LEVY INSTITUTE

The Levy Economics Institute of Bard College

# Report

DECEMBER 2001 VOLUME 11, NUMBER 4

## Editorial: Recession, USA

WYNNE GODLEY

*The U.S. is in the early stages of a recession which could be as deep and intractable as any since the second world war, with serious consequences for the rest of the world. The situation can be remedied, but only if there are large changes in policy, in the U.S. and elsewhere.*

WYNNE GODLEY

A year ago, the general opinion in the U.S. was that the business cycle had been abolished and that the good times were here to stay. There was neither any need nor any place for active fiscal policy, and inflation would be controlled if interest rates were suitably adjusted by an independent central bank. Professor Edmund Phelps of Columbia University pronounced growth to be "structural" and in September 2000 the consensus forecast was that GDP in the U.S. would rise 3.7 percent between 2000 and 2001.

These euphoric views, based on a supposed "supply side" revolution, ignored the fact that aggregate demand in the U.S. had been driven for many years in an unusual and unsustainable way. The fiscal stance had become so tight that the budget was in structural surplus while net export demand had fallen so much that there was a record balance of payments deficit.

That total demand could nevertheless rise so fast was due to the fact that these negative forces were more than offset by a uniquely large rise in private expenditure relative to income. Net saving by the private sector fell from 5.5 percent of GDP in 1992 to –6 percent at the end of last year; this was the extent to which private spending at that time exceeded income.

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

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This excess spending was only possible because there had been a prolonged surge in private borrowing which resulted in ever higher levels of debt relative to income. The whole process was obviously unsustainable and had made the private sector (businesses and households) dangerously vulnerable to negative shocks—a downturn in investment, asset prices, income, employment or profits.

Although nothing comparable had previously happened in the U.S., similar falls in saving, generated by credit booms, drove rapid expansions in the U.K., Scandinavia and Japan just over 10 years ago. In each case there was a reversion of net saving to normal levels—that is, private expenditure fell back below income—and a severe and intractable recession.

It is clear that in the U.S. a similar implosion began in the fourth quarter of 2000. There has been a rise in private net saving caused initially by a fall in investment and stock prices, consequently the economic expansion ground to a halt in the second quarter of 2001, well before the terrorist attacks. A further slowdown, reinforced by the attacks, has almost certainly continued.

The amazing change in rhetoric has not been very edifying. Everyone agrees that the U.S. is now in recession and everyone agrees too, in an astonishing volte face, that an immediate fiscal stimulus is needed. Goldilocks and "structural growth" have been quietly forgotten. Yet it is better for the U.S. that the authorities (including chairman of the Federal Reserve Board, Alan Greenspan) be silently reconverted to crude Keynesianism than that they should be in thrall, like the poor Europeans, to the perverse doctrines of the Growth and Stability Pact spawned by the Maastricht treaty.

As to the scale and duration of the U.S. recession and the policies which may now be appropriate, three points need to be borne in mind. First, the recession may be much more severe than most people suppose; for instance the October consensus forecast is that U.S. GDP will rise by 1.2 percent between 2001 and 2002, implying that recovery from the recession will be in full swing in nine months' time. But if, as I believe to be possible, private net saving reverts to its historic norm over the next two years, this would remove a gigantic chunk of demand equal to about 7–8 percent of GDP, or $750 billion, from the circular flow of income. Such a demand deficiency would swamp all the announced expansionary fiscal measures, which can hardly exceed $100–200 billion per annum at the outside. If private saving were to revert to its normal level as fast as it did 11 years ago in the U.K., there could be an absolute fall of 2 percent in GDP between this year and next.

Second, there seems to be a growing consensus in the US that, because there will soon be a spontaneous recovery, any fiscal stimulus should be temporary. However, according to the scenario I am outlining, the unravelling taking place is a reversion to a normal situation from an abnormal one. For this reason, there may be no spontaneous recovery in prospect at all. According to this story, the move of the budget over a period of years into structural surplus was misguided and will have to be permanently reversed.

Third, fiscal and monetary expansion would probably not, by themselves, provide an effective and lasting antidote—should there now be a long period of stagnation with rising unemployment—because the period starts off with such a huge balance of payments deficit. If growth were rehabilitated by unilateral expansionary measures at home, it seems probable, particularly as growth in the rest of the world is faltering, that the deficit would start growing again, perhaps reaching 6–7 percent of GDP in a few years.

