The Levy Economics Institute of Bard College

Report

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New Strategic Analysis

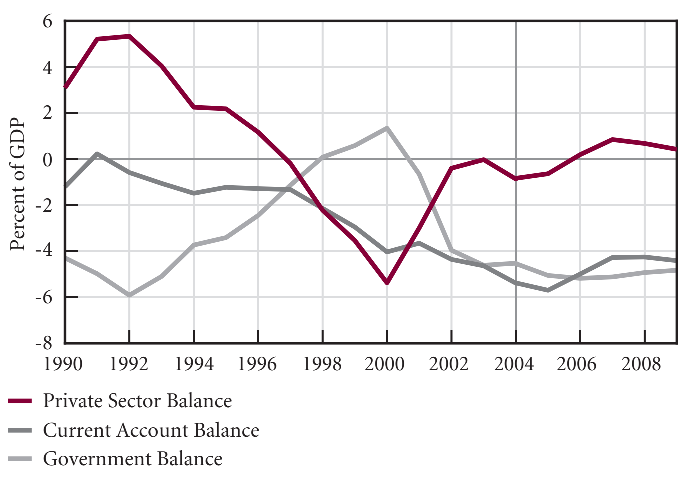
HOW FRAGILE IS THE U.S. ECONOMY?

DIMITRI B. PAPADIMITRIOU, ANWAR M. SHAIKH, CLAUDIO H. DOS SANTOS, AND GENNARO ZEZZA

www.levy.org/pubs/sa_mar_05.pdf

In a new strategic analysis, the Levy Institute Macro-Modeling Team focuses on the balances of the three main economic sectors in the United States and their influence on the path of economic growth. Each sector—the government, the private sector, and the foreign sector—has a balance equal to the difference between its receipts and its nonfinancial expenditures. The analysis assesses these balances, all of which are now deficits. The private sector, led by personal borrowing, is now running a deficit of about 1.7 percent of GDP. This trend has helped support the economy in the short term, but it is unsustainable, given the private sectors existing pile of debt. As the Levy

Scenario 3. Main Sector Balances



Sources: BEA and authors' calculations

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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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Institute has long advocated, the government's fiscal stance has been greatly eased, taking some of the burden of economic growth off the private sector; but U.S. policymakers have achieved this loosening by cutting taxes rather than making needed social expenditures.

By an accounting identity, the government and private balances must add up to the foreign balance, otherwise known as the current account. This identity holds because monies borrowed by the private and government sectors must come from somewhere. Hence, the United States has a current account deficit of about 6 percent of GDP. A chorus of observers is warning that this deficit may cause serious problems.

The strategic analysis examines the interactions of sectoral debts and deficits with economic growth. It reports the results of four computer simulations, each based on various assumptions about the future: a baseline (status quo) scenario and three hypothetical scenarios based on possible changes. The baseline scenario, which projects current trends, indicates that growth would be fairly rapid, while the levels of foreign and private debt would continue to spiral out of control. Scenario 1 assumes that the private sector sufficiently reins in its borrowing to stabilize its interest costs and principal repayments, even as interest rates rise. In this scenario, the private sector returns to surplus and the current account deficit is lower than in the baseline; however, the government sector deficit rises to about 5.5 percent of GDP, and projected growth is abysmal.

Turning to Scenario 2, the authors assume a continued depreciation of the dollar, in addition to the previously assumed reduction in private borrowing. The devaluation improves matters somewhat, by discouraging imports and stimulating exports, resulting in faster growth. (As the value of the dollar falls, U.S. exports cost less in terms of foreign currency, and a given number of dollars buys fewer imports.) In Scenario 3, the authors show that the government, through various tax incentives, could stimulate the business sector to borrow and spend more. The implications are shown in the figure on the front cover. This last exercise illuminates the possibility of maintaining growth and employment while avoiding debt increases and foreign exchange crises.

