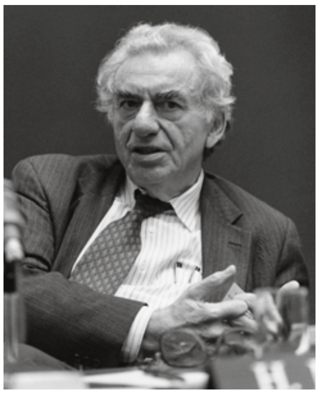


25TH ANNIVERSARY LEVY ECONOMICS INSTITUTE of Bard College

2009–2011 REPORT

The Levy Economics Institute of Bard College, founded in 1986 through the generous support of Bard College Trustee Leon Levy (1925–2003), is a nonprofit, nonpartisan, public policy research organization. The Institute is independent of any political or other affiliation, and encourages diversity of opinion in the examination of economic policy issues.

The purpose of the Institute's research and activities is to enable scholars and leaders in business, labor, and government to work together on problems of common interest. Its findings are disseminated—via publications, conferences, seminars, congressional testimony, and partnerships with other nonprofits—to a global audience of public officials, private sector executives, academics, and the general public. Through this process of scholarship, analysis, and informed debate, the Institute generates effective public policy responses to economic problems that profoundly influence the quality of life in the United States and abroad.

The Institute is housed on the campus of Bard College in Annandale-on-Hudson, New York, located 90 miles north of New York City. Bard College is an independent, nonsectarian, residential, coeducational institution offering a four-year BA program in the liberal arts and sciences, and a five-year dual degree, BS and BA, in economics and finance. Blithewood, a Georgian-style manor at the campus's western edge, is the Institute's main research and conference facility. Designed as a private residence by McKim, Mead & White alumnus Francis L. V. Hoppin, it was completed in 1900. The house and grounds, which include a classical Italianate garden overlooking the Hudson River, were incorporated as part of Bard College in 1951.

The Levy Institute is housed in the Blithewood mansion on the campus of Bard College.

MESSAGE FROM THE PRESIDENT

Dimitri B. Papadimitriou

Throughout its 25-year history, the Levy Economics Institute of Bard College has maintained its commitment to independent thinking and the belief that economics can and should make a profound contribution to improving the human condition. Our attention has been focused on strategic issues of economic policy with far-reaching implications: problems in achieving long-term sustainability of economic growth and higher employment in an era of low inflation; decreased public expenditures on human and physical infrastructure as a result of federal budget procedures; the relationship of monetary and fiscal policies to the declining fortunes of workers, and the ongoing maldistribution of income and wealth; systemic risks in the financial sector deriving from innovation, lax regulation, and inadequate supervision; and deteriorating international trade and balance of payments. The purpose of all our activities and research is to serve the wider policymaking community in the United States and the rest of the world.

In the two-year period covered by this report, the Institute continued to make significant contributions to the debate on fundamental public policy issues through its conferences, seminars, and publications program. The period also saw a series of new initiatives, including partnerships with other leading public policy institutions, and the expansion of its research agenda.

The Macro-Modeling Team, established by the late Levy Distinguished Scholar Wynne Godley and now under my direction, continued to simulate trends in the internal and external balances of our economy, and its projections remained consistently ahead of the curve. Our group, which includes longtime Research Scholars Greg Hannsgen and Gennaro Zezza, warned of the impending effects of a multifaceted implosion in the housing boom combined with an unraveling of subprime mortgage securities—two events that have, unfortunately, come to pass.

In this regard, the macro team documented the unsustainability of household borrowing and trade deficits, and probed the likely implications of loosening underwriting standards in the mortgage markets. Many commentators referred to the burgeoning crisis as a *Minsky moment*—a long-overdue recognition of the pathbreaking work of our late Institute colleague Hyman P. Minsky. Each year, leaders in education, business, and government gather to assess the relevance of Minsky's ideas to the world's pressing economic problems—from global imbalances and financial instability to unemployment and poverty—at the Institute's annual Minsky Conference.