If the balance of payments deficit were to rise this much there would be an ongoing need for huge and rising inflows of foreign capital (which might not be forthcoming), while the net foreign indebtedness of the U.S. would be reaching startling levels—40 percent of GDP or more. Moreover, in order to achieve adequate growth under these circumstances, there would have to be another very large, rising budget deficit. These processes could not continue. For the recovery to be sustainable, any stimulus from fiscal and monetary policy will have to be matched by measures to increase net exports.

Yet "measures to increase net exports" sounds disturbingly vacuous. As the exchange rate is no longer an instrument of policy in any ordinary sense and as spontaneous changes in rates cannot be counted on to correct imbalances automatically, the solution would appear to be coordinated reflation across the world. However, neither appropriate institutions nor agreed principles exist to give effect to such a programme.

(The above op-ed appeared in the *Guardian* on Tuesday, October 23, 2001, and is reprinted with permission. It is based on research by Godley and Research Scholar Alex Izurieta that was published in the Levy Institute's Strategic Analysis series as *The Developing U.S. Recession and Guidelines for Policy*.)

## New Working Papers

### Reflections on the Current Fashion for Central Bank Independence

Jörg Bibow
Working Paper No. 334
www.levy.org/docs/wrkpap/papers/334.html

In modern monetary theory, the issue of central bank independence is a common theme. The theoretical support in favor of central bank independence is often credited to the time-consistency literature popularized by the work of F. E. Kydland and E. C. Prescott and that of R. J. Barro and D. B. Gordon. In this working paper, Visiting Scholar Jörg Bibow challenges the time-inconsistency case for central bank independence. He argues that the literature not only seriously confuses the substance of the rules-versus-discretion debate, but also posits an implausible view of monetary policy. Most worrisome, the inflationary bias it features has encouraged the development of a dangerously one-sided approach to central bank independence that ignores entirely the potential risks involved in maximizing central bankers' latitude for discretion.

Bibow's analysis shows that a more balanced and symmetric approach to central bank independence is urgently warranted. Maximizing central bank independence, and perhaps even deliberately choosing central bankers who do not share society's preferences, is unlikely to enhance efficiency and welfare. Bibow notes that there is theoretical support for a more democratic form of central bank and suggests that central bankers focus on goals desired by society, as expressed through their elected representatives.

### Young Mexican Americans, Blacks, and Whites in Recent Years: Schooling and Teen Motherhood as Indicators of Strengths and Risks

Joel Perlmann
Working Paper No. 335
www.levy.org/docs/wrkpap/papers/335.html

Some researchers have suggested that the children of today's immigrants will have more difficulty economically and in terms of assimilating into American society than did the children of previous generations of immigrants. Many contemporary immigrants, they point out, are nonwhite, and economic conditions today are different due to a reduction in the availability of low-skill industrial jobs. In this working paper, Senior Scholar Joel Perlmann examines this issue and stresses that the key to concerns about the progress of second-generation Americans is the fate of the second generation of Mexican Americans.

Perlmann compares several indicators of the advances of second-generation Mexican Americans to those of non-Hispanic, native-born blacks and non-Hispanic, native-born whites. His analysis relies on the most recent available evidence from the CPS data of 1994–2000. Perlmann finds that patterns of educational attainment are ambiguous, which suggests that the Mexican pattern resembles that of older immigrant laboring groups of the past, who traded extended schooling for work. Patterns of teen and young-adult unwed motherhood, labor force attachment, and poverty suggest that to date the Mexican and black patterns do not converge. The male-female ratio among the groups underscores this point. Perlmann also asserts that evidence on contemporary third-generation Mexican Americans is largely irrelevant to expectations about the descendants of current Mexican immigrants. He concludes that these data do not point clearly to second-generation decline. However, if such decline is expected, there are ways to read the data that would produce such a result.

### The Role of Institutions and Policies in Creating High European Unemployment: The Evidence

Thomas I. Palley
Working Paper No. 336
www.levy.org/docs/wrkpap/papers/336.html

In September 2000, the United States's unemployment rate reached a 30-year low of 3.9 percent. In western Europe, however, unemployment rates have remained relatively high, reaching into the double digits in some nations. Numerous researchers have sought to understand this divergence in performance. The conventional wisdom is that high European unemployment is the result of job markets that are rigid and inflexible and have thus been incapable of adjusting to technological advances and changes in the international economy. In this working paper, Thomas I. Palley, assistant director of public policy for the AFL-CIO, presents new empirical evidence that challenges this view. In his analysis, Palley accounts for both micro- and macroeconomic factors, as well as cross-country economic spillovers.