New Policy Notes

The Case for an Environmentally Sustainable Jobs Program

MATHEW FORSTATER

Policy Note 2005/1

www.levy.org/pubs/pn05_1.pdf

The U.S. economy has been performing well by many measures, but it continues to lag in other respects, particularly job creation. The level of payroll employment has only recently found its way back to the level it attained before the 2001 recession; meanwhile, the population has grown by over 10 million. Is there any alternative to simply waiting and hoping for a return to full employment? In a new policy note, Mathew Forstater of the University of Missouri—Kansas City proposes vigorous new measures to deal with unemployment, while recognizing several key barriers to full employment.

Forstater deals in particular with several dilemmas faced by policymakers. First, efforts to stimulate hiring often intensify the exploitation of limited natural resources and the environment. Second, unemployment, far from being a manifestation of irrationality, serves several important functions in capitalist society: it disciplines workers, who face unemployment if they challenge their employers; it makes available a pool of laborers to be tapped during economic booms; and it prevents wages from rising fast enough to threaten profitability, the lifeblood of the economic system. And third, efforts to alleviate unemployment resulting from a lack of demand for products can exacerbate other types of unemployment. These include "structural" unemployment, due to the delays involved in moving from a decaying industry to a growing one. All in all, these considerations show why the U.S. economy is chronically short of job openings.

Forstater supports a government "employer of last resort" (ELR) program—a guarantee of government jobs to all those willing and able to work—and shows how such a program could skirt the dilemmas noted above. First, the government would choose activities for its employees partly on the basis of the activities' environmental impact, not their profitability, initiating "green" projects aimed specifically at improving the environment. Second, the workers in the ELR program would function as a readily available pool from which employers willing to offer a reasonably attractive compensation package could draw. The program would thus serve many of the same functions as a stock of unemployed labor, without the latter's attendant social ills. Workers could maintain and develop their skills instead of allowing them to atrophy during the wait in the unemployment line.

A fresh approach to the United States' persistent employment problem is sorely needed. Forstater's note offers hope that a solution is available.

Manufacturing a Crisis: The Neocon Attack on Social Security

L. RANDALL WRAY

Policy Note 2005/2

www.levy.org/pubs/pn/pn05_2.pdf

L. Randall Wray begins a new policy note by observing that conservatives have been seeking for decades to reduce the role of government in providing income to America's retirees. To build support for major changes in Social Security, neoconservatives have recently pointed to a funding crisis that many expect to emerge by 2018 (a potential crisis that, ironically, was highlighted by President Clinton and presidential candidate Al Gore). Careful studies by the Social Security Administration and the nonpartisan Congressional Budget Office have shown that the system will be able to pay all promised benefits through at least 2042 by drawing upon its accumulated reserves. Yet, as Wray points out, neoconservatives have argued that the trust fund is worthless because it contains only government bonds—promises by the federal government to pay itself the money. Hence, they say, the government will eventually be forced to raise taxes or cut spending to make good on these promises. But conservatives want to have it both ways at once, arguing that the system is about to go bankrupt (because the trust fund will run out of money) while insisting that the fund itself is meaningless (because it holds only government securities). If the fund is illusory, and does not represent an independent source of funding, then the Social Security system cannot "go bankrupt" unless the entire government runs out of cash. In this case, the best protection for Social Security would be to control the overall government deficit, which the current administration has failed to do.

Wray believes that conservatives may be playing a dangerous game by attacking Social Security: by attempting to eviscerate one of the government's most popular programs, they may be inviting a backlash. If the opponents of privatization manage to hold off the attack on Social Security, they might fix some of the less progressive aspects of the system while they are at it, making the program both bigger and better.

What is lost in the debate over finances, Wray contends, is an awareness of the ultimate basis for all future retirement benefits: the capacity of the economy to produce the goods and services used by both retirees and younger people. If this capacity increases sufficiently, the economy will be robust enough to support the baby boomer retirees without much strain. To help matters, public policy should aim to put in place now the infrastructure needed to provide for a large population of seniors: public transportation systems, nursing homes, and moderately priced apartments.