The Institute's research in macroeconomics and finance was bolstered by the return appointment of Senior Scholar Jan Kregel as director of its program on monetary policy and financial structure. Formerly chief of policy analysis and development in the UN Financing for Development Office, he has been a prolific contributor to debates on monetary, fiscal, and development policies in the eurozone, Latin America, and the United States. In addition to Kregel, the team of researchers working in this program area includes Senior Scholars James K. Galbraith and L. Randall Wray, as well as seven research associates: Marshall Auerback, Jörg Bibow, Steven M. Fazzari, Michael Hudson, Robert W. Parenteau, Sunanda Sen, and Éric Tymoigne.

As part of its monetary policy research, the Institute is partnering with the Ford Foundation to examine financial instability and reregulation within the context of Minsky's work on financial crises. The overarching goal of this project is a cohesive program of reforms for the financial system as a whole. Kregel heads the Levy research team, and the annual Minsky Conference, held at the Ford Foundation's NYC headquarters, provides a forum for the presentation of project outcomes. The Hyman P. Minsky Summer Seminar, a 10-day program designed for young economics and finance professionals, was instituted as part of the Ford-Levy Project in 2010.

Activities within our program on the distribution of income, wealth, and economic well-being also expanded. A team led by Senior Scholars Edward N. Wolff and Ajit Zacharias and including Research Scholars Thomas Masterson and Selçuk Eren published research on the Institute's alternate, and more comprehensive, measure of economic well-being (LIMEW) for selected years in the 1980s, 1990s, and 2000s. A goal of this research is to assist policymakers as they tackle issues relating to the economic fortunes of various US population subgroups. With significant financial support from the Alfred P. Sloan Foundation, the Institute also convened an international group of scholars to study the feasibility of extending the LIMEW to other countries within the Organisation for Economic Co-operation and Development. LIMEW measures were subsequently developed for Canada, France, Germany, and the UK.

The program on gender equality and the economy (GEE), under the direction of Senior Scholar Rania Antonopoulos, received a series of grants in support of its work investigating public employment guarantees as a path toward inclusive development and pro-poor growth. In partnership with the LIMEW research group, the GEE program is also focusing on the intersection of gender inequality, time use, and income and time poverty, in order to support development of more targeted public policy. Research Associates Tamar Khitarishvili, and Emel Memis, and Research Analyst Taun Toay, are the newest members of the program team.

Today, in the toughest economy since the Great Depression, there are 14 million unemployed—9.1 percent of the US labor force—and six job seekers for each available job. As part of its program on employment policy and labor markets, the Levy Institute, in collaboration with the United Nations Development Programme and the Bureau for Development Policy, organized a conference on the merits of public job creation schemes as a vital component of any recovery strategy. Research Associate Fadhel Kaboub joined the program's research team in 2009.

The program on immigration, ethnicity, and social structure (IESS) expanded with the appointment of Research Associate Sanjaya DeSilva, director of the Bard Economics Program, and the formation of a new research group within the IESS program that focuses on social stratification and inequality within Israel. In addition to Senior Scholar and IESS program director Joel Perlmann, this group includes Research Associates Yuval Elmelech, Yinon Cohen, Seymour Spilerman, Sergio DellaPergola, and Barbara S. Okun.

The Institute also established a new program, on equality of educational opportunity in the 21st century, under the direction of Senior Scholar Ellen Condliffe Lagemann. Lagemann, a leading historian of education and nationally known expert on education research, joined the Institute in 2009, and is currently Levy Institute Research Professor at Bard College. Daniel Karpowitz, a member of the Bard political studies faculty, is program research associate.

The Levy Institute reflects a belief that sound public policy can assure prosperity. In that regard, we are partnering with the Labour Institute of the General Confederation of Greek Workers (INE-GSEE) to design and implement an emergency employment program for the social economy sector in Greece, along the lines of Minsky's employer-of-last-resort policy proposal. We are also advising the Central Bank of Ecuador in setting up its policy research section, and have joined with the Veblen Institute for Economic Reforms to co-publish in France a series of public policy briefs by Levy Institute scholars.

