by the end of the Clinton-era expansion, the poverty rate remained at approximately 12 percent—just 3 percentage points below its 1965 level. In a new working paper, Stephanie A. Bell and Senior Scholar L. Randall Wray, both of the University of Missouri, Kansas City, and the Center for Full Employment and Price Stability, present an analysis of the weak points of the programs of the War on Poverty and offer a different set of proposals to win the war.

Economists and others have offered widely differing views as to why the War on Poverty apparently failed. One of the less well known of these theories is that of the late Levy Institute scholar Hyman P. Minsky. Minsky's concerns centered on the types of policy measures supported by Kennedy and Johnson. These measures included many types of training and education, such as the Job Corps and Head Start, aimed at preparing individuals for work. At the same time, Kennedy supported several tax cuts designed to stimulate the private sector. Johnson lowered taxes in 1965, 1966, and again in 1967. Minsky warned from the beginning that the best way to fight poverty was to create jobs directly; tax cuts and training measures might be desirable, but their effects would be inadequate. Tax cuts might have the effect of stimulating the economy, but there was no guarantee that the stimulus would trickle down to the worst off. Educational programs might not begin to bear fruit until the toddlers of the day had grown to working age. Moreover, it would be virtually impossible to ensure that the skills of newly trained workers matched the needs of private industry.

Minsky proposed an agenda of direct job creation. The government would hire the unemployed to provide needed services and shore up the nation's infrastructure. Minsky believed that an unemployment rate of about 2 percent would be attainable. He was optimistic about the effects of low unemployment, in part because the incidence of poverty is very low among families with at least one full-time worker, and even part-time workers often earn enough to stay out of poverty.

Levy Institute News

Upcoming Event:
Conference: The Distributional Effects of Government Spending and Taxation

October 15–16, 2004
Annandale-on-Hudson, New York

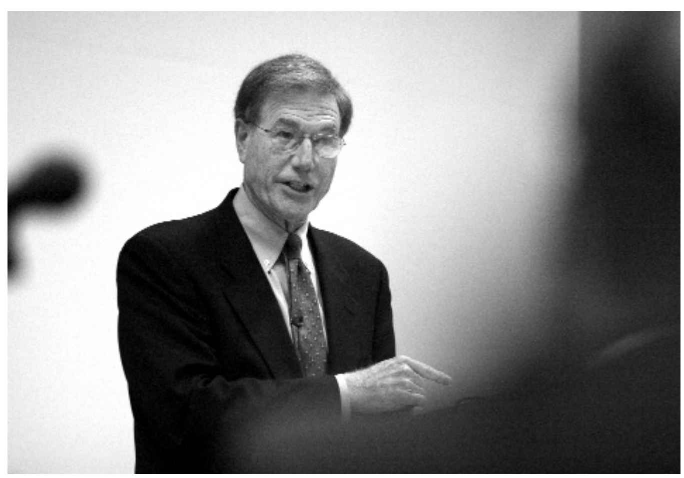
A Levy Institute conference in October will focus on the distributional consequences of the public sector. The main issue will be the effects of public activities and finances on the wealth, income, and well-being of families and individuals. Three sides of government activity will be discussed. First, what are the costs and benefits of government expenditures for public provisioning such as schooling, highways, and police and fire protection? Second, who are the beneficiaries of government transfer programs? Third, who bears the tax burden? Some papers will cover particular government programs, such as Social Security. All levels of government—state, local, and national—will be covered. Although the focus of the conference will be on the American system, studies of other countries and international comparisons will be presented.

Senior Scholar Edward N. Wolff of New York University and Research Scholar Ajit Zacharias are organizing the conference sessions.