New Publication

Levy Institute Measure of Economic Well-Being: How Much Does Public Consumption Matter for Well-Being?

EDWARD N. WOLFF, AJIT ZACHARIAS, AND ASENA CANER

www.levy.org/pubs/limew1204.pdf

In a continuation of their work on a new measure of economic well-being, a team of scholars has released a report on "public consumption." Public consumption, including all government programs that benefit consumers, is largely neglected by traditional measures of well-being, such as those provided by the U.S. Bureau of the Census. The Levy Institute Measure of Economic Well-Being (LIMEW) team is attempting to correct this shortcoming.

The team, which includes Senior Scholar Edward N. Wolff of New York University and Research Scholars Ajit Zacharias and Asena Caner, provided data on public consumption as part of several previous reports. In the new report, they attempt to determine whether their earlier results hold up when public consumption is measured somewhat differently than before.

In their previous work, Wolff, Zacharias, and Caner measured expenditures by federal, state, and local governments, then determined which expenditures benefited the household sector, as opposed to business. For example, only a portion of highway spending was counted as part of well-being, because corporations reap many of the benefits of these expenditures. Finally, the team estimated how the benefits of various programs were distributed among households.

In the new paper, the authors test the implications of basing their calculations on different assumptions relating to three components of public consumption: general (mainly expenditures on police, fire protection, and public health), highways, and schooling. First, they attempted to take into account the fact that higher-income households might benefit more from certain general expenditures than those with less income, a fact that was neglected in earlier reports. Second, they made new measurements of well-being under the revised assumption that all highway expenditures benefited households. Third, the group considered the benefits business owners (including most households that garner the bulk of their income from stock dividends, interest income, and so on) might derive from having an educated workforce; as an added element, they calculated how the benefits of education were unequally shared between high school graduates and nongraduates.

The results of the revised calculations were largely consistent with earlier findings. The authors' new approach to general public consumption produced a somewhat tighter correlation between households' public consumption and total LIMEW—in other words, greater benefits accrued to higher-income households. The second recalculation, relating to highway expenditures, did not have a significant effect on the distribution of LIMEW, because these programs accounted for only a small share of overall well-being. In the third instance, however, that of assigning more of the benefits of education to graduates, the answer to the question "Who benefits?" was surprisingly different, with the revised calculations favoring the bottom two income groups slightly, and the top one to a huge extent.

Two additional findings emerged that were unaffected by the changes in methodology: that public consumption falls as a percentage of total well-being as well-being increases, and that the top 10 percent of households experienced the greatest increase in public consumption between 1989 and 2000.

Finally, the new calculations offered a revised picture of how the gains of public consumption are divided among various demographic groups. Under both old and new assumptions, nonwhites benefited more from government spending than whites, single female–headed households more than married-couple families, and the nonelderly more than the elderly. These disparities are slightly smaller in the first and second recalculations and substantially larger under the third.

New Public Policy Brief

The Fed and the New Monetary Consensus: The Case for Rate Hikes, Part Two

L. RANDALL WRAY

Public Policy Brief No. 80

www.levy.org/pubs/ppb80.pdf

L. Randall Wray continues his study of Federal Reserve behavior in a new policy brief. The Fed has changed its philosophy over the years, arriving at what Wray calls "the new monetary consensus." He traces the origins of this modified approach to central banking to the Fed's 1994 policy discussions, which have recently been made public.