The evidence indicates that macroeconomic factors dominate in explaining unemployment. Labor market institutions do matter, but not in the conventional way. Unemployment benefits and union density have no effect. Palley argues that the level of wage bargaining coordination and the extent of union wage coverage both matter, but that, if properly paired, they can actually reduce unemployment. Lower tax burdens can have a similar effect, but a far more cost-effective fiscal approach is to increase spending on active labor market policies. Palley concludes that western Europe's troubles are the result of self-inflicted dysfunctional macroeconomic policy: a course of disinflation, high real interest rates, and slower growth that raised unemployment. Moreover, western European nations all adopted such policies at the same time, generating a wave of trade-based spillovers that led to a continentwide macroeconomic funk and further raised unemployment.

### Can Countries under a Common Currency Conduct Their Own Fiscal Policies?

Alex Izurieta
Working Paper No. 337
www.levy.org/docs/wrkpap/papers/337.html

In the early 1990s, when European countries opened discussions regarding monetary union, Levy Institute Distinguished Scholar Wynne Godley attempted to bring the debate to macroeconomically-consistent propositions that could help form policy. He raised questions regarding the impacts of a common currency on such things as polarization and the ability of individual nations to control their monetary and fiscal policies. In this working paper, Research Scholar Alex Izurieta brings to the fore some of the questions raised by Godley in earlier work.

The debate about balance of payment problems is generally linked with adjustments in the fiscal sector, especially since the views of Bretton Woods institutions became predominant. For the majority of theoretical models that currently inform policy, it is becoming common thought that, in a world of free trade and free movement of capital, floating exchange rates may clear the market for financial assets. Izurieta notes that in these models, the persistence of balance of payment problems can be attributed to rigidities either in the fiscal sector (the inability of the public sector to run a balanced budget) or the labor market (trade union pressures and welfare protective measures leading to uncompetitive salaries). This approach, which makes fiscal stance the culprit of macroeconomic imbalances in countries with floating exchange rates, is, however, also applied to countries that have adopted other, more rigid forms of exchange rate policy, such as currency boards, dollarization, and common currency agreements. What is overlooked, Izurieta argues, is that systems of common currency pose problems of an entirely different kind because two major mechanisms of macroeconomic adjustment—exchange rate flexibility and money issuing—are obviously removed. He believes that theoretical and policy-oriented propositions need to take into account this new set of restrictions.

### The Monetary Policies of the European Central Bank and the Euro's (Mal)Performance: A Stability-Oriented Assessment

Jörg Bibow
Working Paper No. 338
www.levy.org/docs/wrkpap/papers/338.html

The stability-oriented macroeconomic framework established in the Maastricht and Amsterdam Treaties on European Union, especially the unparalleled status of independence and peculiar mandate of the European Central Bank (ECB), promised to virtually guarantee price stability and a "strong" euro. Actual developments have shattered these hopes in a rather drastic way. The euro showed a slight recovery toward the end of 2000, but quickly lost value in 2001. In addition, consumer price inflation has quadrupled since the new currency's inception. Despite the dismal monetary developments, conventional wisdom holds that neither the Maastricht regime nor the ECB might possibly be at fault. Yet, the euro's performance over 2000–2001 is generally seen as a puzzle.

In this working paper, Visiting Scholar Jörg Bibow assesses the ECB's role in relation to the euro's (mal) performance, explores the institutional setting and traditions behind the ECB's conduct, and scrutinizes the rationale that inspired its interest rate policies. He argues that the Maastricht regime is flawed because it grants the ECB unbounded discretion. The ECB is also at fault for the euro's failed performance because it has applied this unbounded discretion incompetently. Bibow concludes that, due to the structural problem of the ECB, the euro's long-term prospects are grim.

## Uncertainty, Conventional Behavior, and Economic Sociology

Jörg Bibow, Paul Lewis, and Jochen Runde
Working Paper No. 339
www.levy.org/docs/wrkpap/papers/339.html

Economic sociology is often described as the application to economic phenomena of explanatory models drawn from sociology. However, a number of commentators have observed that this characterization raises the question of which social theory to use. In particular, if a determination to do justice to the importance of social structure for economic affairs is one of the hallmarks of economic sociology, then the issue of how to conceptualize social structure and its relation to human agency must be addressed.