As the Institute's activities continue to expand and diversify, the encouragement and support of numerous individuals in the public and private sectors have become increasingly crucial to our success. I want to express my sincere thanks to our supporters, our Board of Governors, and the president and trustees of Bard College. Finally, a word of appreciation and admiration for the Institute's scholars and staff, for their tireless efforts and willingness to contribute their talents toward fulfilling the Institute's ambitious goals.

DIMITRI B. PAPADIMITRIOU, *President*

WYNNE GODLEY: IN MEMORIAM

Wynne Godley, Distinguished Scholar at the Levy Institute and longtime head of the Institute's Macro-Modeling Team, died on May 13, 2010. Much of Godley's work focused on the strategic prospects for the US, UK, and world economies, and the use of accounting macroeconomic models to reveal structural imbalances—work that courageously ran counter to the orthodox economics of the last three decades.

Born in London in 1926, Godley was educated at Oxford (PPE, 1947) and the Paris Conservatoire de Musique. He performed briefly as a professional oboist, and remained deeply involved with music throughout his life. He served in the Economic Section of HM Treasury throughout the 1960s, and for more than two decades was director of the department of applied economics at the University of Cambridge. He was named professor emeritus in 1994, and began his long association with the Levy Institute that same year.

At Cambridge, Godley devoted his efforts to developing better techniques of medium-term modeling, arguing that the size of the foreign trade deficit depended mainly on the size of the public sector deficit, while the exchange rate and the competitiveness of the economy affected mainly the overall level of output and employment—a proposition that was initially attacked from all sides. His often cited success as a macroeconomic forecaster came about precisely because he developed a systematic framework for analyzing the impact of potential developments, applied first to the United Kingdom at Cambridge and subsequently to the United States at the Levy Institute.

In an extensive obituary, the *Times* of London called Godley "the most insightful macroeconomic forecaster of his generation." His warnings of impending crises were uniformly pessimistic, and frequently accurate. He was among the few to predict the crash that ended the 1972–74 Heath-Barber boom in Britain. When he suggested in 1977 that more than three million Britons would be unemployed by the mid 1980s, few believed him, but again, he was proved right. In the early 1990s, his forecasting skill won him a place on a new external panel—the so-called "Six Wise Men"—advising the Chancellor of the Exchequer. At the end of that booming decade, Godley warned that the growing imbalance in the global economy, fueled by burgeoning American private sector debt, was unsustainable—an accurate early assessment that, unfortunately, few policymakers took seriously.

Godley published widely. His pathbreaking 1978 work on industrial pricing, with Kenneth Coutts and William Nordhaus, found that demand does not affect the markup over normal cost, which is determined by corporate taxes and price controls rather than foreign competition. His 2007 book *Monetary Economics: An Integrated Approach to Credit, Money, Income, Production, and Wealth* (with Marc Lavoie) is an elaboration of his classic textbook *Macroeconomics*, written in 1983 with Francis Cripps. With *Monetary Economics*, Godley aimed to revive the tradition of macroeconomics practiced by the original Cambridge Keynesians, in combination with the theory of asset allocation pioneered by James Tobin.

Godley, wrote the *Guardian*, was both "the warmest of men and the greatest of economists." Those of us who knew him remember his insight as well as his humor, his graciousness—and his not inconsiderable skill at the roulette table.

He is profoundly missed.

Wynne Godley

The Wynne Godley Memorial Conference
CONTRIBUTIONS IN STOCK-FLOW MODELING

May 25–26, 2011

Levy Economics Institute of Bard College

This conference provided scholars profoundly influenced by Wynne Godley's work the opportunity to celebrate his contributions to the field of economics. Topics included fiscal policy and stock-flow consistent models; unsustainable processes and the role of the dollar in fostering global imbalances; stability and convergence programs; trade and current account imbalances and international currencies; financial integration, intrazone credit, and stabilization in a monetary union; debt-deflation traps within small open economies; and the UK and US private expenditure function.