The tenets of the consensus are somewhat familiar to those who follow accounts of the Fed's activities. They are: (1) *Transparency.* Before the 1990s, the Fed did not even officially announce its interest rate targets; now it makes this information available immediately. (2) *Gradualism.* Since the Fed shocked the bond markets in 1994, it has decided that it can cushion the financial effects of its policy moves by announcing them well in advance. (3) *Activism.* Rather than keeping interest rates steady, the Fed continually changes them, often before the need to do so becomes apparent. (4) *Low inflation as the only official goal.* The Fed makes no public effort to improve employment or economic growth. (5) *Surreptitious targeting of distributional variables.* Despite official denials, the Fed privately discusses the impact of its actions on different segments of society, such as middle-class borrowers and retirees. And (6) *the neutral rate as the policy instrument to achieve these goals.* After experimenting with immediate policy objectives such as targets for monetary aggregates, the Fed has decided to pursue the neutral interest rate, that is, one that neither stimulates the economy nor sends it into deflation.

According to Wray, the new consensus suffers from several flaws. The combination of transparency and gradualism can force the Fed to commit itself in advance to policy moves that may later prove inappropriate. Activism can cause more harm than good if the Fed moves at the wrong times. Finally, the neutral rate is often difficult to determine and seems to vary among different time periods and economies.

The Fed, under intense pressure, has recently agreed to release transcripts of Open Market Committee meetings, in which policymakers choose short-term interest rates. In analyzing the transcripts for the period leading up to a round of interest rate increases in 1994, Wray found the openness of the Fed to be at issue, probably due to increased pressure that was being applied by Congress at the time. Also, out of a concern for its "credibility," the committee seemed determined to raise rates, in the face of much evidence that the economy was not overheating. However, Chairman Alan Greenspan and others supported only a very small increase of a quarter of a percentage point, because they feared severe repercussions on the financial markets. The 1994 policy discussions shed some light on current Fed activities, which will not be fully publicized until five years from now.

New Working Papers

The Transmission Mechanism of Monetary Policy: A Critical Review

GREG HANNSGEN
Working Paper No. 412
www.levy.org/pubs/wp/412.pdf

Each Federal Reserve decision about interest rates generates a great deal of discussion in the press and among professional economists. Commentators usually operate under the assumption that Fed policy has a great effect on the economy as a whole, at least in the short run. But even among economists who agree on the impact of monetary policy there is much disagreement about *how* interest rates exert their influence. In a new working paper, Resident Research Associate Greg Hannsgen reviews the major existing theories of what is called the *monetary transmission mechanism* and subjects them to an empirical and theoretical critique.

Hannsgen begins by replicating a well-known finding on the effects of monetary policy. Specifically, he uses a statistical method to show that economic output responds fairly strongly to a random uptick in the interest rate that the Fed controls. This response is a brief upward surge, followed by a deeper and more prolonged downward hump.

Hannsgen next turns to the various channels through which monetary policy is thought to act on the economy. He rules out in advance any effects that might arise from an excessive or deficient supply of money, signaling his agreement with most heterodox analysts that the monetary authorities control interest rates, not the amount of money available. Among the impacts of interest rate changes are fluctuations in the exchange rate, in levels of consumer borrowing, and in the value of financial assets. However, Hannsgen focuses his attention on business spending on capital goods—what economists refer to as *investment*.

Any time a business considers making an investment that pays off over a long period of time—for example, building a new factory—it must weigh the relative costs and benefits. The obvious costs include interest payments. But determining the bottom line is complicated. For example, with regard to investment benefits, a firm can only estimate the profits it might earn by selling the output of a new factory. Also, interest rates cannot be set below zero, and in hard times firms might well decide that *no* investment projects are profitable at *any* positive interest rate. Hannsgen emphasizes the importance of cash flow, which often plays a key role as an alternative to borrowing. All in all, interest rates are only one of many influences on investment, a fact that helps to explain why economies often remain sluggish even when interest rates are very low.