The keynote speaker for the conference will be David Cay Johnston of the *New York Times.* Other confirmed participants include:
Leonard E. Burman, Urban Institute
Barbara A. Butrica, Urban Institute
William G. Gale, Brookings Institution
Irwin Garfinkel, Columbia University
Ann Harding, NATSEM, Canberra, Australia
Peter R. Orszag, Brookings Institution
Lars Osberg, Dalhousie University
Pierre Pestieau, University of Liège, CORE, CEPR, and Delta
Timothy Smeeding, Maxwell School, Syracuse University
Holly Sutherland, University of Cambridge, University of Essex, and DIW Berlin

14th Annual Hyman P. Minsky Conference

Scholars, policymakers, and executives gathered on April 23 and 24 at the 14th Annual Hyman P. Minsky Conference at the Levy Institute to apply the insights of the late Institute scholar, Hyman P. Minsky, to the current economic recovery and other macroeconomic issues. Among the speakers was Michael H. Moskow (*below*), president and CEO of the Federal Reserve Bank of Chicago, who said that "productivity gains, fiscal stimulus, the Federal Reserve's highly accommodative monetary policy stance, replacement demand for capital equipment, and improving conditions abroad should contribute to continued strong growth." Moskow also pointed to "a number of different indicators," however, that suggested that the economy's output was "still below potential."



Michael H. Moskow

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

PHILIP ARESTIS *Institute Professor*

Publications: "Macroeconomic Policies of the Economic and Monetary Union: Theoretical Underpinnings and Challenges" (with M. C. Sawyer), *International Papers in Political Economy*, Vol. 10, No. 1, 2003; "New Consensus, New Keynesianism, and the Economics of the Third Way" (with M. C. Sawyer), in E. Hein, A. Heise, and A. Truger, eds., *Nei-Keynesianismus–der Neue Wirtschaftspolische Mainstream?* Marburg: Metropolis–Verlag, 2003; review of John Cornwall and Wendy Cornwall's *Capitalist Development in the Twentieth Century: An Evolutionary-Keynesian Analysis,* in *Review of Social Economy*, September 2003; "The Relevance of Kalecki's 'Political Aspects of Full Employment' to the Twenty-First Century" (with F. Skuse), in Z. L. Sadowski and A. Szeworski, eds., *Kalecki's Economics Today*, Routledge, Taylor and Francis Group, 2003; "Credibility of EMS Interest Rate Policies: A Markov Regime-Switching Approach" (with K. Mouratidis), *Manchester School of Economic and Social Research*, Vol. 72, No. 1, January 2004.

Presentations: "Rediscovering Fiscal Policy through Minskyan Eyes" (with M. C. Sawyer), Minsky on Economic Policy II session, annual meeting of the Allied Social Science Associations, San Diego, January 3–5; "Macroeconomic Policies of the Economic and Monetary Union: Theoretical Underpinnings and Challenges," Department of Economics, University of the Basque Country, Bilbao, Spain, February 9; "The Case for Fiscal Policy" (with M. C. Sawyer), The Means to Prosperity: Fiscal Policy Reconsidered session, and "Reforming the Euro's Institutional Framework" (with M. C. Sawyer), The Euro as a Global Currency Model session, annual meeting of the Eastern Economic Association, Washington, D.C., February 20–22; "What is Wrong with the Euro Area Macroeconomic Model?" Employment Institute, Nicosia, Cyprus, March 4.

ASENA CANER *Research Scholar*

Publication: "Asset Poverty in the United States: 1984–1999" (with E. N. Wolff), *Challenge*, Vol. 47, No. 1, January–February 2004.

Presentation: "Economic Well-Being in Late Industrial Capitalism," annual meeting of the Allied Social Science Associations, San Diego, January 3–5.

CLAUDIO H. DOS SANTOS *Research Scholar*

Presentations: "A General Stock-Flow Consistent Framework for Minskyan-Type Analyses of Closed Economies," annual meeting of the Allied Social Science Associations, San Diego, January 3–5; "The Explosion of Brazilian External and Internal Debts," annual meeting of the Eastern Economic Association, Washington, D.C., February 20–22.

JAMES K. GALBRAITH *Senior Scholar*

Publications: "Inequality and Economic Growth: A Global View Based on Measures of Pay" (with H. Kum), *CESifo Economic Studies*, Vol. 49, No. 4, 2003; "Kennedy, Vietnam, and Iraq," Salon.com, November 22, 2003; "Cashing Out," review of *In an Uncertain World* by Robert E. Rubin and Jacob Weisberg, *Washington Post Book World*, November 23, 2003; review of *Downsizing in America: Reality, Causes, and Consequences* by William J. Baumol, Alan S. Blinder, and Edward N. Wolff, and of *The Betrayal of Work: How Low-Wage Jobs Fail 30 Million Americans and Their Families* by Beth Shulman, *The American Prospect*, January 2004; "The No-Jobs President," Salon.com, January 19, 2004; "Nothing is Certain But Death," review of *Perfectly Legal: The Covert Campaign to Rig Our Tax System to Benefit the Super Rich–and Cheat Everybody Else* by David Cay Johnston, *New York Times Book Review*, February 1, 2004; "Bush's Hail Mary," Salon.com, February 9, 2004.