PARTICIPANTS

Stephen Kinsella, *University of Limerick, Ireland*

Jan Kregel, *Levy Institute* and *Tallinn Technical University, Estonia*

Marc Lavoie, *University of Ottawa, Canada*

Tiago Mata, *Center for the History of Political Economy, Duke University*

Jacques Mazier, *CEPN-CNRS, University of Paris North, France*

Dimitri B. Papadimitriou, *Levy Institute*

Malcolm Sawyer, *University of Leeds, England*

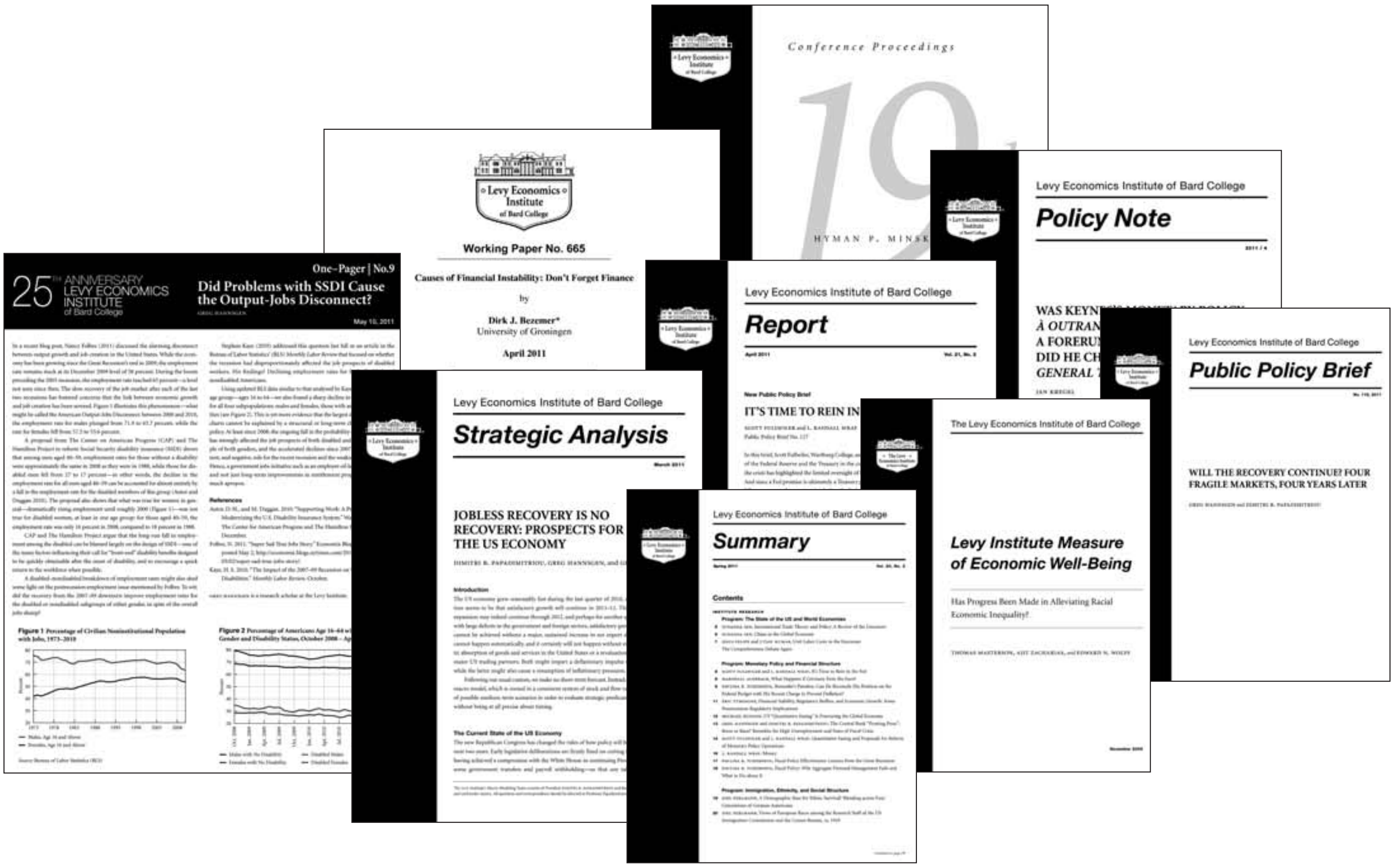
Anwar M. Shaikh, *The New School for Social Research*