Visions and Scenarios: Heilbroner's Worldly Philosophy, Lowe's Political Economics, and the Methodology of Ecological Economics

MATHEW FORSTATER
Working Paper No. 413
www.levy.org/pubs/wp/413.pdf

In a new working paper, Mathew Forstater investigates two visionary ecological thinkers and their beliefs about how humans could make discoveries in the social sciences. Robert Heilbroner, the late New School scholar, wrote the farseeing "What Goes Up the Chimney" for *Harper's* Magazine in 1950, and later characterized the environmental crisis as perhaps "the most dangerous and difficult challenge that humanity has ever faced." A historian of classical economics, Heilbroner saw a concern with environmental factors as consistent with the broad themes of classical analysis, which included the sociohistorical and environmental contexts of economic processes. Adolph Lowe, who spent much of his career at New School University, began incorporating environmental thinking into his economics in the late 1960s.

Forstater discusses methods of inquiry proposed by many ecological economists. Of primary importance to an ecological economist such as Robert Costanza is the development of a *vision* of what a sustainable society might look like. Vision combines notions of what *should be* with views of what *is.* The next step in the methodology of ecologists is *analysis*, which moves backward from the vision to be attained to a scenario in which the vision might become reality. For example, an economist might determine the maximum size of an economy consistent with its sustainability, and then work to find a way of operating within that limit. However, visions and scenarios are not set in stone; history always reveals new information and possibilities over time, necessitating revisions in the goal and the path to it.

Adolph Lowe, one of the progenitors of ecological economics, linked these strategies for achieving a sustainable society to the thought of a number of philosophers. Charles Sanders Peirce argued that discovery required not only deduction and induction, but also a process called *retroduction;* this process involves formulating some hypothesis that is likely to be true, often by observing a phenomenon and working backward to its possible causes. The notion of analysis discussed above formed part of Georges Polya's conception of heuristics, the study of rules of discovery and invention. Important in all of this is the role of the nonrational imagination, highlighted by Michael Polanyi.

Household Wealth Distribution in Italy in the 1990s

ANDREA BRANDOLINI, LUIGI CANNARI,
GIOVANNI D'ALESSIO, AND IVAN FAIELLA
Working Paper No. 414
www.levy.org/pubs/wp/414.pdf

An earlier version of this paper was presented at the Institute's conference on "International Perspectives on Household Wealth," on October 17, 2003. Please see the summary of this presentation on p. 7 of the February 2004 *Report.*

Measuring Capacity Utilization in OECD Countries: A Cointegration Method

ANWAR M. SHAIKH AND JAMEE MOUDUD
Working Paper No. 415
www.levy.org/pubs/wp/415.pdf

The economy grows in fits and starts. Economists often want to know whether to attribute a move in the data to a recession or boom on the one hand, or to a long-term trend on the other. Knowing how to separate trends from temporary blips allows a researcher to find out how fast the economy is growing relative to its underlying capacity to expand. Senior Scholar Anwar M. Shaikh of New School University and Research Associate Jamee Moudud of Sarah Lawrence College tackle this task in a new working paper.

The key concept at stake is *capacity utilization:* the ratio of total output to total capacity. To an economist, the economy's capacity is the quantity of output that would be produced if all capital goods were used at their desired rate; it is not the absolute maximum that existing machinery could produce.

Economists possess several tools to separate trends from temporary fluctuations; all of them have been applied to this particular problem, with mixed success. Economists' computer applications feature functions that smooth data series, making them less jagged. But these rather mechanical techniques may not be able to separate trend (capacity growth) from fluctuation (changes in capacity utilization) accurately, given that data may be affected by economic cycles of many different lengths.

Economists therefore turn to three techniques to determine capacity growth and the utilization of capacity. One approach is to define capacity as the output that was achieved at the peak of the last business cycle. Clearly, this method relies heavily on the assumption that capacity utilization is identical at each peak. The second technique is to use surveys of businesses. The government carries out such surveys; however, respondents are not given any clear definition of capacity, a concept that is subject to many different interpretations. Because the data gathered in this manner are unreliable, they must be adjusted to arrive at reasonable-sounding figures. A third approach is to use a *production function,* which is an estimated relationship between inputs and outputs. The use of this device is fraught with conceptual and logical difficulties. Production-function studies also typically use the notion of a *natural rate of unemployment,* whose validity is contested by

Keynesian and post-Keynesian economists. (A fourth measure of capacity utilization relied on direct measures of the use of electric motors, but collection of this data series was discontinued many years ago.)