In this working paper, Visiting Scholar Jörg Bibow, Paul Lewis of Newnham College at the University of Cambridge, and Jochen Runde of the Judge Institute of Management and Girton College at the University of Cambridge attempt to shed light on this issue by examining two recent attempts to bring social theory to bear on economic affairs: the French Intersubjectivist School and the Economics as Social Theory project associated with the work of Tony Lawson. The authors evaluate these two approaches by comparing and contrasting their interpretations of the work of John Maynard Keynes on uncertainty and conventional behavior in stock markets. They find that an examination of this type offers useful lessons about the most fruitful way to develop a social-theoretic perspective on the economy.

## Incentives in HMOs

Martin Gaynor, James B. Rebitzer, and Lowell J. Taylor
Working Paper No. 340
www.levy.org/docs/wrkpap/papers/340.html

Ever since the publication of Ronald Coase's paper on the theory of the firm in 1937, economists have focused much attention on the internal workings of organizations. One area of particular interest has been the issue of incentive systems within organizations. In this working paper, Martin Gaynor of Carnegie Mellon University and the National Bureau of Economic Research, James B. Rebitzer of the Levy Economics Institute and Case Western Reserve University, and Lowell J. Taylor of Carnegie Mellon University examine a setting that has received little attention from economists—health maintenance organizations. As the authors point out, Americans spend more than one trillion dollars annually on health care and physicians play a central role in determining the allocation of this money. Physician incentives are controversial because they may induce doctors to make treatment decisions that differ from those they would choose in the absence of incentives.

To examine the effect of incentives, the authors set out a theoretical framework for assessing the degree to which incentive contracts do, in fact, induce physicians to deviate from a standard, guided only by patient interest and professional medical judgment. Their empirical evaluation of the model relies on details of the HMO's incentive contracts and access to the firms' internal expenditure records. The authors estimate that the HMO's incentive contract provides a typical physician an increase, at the margin, of 10 cents in income for each $1.00 reduction in medical utilization expenditures, and that on average, such expenditures drop by 5 percent. They also find suggestive evidence that financial incentives linked to commonly used "quality" measures may stimulate an improvement in measured quality.

## New Policy Notes

### The New Old Economy
Bill Martin
Policy Note 2001/7
www.levy.org/docs/pn/01-7.html

In this policy note, Bill Martin, chief economist at London-based fund management company Phillips & Drew, argues against those economists who hold the "consensus view" that the United States is in a New Economy of high productivity gains and technological advances that, over the next few years, will result in continued economic growth of around 3 percent per year. Martin challenges this view, noting that it pays little heed to the very unusual nature of the U.S. expansion. A minor downturn prompted by a bit of inflation and higher interest rates is one thing, and easily fixed by conventional means. But the United States's boom was unique, Martin argues, and therefore, so too will be its bust. The fallout will be global and is likely to cause many to question the future of globalization.


JAMES K. GALBRAITH

### The War Economy
James K. Galbraith
Policy Note 2001/8
www.levy.org/docs/pn/01-8.html

The September 11 attacks on the World Trade Center and the Pentagon have had an immense psychological impact on the American people, and no less of an impact on the country's economy. In this policy note, Senior Scholar James K. Galbraith warns that an economic recovery will take time. He argues that what the nation faces is an economic calamity and the sooner we accept this and act upon it, the better.

The collapse in sectors related to travel and leisure will reverberate throughout the U.S. economy, hit households hard, and thus result in steep cuts in consumer spending. Galbraith believes that the ensuing recession could be very deep and very long. Lower interest rates and tax cuts will not bring about a quick recovery. Prior to the attacks the economic system was already weak. The household sector had been financing consumption through borrowing, largely against capital gains. Once capital gains turned negative in April 2000, cuts in consumer spending were inevitable. The attacks of September 11 are not the cause of the economic decline, but they did serve to advance and intensify it.

Currently, the approach to dealing with this economic crisis focuses on increased federal spending in order to provide reconstruction aid; financial support for industries affected by the attack, such as the airlines; tax relief; and expanded unemployment insurance. Galbraith views this willingness by Congress to lift the "budget constraint" as a welcome revival of Keynesian instinct. He argues, however, that this is not enough. Under the current circumstances, what is really needed is a policy with the objective of economic stabilization—a sustained effort commensurate with the crisis as it unfolds—and this may require spending far more than has thus far been proposed.

Galbraith asserts that increased federal spending in such areas as health, education, and transport is greatly needed. The federal government must also use revenue-sharing programs to prevent a rapid fall in state and local spending and act to create new capacities for state and local action in a variety of areas, including direct job creation.

While it is vital that the United States attack the current economic crisis on the domestic front, the international front is no less important for economic recovery. Galbraith argues that this country must commit to the creation of a more stable, successful, and just global financial system if it hopes to gain the assistance and support of the world community for diplomatic, intelligence, and military purposes. This support will not come free of cost, especially from poor countries that have not benefited from the modern global system.