Jan Toporowski, *School of Oriental and African Studies, University of London, England*

L. Randall Wray, *Levy Institute* and *University of Missouri–Kansas City*

Gennaro Zezza, *Levy Institute* and *University of Cassino, Italy*

PUBLICATIONS PROGRAM



The Levy Institute's Publications Program forms the main pillar of its public education and outreach activities. In an effort to raise the level of public debate on a broad spectrum of economic matters, the Levy Institute publishes research findings, conference proceedings, policy discussions and analyses, and other material. Publications are aimed at academic, general, and policymaking audiences.

Working Papers—in-progress research by Levy Institute scholars and conference participants. These documents cover areas of the Institute's research programs, such as the macroeconomic performance of the US and world economies, the effects of wealth distribution on living standards, and the impact that gender disparity has on the economy.

One-Pagers—up-to-the-minute analysis of economic issues and policy advocacy

Strategic Analysis—reports based on Levy Institute models. These publications analyze US economic performance and assess various policies in the light of forecasts produced by the Levy models. The broad outlook and specific assumptions employed in these models allow for the development of alternative economic policies on the basis of information often unavailable to policymakers from other research institutes.

Public Policy Briefs—examinations of the policy aspects of contemporary economic issues. These texts focus on the consequences of those economic programs that are of significance in the formation of public policy; for example, government spending on the aging population.

Public Policy Brief Highlights—condensed statements of the basic arguments and recommendations contained within Public Policy Briefs

Policy Notes—short articles by Levy Institute scholars and other contributors, presenting up-to-date research conclusions or policy statements on a wide range of topics. Policy Notes are designed to reach policymakers as well as business and general audiences.

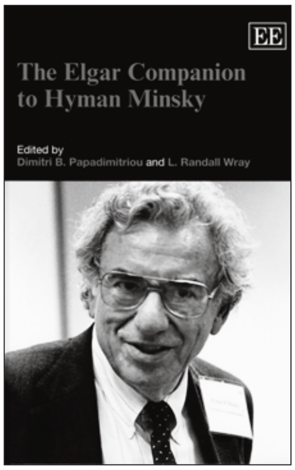
Report—a newsletter designed to reach a diverse, general audience interested in policy matters. Published three times a year, it includes summaries of new publications, synopses of conferences and other events, information on Levy Institute activities, interviews with prominent scholars and public officials, and editorials by members of the Levy Institute research staff.

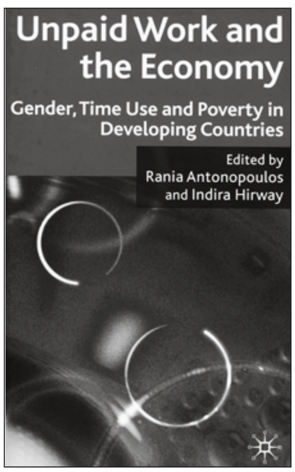
Summary—designed to reach an academic audience, the *Summary* reports three times a year on current research, with synopses of new publications, special features on continuing research projects, accounts of professional presentations by Levy Institute research staff, and overviews of Levy Institute events.

Levy Institute Measure of Economic Well-Being (LIMEW) reports—a series of statistical reports on the Levy Institute's own gauge of the ways in which three key institutions (market, state, and household) mediate access to the goods and services produced in a modern market economy

Testimony—transcripts of scholars' remarks presented to congressional panels

Conference, symposium, and forum proceedings—summaries of presentations and discussion sessions





BOOK SERIES

The Elgar Companion to Hyman Minsky

DIMITRI B. PAPADIMITRIOU AND L. RANDALL WRAY, EDS.