Shaikh and Moudud's new estimates of capacity utilization rest on a model in which the capital stock and economic output stay in a roughly fixed ratio over the long term, in spite of year-to-year shocks to both data series. This assumption, as in the given case, is valid whenever two economic variables are *cointegrated*. Intuitively, the method is based on the notion that capacity parallels output over the long run. Estimates of capacity utilization over time were constructed for 11 Organization for Economic Co-operation and Development (OECD) economies.

The resulting series differ greatly from International Monetary Fund estimates, which use the production-function method. In general the new data series imply that productivity grows in continuous increments, rather than in sudden bursts. The authors argue that this is a realistic feature of the data.

Occupational and Industrial Mobility in the United States 1969–93

ERIC PARRADO, ASENA CANER, AND EDWARD N. WOLFF
Working Paper No. 416
www.levy.org/pubs/wp/416.pdf

As the United States loses many of its manufacturing jobs, a perception exists that many of those losing jobs in industry are being forced to take new positions at much lower wages. In a new working paper, Eric Parrado of the Central Bank of Chile, Research Scholar Asena Caner, and Senior Scholar Edward N. Wolff of New York University use survey data to test such impressions of labor market developments.

The authors use data from the Panel Study of Income Dynamics (PSID), which has surveyed thousands of individuals repeatedly over a 36-year period. Survey participants were asked about their occupations and the industries in which they worked. The occupational categories used by the PSID are broad, and include, for example, "craftsmen, foremen, and kindred workers" and "professional, technical, and kindred workers." Industries include "manufacturing" and "personal services." The data allow Parrado, Caner, and Wolff to determine when survey respondents switched occupations or industries of employment. Although the surveys do not distinguish between voluntary and involuntary separations, the authors are still able to draw some decisive conclusions.

Overall, they find that occupational mobility—that is, switches between occupation codes—increased from the period 1969–80 to the period 1981–93. Mobility between industries among male workers increased somewhat from the late 1970s to the 1981–93 period. The gain in industrial mobility for women was less significant. Women were less mobile than men both between industries and between occupations.

The authors next use statistical techniques to try to find out what factors lead to mobility and whether mobility has an impact on earnings. They find that male workers who change occupation or industry have lower earnings than those who do not change, once other factors, such as years of education, are taken into account. In other words, a worker who changed industries or occupations has lower earnings than another worker with the same education, race, and so on who did not make a switch.

Another finding is that the negative impact on earnings of occupational and industry change has diminished over time, for men at least, suggesting that popular images of factory workers becoming "burger flippers" are not as accurate as they were in the 1970s. Also, younger workers and those with more education change occupations and industries more often than older and less educated workers. In addition: the educational level of workers has a significant impact on their wages; married men earn more than unmarried, while the reverse is true among women; and the earnings gap between African American and white workers is about 20 percent, when education and other factors are held constant.

Determinants of Minority-White Differentials in Child Poverty

YUVAL ELMELECH
Working Paper No. 417
www.levy.org/pubs/wp/417.pdf

Over the mid and late 1990s, the rates of poverty among children in the United States trended downward compared to the rates for other groups. But even by 2000, the poverty rate for children was 16.2 percent, exceeding the 10.2 percent rate for the elderly and 9.4 percent rate for nonelderly adults. Such total percentages obscure the racial and ethnic dimensions of poverty. Thirty percent of African American children and 27 percent of Hispanic children lived in poverty in 2000. And because an increasing number of children in America are foreign-born or have at least one foreign-born parent, it is important to note that one in four children of immigrants lives in poverty.