Presentations: "Global Inequality and Global Policy," Catholic Social Thought and Globalization conference, Villanova University, November 7, 2003; "Regional Inequality and the Information Bubble" (with T. Hale), annual meeting of APPAM, Washington, D.C., November 8, 2003; "Unemployment in Europe: A Theoretical and Regional Analysis" (with Enrique Garcilazo), UTIP Working Paper No. 25, October 21, 2003, delivered at the first meeting of PEKEA, Rennes, France, December 15, 2003, and the Association for Evolutionary Economics at the annual meeting of the Allied Social Science Associations, San Diego, January 5; speech to the opening plenary, VI International Conference on Globalization and Development, Havana, February 9.

GREG HANNSGEN *Resident Research Associate*

Presentations: "Minsky's Acceleration Channel and the Role of Money," Association for Evolutionary Economics session at the annual meeting of the Allied Social Science Associations, San Diego, January 3–5; "Minsky's Acceleration Channel: An

Empirical Investigation," annual meeting of the Eastern Economic Association, Washington, D.C., February 20–22.

THOMAS L. HUNGERFORD *Research Director and Senior Scholar*
Presentations: "Policies for Economic Development," National Education Association Midwest Region strategic planning meeting, Chicago, February 5; "Does Increasing the Minimum Wage Increase the Incidence of Involuntary Part-Time Work? A Micro Analysis with Monthly CPS Data," annual meeting of the Eastern Economic Association, Washington, D.C., February 20–22.

DIMITRI B. PAPADIMITRIOU *President*
Presentations: "Is the U.S. Recovery Sustainable?" Panteion University, Athens, January 2; "Is the Jobless Economic Growth Sustainable? Policies and Prospects in an Election Year," University of Utah, February 27; interview regarding the growing wealth and income gap with Steve Magagnini, *Sacramento Bee*, January 13; interview regarding "The Future of the Dollar" by Korkut A. Ertürk with Jonathan Weisman, *Washington Post*, January 22; interview regarding the U.S. labor market and the recovery in creating jobs with Amity Shlaes, *Financial Times*, February 3.

MALCOLM SAWYER *Senior Scholar*
Publications: "Macroeconomic Policies of the Economic and Monetary Union: Theoretical Underpinnings and Challenges" (with P. Arestis), *International Papers in Political Economy*, Vol. 10, No. 1, 2003; "Employer of Last Resort: Could It Deliver Full Employment and Price Stability?" *Journal of Economic Issues*, December 2003; "Money and Finance in Kalecki's Analysis," in Zdzislaw L. Sadowski and Adam Szeworski, eds., *Kalecki's Economics Today*, London: Routledge, 2003; "New Consensus, New Keynesianism, and the Economics of the Third Way" (with P. Arestis), in E. Hein, A. Heise, and A. Truger, eds., *Nei-Keynesianismus–der Neue Wirtschaftspolische Mainstream?* Marburg: Metropolis–Verlag, 2003; "Kalecki, Keynes, et L'Analyse Post-Keynesienne de la Monnaie," in Pierre Piégay and Louis-Philippe Rochon, eds., *Théories Monétaires Post Keynésiennes*, Paris: Economica, 2003.
Presentations: "Money, Interest Rates, and Unemployment: Reflections on Changes in Keynes's Analysis," and "What Is Wrong with the Euro Area Monetary Model?" (with P. Arestis) at The Monetary Theory of Production: Tradition and Perspectives international conference in honor of Augusto Graziani, University of Sannio, Benevento, Italy, December 5–6, 2003; "Rediscovering Fiscal Policy through Minskyan Eyes," AFEE session, and "Kalecki and Steindl on Finance and Debt," URPE session, annual meeting of the Allied Social Science Associations, San Diego, January 3–5; "The Case for Fiscal Policy" (with P. Arestis), The Means to Prosperity: Fiscal Policy Reconsidered session, and "Reforming the Euro's Institutional Framework" (with P. Arestis), The Euro as a Global Currency Model session, annual meeting of the Eastern Economic Association, Washington, D.C., February 20–22; "The U.K.'s Private Finance Initiative," annual conference of the Radical Statistics Group, February 28, London.