Galbraith believes that, along with issues of domestic economic policy and the global financial structure, we must also examine the structural sources of the U.S. trade position. Perhaps it is time for the nation to reconsider its dependence on the automobile and thus, on oil-rich states. Transportation networks and urban housing patterns have contributed to this dependence and a major national initiative to address them ought now to be considered. Galbraith argues that all of these issues need to be addressed in a way that allows for free discussion by competent experts who are not dominated by partisan views or special interests.

## Hard Times, Easy Money? Countercyclical Stabilization in an Uncertain Economy

Robert E. Carpenter
Policy Note 2001/9
www.levy.org/docs/pn/01-9.html

By early November 2001, interest rates were at their lowest point in 40 years—a result of Federal Reserve interest rate reductions throughout the past year. The Fed's reaction has been based on a clearly deteriorating U.S. economic condition, which appeared even before the September 11 terrorist attacks. Declines in key components of the nation's gross domestic product were noticeable as early as last year and led the Fed to shift course on monetary policy in January 2001, when the first of the reductions in the federal funds rate occurred. In this policy note, Research Associate Robert E. Carpenter argues that this may not be the right time for use of the tools of countercyclical monetary policy.

Carpenter argues that such a policy is less effective in times such as these, when uncertainty is high, due in part to the terrorist attacks, the suspicion that wider-scale attacks may be planned, and the war in the Middle East. This uncertainty has led to a sharp decline in confidence regarding the future of the economy. Carpenter explains how monetary policy affects economic activity and why the current state of uncertainty will thus weaken the effectiveness of monetary policy. A better approach, he argues, would be a fiscal stimulus package, but it must be larger than those currently proposed.

## Are We All Keynesians (Again)?

Dimitri B. Papadimitriou and L. Randall Wray
Policy Note 2001/10
www.levy.org/docs/pn/01-10.html

Over the past three decades, economists and policymakers shifted from economic policy preferences based on Keynes to support for unbridled free markets. Reduced support for state governments and defense spending, and an increase in payroll taxes, reduced the role of government while tightening the fiscal stance. Fiscal responsibility and cuts in federal welfare spending and taxes led to budgets that generated surpluses. Trade barriers were reduced and social protection removed for labor, consumers, and the environment. According to the conventional wisdom, unfettered markets could deliver high growth and full employment, thereby contributing to the longest economic expansion in U.S. history and a booming New Economy. In this same period, however, there was an unprecedented burden of household debt, and income inequality continued to rise. Permanent employees were replaced with low-paid contingent and part-time workers, or cheaper foreign labor. U.S. manufacturing declined as cheap imports created chronic and growing trade deficits, and public infrastructure was neglected. National and international financial crises became routine.

According to President Dimitri B. Papadimitriou and Senior Scholar L. Randall Wray, economists and policymakers have been living in a 30-year fantasy. Rather than follow the trend for free market policies, they concur with Keynesian theory and the views of Minsky and suggest that Big Government needs to play a bigger role in the U.S. economy. In light of current economic trends—a contraction in GDP; sharply higher unemployment rates; declines in consumer confidence, spending on durable goods, and corporate profits; lower-than-expected state government revenues; and associated budget problems—the authors think that the U.S. economy may be about to experience the sharpest economic downturn since World War II, followed by a slow pace of recovery comparable to the 1930s.

Noting that there is much uncertainty over the proper way to ramp up government involvement in the economy, the authors identify three main challenges ahead. The first is to cushion the economic downturn through a combination of tax cuts and spending increases. The second is to increase federal government spending on public infrastructure, public health services, precollegiate education, training and apprenticeship programs, job programs, and fiscal relief for state and local governments. The third challenge is to deal with the long-term structurally imbalanced federal budget that has led to surpluses, which are largely responsible for the economic downturn. They suggest that a "permanent" and significant revenue-sharing agreement between the federal government and state and local governments be put in place rather than the proposed short-term fiscal stimulus package, since an economic recovery will not occur until there is a fundamental restructuring of the federal budget stance.