Edward Elgar Publishing, 2010

Unpaid Work and the Economy: Gender, Time Use and Poverty in Developing Countries

RANIA ANTONOPOULOS AND INDIRA HIRWAY, EDS.

Palgrave Macmillan, 2010

WEBSITE

With news of research projects, publications, scholars, and upcoming events, the Levy Institute website provides a critical means of outreach to the global community. Full-text versions of all Levy Institute publications can be downloaded. Audio archives of past conferences and registration information for future events are also available. The website averages more than one million hits and 400,000 page views per month. The sources of those hits underscore the international character of the community served by the site: in 2010–11 it was accessed by visitors from 47 countries, including the United States, People's Republic of China, France, Japan, United Kingdom, Canada, Germany, Italy, India, Russia, Australia, South Korea, Denmark, Brazil, Sweden, Argentina, Turkey, Spain, Singapore, South Africa, Czech Republic, Ireland, Netherlands, Switzerland, Mexico, Poland, Hungary, Greece, Philippines, Romania, Malaysia, Belgium, Indonesia, Austria, Israel, Colombia, Ukraine, Thailand, Finland, Norway, Portugal, Lithuania, Iran, Latvia, Bulgaria, Chile, and Slovenia.

Multiplier Effect

As part of its continuing public outreach, the Institute launched a blog, Multiplier Effect, in the spring of 2010. The blog provides a forum for Levy scholars to address pressing policy issues in real time, and to engage outside commentators in debate. Recent threads have included the eurozone debt crisis, commodity price inflation, the redistribution of income and wealth, financial regulatory reform, and monetizing the federal deficit.

Paul A. Volcker Jr., *former Chairman of the Federal Reserve Board*

PROGRAM 1 | THE STATE OF THE US AND WORLD ECONOMIES

The central focus in this program area is the use of proprietary macroeconomic models in generating strategic analyses of the world's economies, in three principle areas: the United States, Europe, and Asia. The outcomes of alternative scenarios are projected and analyzed, with the results—published as Strategic Analysis reports—serving to help policymakers understand the implications of various policy options.

The Levy Institute macroeconomic models, created by the late Distinguished Scholar Wynne Godley, are accounting based. The US model employs a complete and consistent system (in that all sectors "sum up," with no unaccounted leakages) of stocks and flows (such as income, production, and wealth). The eurozone model is a "closed" system in which 11 trading blocs—of which Greece, Italy, Germany, and France are four—are represented. This model is based on a matrix in which each bloc's imports are described in terms of exports from the remaining blocs. From this information, and using alternative assumptions (e.g., growth rates, trade shares, and energy demands and supplies), trends are identified and patterns of trade and production analyzed.

The projections derived from the models are not presented as short-term forecasts. The aim is to display, based on careful analysis of the recent past, what seems reasonable to expect if current trends, policies, and relationships continue. To inform policy, it is necessary to establish only that a particular projection is a serious possibility, not that it will come to pass. Such analyses have a strategic usefulness: they can serve to warn policymakers of potential dangers and serve as a guide to policy instruments that can deal with those dangers, should they arise.

With the economy operating at far less than full employment, we think Americans will ultimately have to grit their teeth for some hair-raising deficit figures. . . .

—From *Jobless Recovery Is No Recovery*

RESEARCH GROUP

Dimitri B. Papadimitriou, *President and Program Director*
James K. Galbraith, *Senior Scholar*
Jan Kregel, *Senior Scholar*
L. Randall Wray, *Senior Scholar*
Greg Hannsgen, *Research Scholar*
Gennaro Zezza, *Research Scholar*
Marshall Auerback, *Research Associate*
Claudio H. Dos Santos, *Research Associate*
Jesus Felipe, *Research Associate*
Michael Hudson, *Research Associate*
Robert W. Parenteau, *Research Associate*

PUBLICATIONS | REGION: UNITED STATES

STRATEGIC ANALYSIS

The current recession has not been simply the result of a temporary, unexpected shock to the financial sector. Rather, it has been the inevitable consequence of an unbalanced growth path that the United States has followed over the past 20 years.