EDWARD N. WOLFF *Senior Scholar*
Publications: *Downsizing in America: Reality, Causes, and Consequences* (with William J. Baumol and Alan S. Blinder), New York: Russell Sage Press, 2003; "What's Behind the Recent Rise in Profitability in the U.S.?" *Cambridge Journal of Economics*, Vol. 27, No. 4, July 2003; "Asset Poverty in the United States, 1984–1999" (with A. Caner), *Challenge,* Vol. 47, No. 1, January–February 2004.
Presentations: "The Transformation of the American Pension System, 1983–1998," Sloan Conference on Work Options for Mature Americans, 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, 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; interviews with Steve Barrows, KNZZ NewsRadio, Grand Junction, Colorado, November 19, 2003, Judy Martin, NPR *Marketplace Morning Report*, December 9, 2003, and Bob Smith, WXXI Radio, February 20; "Workers' Economic Well-Being in the United States" (with A. Zacharias), annual meeting of the Eastern Economic Association, Washington, D.C., February 20–22.

L. RANDALL WRAY *Senior Scholar*

Publications: "Loanable Funds, Liquidity Preference, and Endogenous Money," *Journal of Post Keynesian Economics*, Vol. 26, No. 2, Winter 2003–04; "Employment and Inflation: A Balancing Act," *Chartered Financial Analyst*, December 2003.

Presentations: Press conference (with Pavlina Tcherneva and Mathew Forstater) and appearance on Turkey's CNBC with the mayor of Istanbul to announce and discuss a collaborative study of policy to create jobs, November 3, 2003; report on "The Adverse Economic Impact from Repeal of the Prevailing Wage Law in Missouri" for the Council for Promoting American Business, January; featured in "Lending a Lasting Hand" by David Glenn, *Chronicle of Higher Education*, January 16; "When Are Interest Rates Exogenous?" presentations at Complexity, Endogenous Money, and Exogenous Interest Rates conference in honor of Basil Moore, University of Stellenbosch, South Africa, January 8, and the annual meeting of the Eastern Economic Association, Washington, D.C., February 20–22.

AJIT ZACHARIAS *Research Scholar*

Presentation: "Workers' Economic Well-Being in the United States" (with E. N. Wolff), annual meeting of the Eastern Economic Association, Washington, D.C., February 20–22.

Recent Levy Institute Publications

Levy Institute Measure of Economic Well-Being
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
United States, 1989 and 2000
EDWARD N. WOLFF, AJIT ZACHARIAS, and ASENA CANER
December 2003

STRATEGIC ANALYSES

Is Deficit-Financed Growth Limited? Policies and Prospects in an Election Year
DIMITRI B. PAPADIMITRIOU, ANWAR M. SHAIKH, CLAUDIO H. DOS SANTOS, and GENNARO ZEZZA
April 2004

Deficits, Debts, and Growth: A Reprieve But Not a Pardon
ANWAR M. SHAIKH, DIMITRI B. PAPADIMITRIOU, CLAUDIO H. DOS SANTOS, and GENNARO ZEZZA
October 2003

The U.S. Economy: A Changing Strategic Predicament
WYNNE GODLEY
March 2003

PUBLIC POLICY BRIEFS

Asset Poverty in the United States
Its Persistence in an Expansionary Economy
ASENA CANER and EDWARD N. WOLFF
No. 76, 2004 (Highlights, No. 76A)

Is Financial Globalization Truly Global?
New Institutions for an Inclusive Capital Market
PHILIP ARESTIS and SANTONU BASU
No. 75, 2003 (Highlights, No. 75A)