Differences in the incidence of poverty among various ethnic and racial groups can arise in at least two ways, according to economists and sociologists. First, on average, individual characteristics such as education and the number of parents in a household vary, depending upon race, ethnicity, and whether the parents are immigrants. Thus, high incidences of poverty among Hispanics, for example, may be largely due to lower average levels of education. It may also be, however, that Hispanics tend to be poorer than even non-Hispanic whites with similar levels of education. Economists have several available techniques to try to distinguish between these two theoretical explanations of poverty.

Research Associate Yuval Elmelech uses such methods to test two hypotheses in particular in this working paper. First, he surmises that minority children may be poor in large part because their families are less often of the traditional two-parent type. Living in a two-parent family can confer many economic advantages, including "economies of scale" in providing subsistence to large families and the ability to take advantage of wider social and family networks. Elmelech's second hypothesis is that immigrant families are more susceptible to poverty than nonimmigrant families.

Elmelech uses data from a yearly Census Bureau survey, which gathered data on 209,000 children under the age of 18 from 1993 to 2001. The variable to be explained was whether or not a particular child in the sample lived in a poor family. Elmelech uses the standard government definition of poverty, which varies according to family size, but he diverges from standard analyses in three important ways. First, he looks at how poverty rates and average demographic characteristics of families vary among several ethnic and racial groups and between immigrants and nonimmigrants. Second, he uses a statistical technique to account separately for different factors that contribute to poverty. Third, to separate the influence of race, ethnicity, and immigrant status from that of characteristics that happen to be more prevalent among people of the same race, ethnicity, or immigrant status, Elmelech conducts a series of simulations designed to answer questions such as, What poverty rate would African American children have if their parents hypothetically had the same average educational level as white parents?

Levy Institute News

New Research Associate

The Levy Institute welcomes **Stephanie Seguino**. Her teaching is in the area of macroeconomics, gender, and development, as well as income distribution and poverty. Her general areas of research include inequality, economic growth, and development; effects of globalization on gender inequality; and determinants and measurement of well-being. She has collaborated with the AFL-CIO, Center for Global Development, United Nations, and United Nations Research Institute for Social Development (UNRISD) in this work. Recent publications include "Promoting Gender Equality through Labor Standards and Living Wages: An Exploration of the Issues," in E. Kupier and D. Barker (eds.), *Feminist Perspectives on Gender and the World Bank* (forthcoming); "Why Are Women in the Caribbean So Much More Likely than Men to Be Unemployed?" *Social and Economic Studies,* Vol. 52, No. 4, 2003; "Does Gender Matter for Aggregate Saving? An Empirical Analysis" (with Maria Sagrario Floro), *International Review of Applied Economics,* Vol. 17, No. 2, 2003; "Is Economic Growth Good for Well-Being? Evidence of Gender Effects in Latin America and the Caribbean," background paper for the Center for Global Development, 2003; and "Macroeconomic Effects of Reducing Gender Wage Inequality in an Export-Oriented, Semi-Industrialized Economy" (with Robert Blecker), *Review of Development Economics,* Vol. 6, No. 1, 2002. Seguino earned a Ph.D. from American University in 1994. Previously, she worked in Haiti for four years as an employee of the U.S. Agency for International Development, researching the effect of export taxes on coffee farmers. That work influenced her decision to explore the question of how to implement macroeconomic policy in a way that ensures economic growth is compatible with equity. She is associate professor and chair of the Department of Economics at the University of Vermont, where she has taught since 1995.

New Book in Levy Institute Book Series

Induced Investment and Business Cycles

HYMAN P. MINSKY

Edited and with an introduction by Dimitri B. Papadimitriou

Edward Elgar Publishing, 2004

This unique volume publishes for the first time the original Ph.D. thesis of the late Hyman P. Minsky, who was a scholar at the Levy Institute and an innovative thinker on financial markets. Levy Institute President Dimitri B. Papadimitriou's introduction places the thesis in a modern context and explains its relevance today.