—From *Getting Out of the Recession?*

Jobless Recovery Is No Recovery: Prospects for the US Economy

DIMITRI B. PAPADIMITRIOU, GREG HANNSGEN, GENNARO ZEZZA
Strategic Analysis, March 2011

The US economy grew reasonably fast during the last quarter of 2010, and the general expectation is that satisfactory growth will continue in 2011–12. The expansion may, indeed, continue into 2013. But with large deficits in both the government and foreign sectors, satisfactory growth in the medium term cannot be achieved without a major, sustained increase in net export demand. This, of course, cannot happen without either a cut in the domestic absorption of US goods and services or a revaluation of the currencies of the major US trading partners.

Our policy message is fairly simple, and one that events over the years have tended to vindicate. Most observers have argued for reductions in government borrowing, but few have pointed out the potential instabilities that could arise from a growth strategy based largely on private borrowing—as the recent financial crisis has shown. With the economy operating at far less than full employment, we think Americans will ultimately have to grit their teeth for some hair-raising deficit figures, but they should take heart in recent data showing record-low "core" CPI inflation —and the potential for export-led growth to begin reducing unemployment.

Getting Out of the Recession?

GENNARO ZEZZA
Strategic Analysis, March 2010

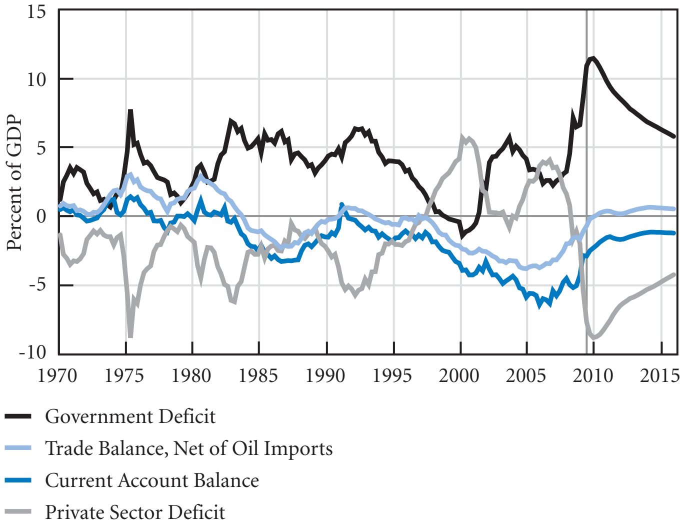
Research Scholar Gennaro Zezza updates the Levy Institute's Strategic Analysis of December 2009 (see page 10) and finds that the 2009 increase in public sector aggregate demand was a result of the fiscal stimulus, without which the recession would have been much deeper. He confirms that strong policy action is required to achieve full employment in the medium term, including a persistently high government deficit in the short term. This implies a growing public debt, which is sustainable as long as interest rates are kept at the current low level. The alternative is an ongoing unemployment rate above 10 percent that would represent a higher cost to future generations.

Sustaining Recovery: Medium-term Prospects and Policies for the US Economy

DIMITRI B. PAPADIMITRIOU, GREG HANNSGEN, GENNARO ZEZZA
Strategic Analysis, December 2009

Though recent market activity and housing reports warrant optimism, US economic growth was only 2.8 percent in the third quarter of 2009, and the unemployment rate is still very high. In this Strategic Analysis, the Levy Institute's Macro-Modeling Team projects that high unemployment will continue to be a problem if fiscal stimulus policies expire and deficit reduction efforts become the policy focus. The authors argue that continued fiscal stimulus is necessary to reduce unemployment. The resulting federal deficits would be sustainable, they say, as long as they were accompanied by a coordinated and gradual devaluation of the dollar, especially against undervalued Asian currencies—a step necessary to prevent an increase in the current account deficit and ward off the risk of a currency crash.