## Levy Institute News

### New Research Associates

Research Associate Yuval Elmelech's current areas of research interest are social stratification, the distribution of wealth, and issues related to poverty, housing, race, and immigration. His publications include (with N. Lewin-Epstein) "Migration and Housing in Israel: Another Look at Ethnic Inequality." *Megamot: Behavioral Sciences Quarterly* 39:3 (1998); (with N. Lewin-Epstein and M. Semyonov) "Ethnic Inequality in Home Ownership and the Value of Housing: The Case of Immigrants in Israel." *Social Forces* 75:4 (1997); and (with D. Amir and L. I. Remennick) "Educating Lena: Women Immigrants and 'Integration' Policies in Israel—The Politics of Reproduction and Family Planning." In N. Lewin-Epstein, Y. Ro'i, and P. Ritterband, eds., *Russian Jews on Three Continents*. London: Frank Cass, 1997. Elmelech received an M.A. in sociology and anthropology from Tel Aviv University and a Ph.D. in sociology from Columbia University.

Research Associate Robert Carpenter is an assistant professor of economics at UMBC (University of Maryland, Baltimore County). His current research areas include the theory of the firm, financial economics, and macroeconomics. He is the coauthor, with Bruce Peterson, of two forthcoming publications: "Capital Market Imperfections, High-Tech Investment, and New Equity Financing" in the *Economic Journal* and "Is the Growth of Small Firms Constrained by Internal Finance?" in the *Review of Economics and Statistics*. Carpenter conducted research at the Claus M. Halle Institute for Global Learning at Emory University, where he studied the effects of European integration on the growth of European firms, access to finance, and governance structures. He received a Ph.D. in economics from Washington University.

### New Book in the Levy Institute Book Series

*Corporate Governance and Sustainable Prosperity*
William Lazonick and Mary O'Sullivan, editors
Palgrave, 2001

How can the persistent worsening of the income distribution in the United States in the 1980s and 1990s be explained? What are the prospects for the reemergence of sustainable prosperity in the U.S. economy over the next generation? In addressing these issues, this book focuses on the microeconomics of corporate investment behavior, especially as reflected in investments in integrated skill bases, and the macroeconomics of household saving behavior, particularly in regard to the growing problem of intergenerational dependence by retirees on employees. Specifically it analyzes how the combined pressures of excessive corporate growth, international competition, and intergenerational dependence have influenced corporate investment behavior over the past two decades. Part One addresses how corporate investment in skill bases can support sustainable prosperity. Part Two presents studies of investments in skill bases in the machine tool, aircraft engine, and medical equipment industries. Part Three provides a comparative and historical analysis of corporate governance and sustainable prosperity in the United States, Japan, and Germany. By integrating a theory of innovative enterprise with in-depth empirical analyses of industrial development and international competition, *Corporate Governance and Sustainable Prosperity* explores the relation between changes in corporate resource allocation and the persistence of income inequality in the United States in the 1980s and 1990s.

Contributors to the volume include Beth Almeida, Robert Forrant, Michael J. Handel, William Lazonick, Philip Moss, Mary O'Sullivan, and Chris Tully. Editors Lazonick and O'Sullivan are Levy Institute research associates, as is contributor Handel.

## Events

CONFERENCE

**The 12th Annual Hyman P. Minsky Conference on Financial Structure**

April 25, 2002, The Roosevelt Hotel, Madison Avenue and 45th Street, New York City

*Registration and program information will be posted on the Levy Institute website* (www.levy.org) *as it becomes available.*

CALL FOR PAPERS

**Economic Mobility in the United States and Other Advanced Countries**

October 18–19, 2002, Annandale-on-Hudson, New York
Organizer: Edward N. Wolff, Levy Economics Institute and New York University

It has been argued that rising inequality in the United States and several other advanced countries is not a problem because it is measured using annual income, while mobility—the movement of households from one income group to another—has risen over time. Therefore, the argument goes, over an individual's lifetime inequality may actually decline. Moreover, the higher degree of inequality (computed on the basis of annual income) in the United States as compared to other industrialized countries may be offset by higher U.S. mobility. One objective of this conference is to determine whether these arguments are true.

Focus is on empirical research on economic mobility in the United States and other advanced countries. Potential topics include:

1. Mobility in jobs, earnings, income, wealth, and other indicators of well-being over a lifetime
2. The distribution of lifetime income and other measures of lifetime resources
3. Intergenerational mobility in income, wealth, and other indicators of well-being
4. Changes in mobility, both over a lifetime and across generations
5. International comparisons of mobility, both over a lifetime and across generations

Please e-mail an abstract of the proposed paper to Frances M. Spring at spring@levy.org by April 1, 2002.