The thesis explores the relationship between induced investment, financing constraints, market structure, and the determinants of aggregate demand and business cycle performance. The book provides a window on Minsky's subsequent development of financial Keynesianism and his "Wall Street" paradigm, as he investigates the relevance of the accelerator-multiplier models of investment to individual firm behavior in undertaking investment. He explores uncertainty, the coexistence of other market structures, and the behavior of the monetary system, and he discusses his findings on business cycle theory and economic policy. In assessing the assumptions underlying the structure and coefficient values of the frequently used accelerator models, the book addresses their limitations and inapplicability to real-world situations in which the effect of financing conditions on the balance sheet structures of individual firms plays a crucial and determining role.

The book has a broad appeal: to advanced undergraduate and graduate students in economics, to policymakers and researchers, and as valuable supplementary reading for those with an interest in advanced macroeconomics.

Courtesy of Edward Elgar Publishing

Upcoming Events

Conference: Economic Imbalance: Fiscal and Monetary Policy for Sustainable Growth

15th Annual Hyman P. Minsky Conference

April 21–22, 2005

Blithewood

Bard College

Annandale-on-Hudson, New York

Program and registration information are available at www.levy.org.

Conference: Time Use and Economic Well-Being

October 28–29, 2005

Blithewood

Bard College

Annandale-on-Hudson, New York

The conference will cover issues and topics related to time allocation. Presentations will use time-use data in:

- investigating the determinants of time allocation by gender and other demographic and economic characteristics (for example, by family type or employment status)
- valuing unpaid household work
- developing measures of individual or household economic well-being that include unpaid household production
- the distribution of household production and augmented measures of household well-being

Papers will also address:

- problems of statistical methodology and data in dealing with the topics listed above
- problems associated with theoretical perspectives and models used in dealing with the above topics
- incorporation of the value of household production in national income accounts

Many studies will attempt to draw international comparisons. Program and registration information will be posted at www.levy.org as it becomes available.

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

RANIA ANTONOPOULOS *Research Scholar*

Publication: Book review of *Global Economic Involvement: A Synthesis of Modern International Economics* by H. Peter Gray, *Eastern Economic Journal*, Fall 2004.

Presentation: "Macroeconomics and the Care Economy: Time Use Studies, Economic Well-Being, and Social Accounting Matrix Analysis," workshop on "Women's Unpaid Work and the Care Economy" sponsored by Columbia University, Sciences Po, and the United Nations Development Programme, Sciences Po, Paris, December 8–10, 2004.

CLAUDIO H. DOS SANTOS *Research Scholar*

Publication: "The Role of Monetary Policy in Post-Keynesian Stock-Flow Consistent Macroeconomic Growth Models" (with G. Zezza) in *Central Banking in the Modern World, Alternative Perspectives*, Marc Lavoie and Mario Seccareccia, eds., Cheltenham, U.K., and Northampton, Massachusetts: Edward Elgar Publishing, 2004.

Presentation: "A Simplified Stock-Flow Consistent Post-Keynesian Growth Model" (with G. Zezza), Eastern Economic Association annual meetings, New York, March 4–6.

JAMES K. GALBRAITH *Senior Scholar*

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GREG HANNSGEN *Resident Research Associate*

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HYUNSUB KUM *Research Scholar*

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Presentations: Interview regarding the U.S. current account deficit with Andy Robinson, *La Vanguardia,* November 19, 2004; interview regarding Alan Greenspan on the occasion of his honorary degree award at the University of Edinburgh, BBC Scotland, February 2; interview regarding social security privatization and the experiences of such plans in Latin America, Britain, and Eastern European economies with Jane Bussey, *Miami Herald*, February 18; "How Fragile Is the U.S. Economy?" at Sun Yat-Sen University, Guangzhou, China, March 14.

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