Understanding Deflation
Treating the Disease, Not the Symptoms
L. RANDALL WRAY and DIMITRI B. PAPADIMITRIOU
No. 74, 2003 (Highlights, No. 74A)

Asset and Debt Deflation in the United States
How Far Can Equity Prices Fall?
PHILIP ARESTIS and ELIAS KARAKITSOS
No. 73, 2003 (Highlights, No. 73A)

What Is the American Model Really About?
Soft Budgets and the Keynesian Devolution
JAMES K. GALBRAITH
No. 72, 2003 (Highlights, No. 72A)

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)

POLICY NOTES

Inflation Targeting and the Natural Rate of Unemployment
WILLEM THORBECKE
2004/1

The Future of the Dollar: Has the Unthinkable Become Thinkable?
KORKUT A. ERTÜRK
2003/7

Is International Growth the Way Out of U.S. Current Account Deficits? A Note of Caution
ANWAR M. SHAIKH, GENNARO ZEZZA, and CLAUDIO H. DOS SANTOS
2003/6

Deflation Worries
L. RANDALL WRAY
2003/5

Pushing Germany Off the Cliff Edge
JÖRG BIBOW
2003/4

Caring for a Large Geriatric Generation: The Coming Crisis in U.S. Health Care
WALTER M. CADETTE
2003/3

Reforming the Euro's Institutional Framework
PHILIP ARESTIS and MALCOLM SAWYER
2003/2

The Big Fix: The Case for Public Spending
JAMES K. GALBRAITH
2003/1

WORKING PAPERS

The "War on Poverty" after 40 Years: A Minskyan Assessment
STEPHANIE A. BELL and L. RANDALL WRAY
No. 404, April 2004

A Stock-Flow Consistent General Framework for Formal Minskyan Analyses of Closed Economies
CLAUDIO H. DOS SANTOS
No. 403, February 2004

A Post-Keynesian Stock-Flow Consistent Macroeconomic Growth Model: Preliminary Results
CLAUDIO H. DOS SANTOS and GENNARO ZEZZA
No. 402, February 2004

Borrowing Alone: The Theory and Policy Implications of the Commodification of Finance
GREG HANNSGEN
No. 401, January 2004

Fiscal Consolidation: Contrasting Strategies and Lessons from International Experiences
JÖRG BIBOW
No. 400, January 2004

Does Financial Structure Matter?
PHILIP ARESTIS, AMBIKA D. LUINTEL, and KUL B. LUINTEL
No. 399, January 2004

Inequality of the Distribution of Personal Wealth in Germany 1973–1998
RICHARD HAUSER and HOLGER STEIN
No. 398, January 2004

Financial Globalization and Regulation
PHILIP ARESTIS and SANTONU BASU
No. 397, December 2003

The Evolution of Wealth Inequality in Canada, 1984–1999
RENÉ MORISSETTE, XUELIN ZHANG, and MARIE DROLET
No. 396, November 2003

On Household Wealth Trends in Sweden over the 1990s
N. ANDERS KLEVMARKEN
No. 395, November 2003

Wealth Transfer Taxation: A Survey
HELMUTH CREMER and PIERRE PESTIEAU
No. 394, November 2003

A Rolling Tide: Changes in the Distribution of Wealth in the U.S., 1989–2001
ARTHUR B. KENNICKELL
No. 393, November 2003

Understanding Deflation: Treating the Disease, Not the Symptoms
L. RANDALL WRAY and DIMITRI B. PAPADIMITRIOU
No. 392, October 2003

Aggregate Demand, Conflict, and Capacity in the Inflationary Process
PHILIP ARESTIS and MALCOLM SAWYER
No. 391, September 2003

The *Report* and all other Levy Institute publications are available online on the Levy Institute website, www.levy.org.

To order a Levy Institute publication, call 845-758-7700 or 202-887-8464 (in Washington, D.C.), fax 845-758-1149, e-mail info@levy.org, write The Levy Economics Institute of Bard College, Blithewood, PO Box 5000, Annandale-on-Hudson, NY 12504-5000, or visit our website at www.levy.org.

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

Address Service Requested

NONPROFIT ORGANIZATION
U.S. POSTAGE PAID
BARD COLLEGE