## Publications and Presentations by Levy Institute Scholars

**DISTINGUISHED SCHOLAR**
**WYNNE GODLEY**
**Publication:** "Recession, USA." *Guardian*, October 23.

**VISITING SENIOR SCHOLAR**
**PHILIP ARESTIS**
**Publications:** "Will the Euro Bring Economic Crisis to Europe?" (with Malcolm Sawyer). In P. Arestis, M. Baddeley, and J. McCombie, eds., *What Global Economic Crisis?* Basingstoke: Palgrave, 2001; *Money, Finance and Capitalist Development* (ed. with Malcolm Sawyer). Northampton, Mass.: Edward Elgar, 2001; *Economics of the Third Way: Experience from around the World* (ed. with Malcolm Sawyer). Northampton, Mass.: Edward Elgar, 2001; *The Euro: Evolution and Prospects* (ed. with Andrew Brown and Malcolm Sawyer). Northampton, Mass.: Edward Elgar, 2001; "Explaining the Euro's Initial Decline" (with Malcolm Sawyer, Iris Biefang-Frisancho Mariscal, and Andrew Brown), *Eastern Economic Journal* 27 (2001); *Money, Macroeconomics and Keynes: Essays in Honour of Victoria Chick, Volume I* (ed. with M. Desai and S. Dow). London: Routledge, 2002; *Methodology, Microeconomics and Keynes: Essays in Honour of Victoria Chick, Volume II* (ed. with M. Desai and S. Dow). London: Routledge, 2002.

**Presentations:** "The State of Economic Integration and Obstacles to Full Employment," WSI-Herbstforum, Düsseldorf, November 29–30; "Fiscal and Monetary Policies in the Eurozone," Berlin, October, and Salvador, Brazil, December; "Economics of the Third Way and European Macropolicies," Bad Mitterndorf, Austria, January 5; "Inflation Targeting: What Have We Learned?" Austrian National Bank, Vienna, January 7.

**SENIOR SCHOLAR**
**JAMES K. GALBRAITH**
**Presentations:** "The Price of the War System," New School University, New York City, November 8; Keynote speaker, Conference on Globalization and Development, China Academy of Social Sciences, Wuhan, China, November 21; "Increasing Inequality in China: Further Evidence from Official Sources, 1987–2000," Allied Social Science Association Meetings, Atlanta, January 4–6, 2002.

**SENIOR SCHOLAR**
**JOEL PERLMANN**
**Publications:** *Women's Work?: American Schoolteachers, 1650–1920* (with Robert A. Margo). Chicago: University of Chicago Press, 2001; Editor (with Mary Waters), *Counting Races, Recognizing Multiracials*. New York: Russell Sage Foundation Press, 2002. Appointed to the board of advisors for the forthcoming Harvard University Press book *The New Americans.*

**Presentations:** "U.S. Census Race Categories," Conference on the Measure and Mismeasure of Populations: The Statistical Use of Ethnic and Racial Categories in Multicultural Societies, Centre d'Études et de Recherches Internationales and Institut National d'Études Démographiques, Paris, December 17–18.

**VISITING SENIOR SCHOLAR**
**MALCOLM SAWYER**
**Publications:** "Will the Euro Bring Economic Crisis to Europe?" (with Philip Arestis). In P. Arestis, M. Baddeley, and J. McCombie, eds., *What Global Economic Crisis?* Basingstoke: Palgrave, 2001; *The Euro: Evolution and Prospects* (ed. with Andrew Brown and Philip Arestis). Northampton, Mass.: Edward Elgar, 2001; "Kalecki on Money and Finance." *European Journal of the History of Economic Thought* 8:4 (2001); "Explaining the Euro's Initial Decline" (with Philip Arestis, Iris Biefang-Frisancho Mariscal, and Andrew Brown). *Eastern Economic Journal* 27 (2001); "The Structure of the Economy," "Industry: Structure and Policies," "Privatization and Regulation," and "The Distribution and Redistribution of Income." In Malcolm Sawyer (ed.) *The UK Economy*, 15th Edition. Oxford: Oxford University Press, 2001; "Economic Policy with Endogenous Money." In P. Arestis, M. Desai, and S. Dow, eds., *Money, Macroeconomics, and Keynes: Essays in Honour of Victoria Chick,*

*Volume I*. London: Routledge, 2002; "The NAIRU: A Critical Appraisal" (with Philip Arestis). In P. Arestis and M. Sawyer, eds., *Money, Finance and Capitalist Development*. Northampton, Mass.: Edward Elgar, 2001; "Economics of the Third Way" (with Philip Arestis) and "Economics of the British New Labour: An Assessment" (with Philip Arestis). In P. Arestis and M. Sawyer, eds., *The Economics of the Third Way*. Northampton, Mass.: Edward Elgar, 2002.

**Presentation:** "European Economic Policy without a European Government: Alternatives to the Stability Pact," Beschäftigung zwischen Europäischer Währungsunion und nationaler Wirtschaftspolitik workshop, Berlin, October 26–27.

#### SENIOR SCHOLAR

#### EDWARD N. WOLFF

**Publications:** "The Role of Education in the Postwar Productivity Convergence among OECD Countries." *Industrial & Corporate Change* 10:3 (2001); "The Recent Rise of Profits in the United States." *Review of Radical Political Economics* 33:3 (2001); "Outsourcing of Services and the Productivity Recovery in U.S. Manufacturing in the 1980s and 1990s" (with Thijs ten Raa). *Journal of Productivity Analysis* 16:2 (2001); "Where Has All the Money Gone?" *The Milken Institute Review* 3:3 (2001).

**Presentations:** "Recent Trends in Living Standards in the United States," New York University, October 4; "Retirement Income Security: How Many Have It and How Has It Changed?" Economic Policy Institute, Washington, D.C., October 12; "Impact of Gifts and Estates on the Distribution of Wealth," Center for Retirement Research Conference on the Role and Impact of Gifts and Estates, Woodstock, Vermont, October 22–23; "Technology and the Demand for Skills," Emory University, Atlanta, November 16; "Inheritances and Wealth Inequality Trends, 1989–1998," Allied Social Science Association Meetings, Atlanta, January 4–6, 2002; "Productivity, Computerization, and Skill Change," Conference on Technology, Growth, and the Labor Market, Federal Reserve Board of Atlanta, January 6–7, 2002.

**Media:** Interview for KDOW radio, Minneapolis, November 8; Interview for CNBC Business Center, November 9.

#### VISITING SENIOR SCHOLAR

#### L. RANDALL WRAY

**Publications:** "How to Implement True, Full Employment." In *Proceedings of the 53rd Annual Meeting of the Industrial Relations Research Association*. Champaign, Illinois: IRRA, 2001; "Surplus Mania: A Reality Check." In Don Cole, ed., *Macroeconomics*. New York: McGraw-Hill/Dushkin, 2001; "Money and Inflation." In Richard Holt and Steven Pressman, eds., *A New Guide to Post Keynesian Economics*. New York: Routledge, 2001; "Buckaroos: The Community Service Hours Program at the University of Missouri–Kansas City." *The Economic and Labour Relations Review* 12, Special Supplement: Achieving Full Employment (2001).

**Presentations:** "Killing Social Security Softly," The Social Security "Crisis": Critical Analysis and Solutions, University of Missouri, Kansas City, November 12; "Understanding Modern Money," University of Newcastle, Australia, December 10–11; "Are We All Keynesians Again?" University of New South Wales, Australia, December 14; "Is It Happening Again? A Minskian Analysis of the Current Great Recession," Allied Social Science Association Meetings, January 4–6, 2002.

**Media:** Interviewed by Rex Nutting for *CBS MarketWatch*, September 21; Commentator, *The Dan Ferguson Show*, KCTE radio, Kansas City, October 8 and October 28; Interview, KCTV television news, Kansas City, November 2; Panelist, discussion on Social Security, *The Walt Bodine Show*, KCUR Public Radio, Kansas City, November 8; Interview, *ANALYST* magazine, November 15.

#### VISITING SCHOLAR

#### JÖRG BIBOW

**Presentation:** "Easy Money through the Back Door: The Markets versus the Eurosystem," Prospects and Risks of the Unified Currency in a Decentralized Central Banking System conference, Bremen, November 23–25.

#### RESEARCH ASSOCIATE

#### WALTER M. CADETTE

**Publication:** "Two Decades of Overstated Corporate Earnings." *Quarterly Commentary of Sanders Research Associates Limited*, Third Quarter, 2001.

**Presentation:** "Corporate Profits, a Miracle of Modern Bookkeeping," Institute of Directors conference, London. November 16.

RESEARCH SCHOLAR

ALEX IZURIETA

**Presentations:** "As the Implosion Begins," Union for Radical Political Economics Summer School, Bantam, Connecticut, August 18; "The Developing Recession in the U.S.: Prospects and Policy Alternatives," Ford Foundation, New York City, November 6.

VISITING SCHOLAR

QIYU TU

**Presentation:** "U.S.–Chinese Economic Relations after China's Entry into the WTO," University of Hawaii, Manoa, November 6–12.

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