Main Sector and Trade Balances in Scenario 2, US Dollar Devaluation and Some Deficit Reduction



Sources: BEA; authors' calculations. From *Sustaining Recovery*

Recent Rise in Federal Government and Federal Reserve Liabilities: Antidote to a Speculative Hangover

DIMITRI B. PAPADIMITRIOU, GREG HANNSGEN

Strategic Analysis, April 2009

Federal government and Federal Reserve liabilities rose sharply in 2008. Who holds these new liabilities, and what effects will they have on the economy? Some economists and politicians warn of impending inflation. In this Strategic Analysis, President Dimitri B. Papadimitriou and Research Scholar Greg Hannsgen focus on one positive effect—a badly needed improvement of private sector balance sheets—and outline some of the reasons why the surge in Fed and federal government liabilities is unlikely to cause excessive inflation. The Fed's liabilities mostly comprise currency in circulation, member bank reserves, and longer-term Treasury bonds; however, these liabilities are not at unprecedented levels. Prices are unlikely to rise because of weak demand for goods and services; moreover, households have become risk averse by building up a reserve of safe assets. The jump in money and government bonds is a life raft for sectors with shrinking portfolios. Money market mutual funds, life insurance companies, and funding corporations have all been buying Treasury debt, and many new government bonds are flowing to sectors where they are needed to stabilize net worth.

Unemployment will be the key economic problem for at least several years, as it is the most important social cost of recessions and will remain very high without strongly stimulative fiscal policy.

—From *Sustaining Recovery*

Flow of Funds Figures Show the Largest Drop in Household Borrowing in the Last 40 Years

GENNARO ZEZZA

Strategic Analysis, January 2009

The Federal Reserve's latest flow-of-funds data reveal that household borrowing has fallen sharply lower, bringing about a reversal of the upward trend in household debt. According to the Levy Institute's macro model, a fall in borrowing has an immediate effect—accounting in this case for most of the 3 percent drop in private expenditure that occurred in the third quarter of 2008—as well as delayed effects. As a result, the decline in real GDP and accompanying rise in unemployment may be substantial in coming quarters.

PUBLIC POLICY BRIEFS

Will the Recovery Continue? Four Fragile Markets, Four Years Later

GREG HANNSGEN, DIMITRI B. PAPADIMITRIOU

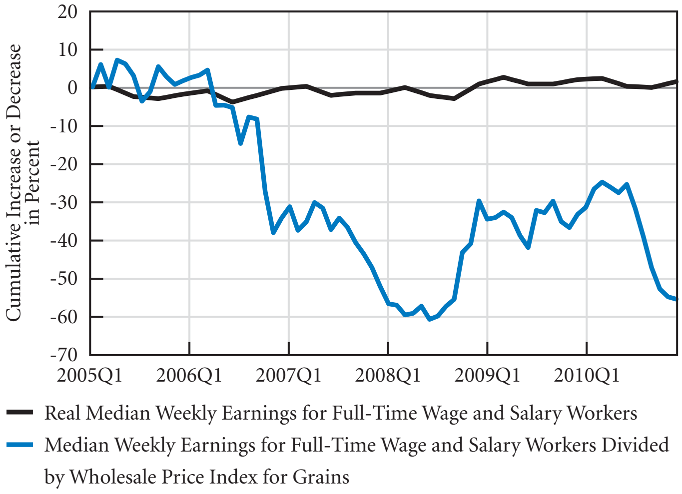
Public Policy Brief No. 118, 2011

Markets cannot be counted on to solve a long-lasting macroeconomic crisis like ours in the absence of firm monetary stimulus, jobs programs, and other public sector initiatives.

—From *Will the Recovery Continue?*

In this brief, Research Scholar Greg Hannsgen and President Dimitri B. Papadimitriou focus on the risks and possibilities ahead for the US economy. Using a Keynesian approach and drawing from the commentary of other observers, they analyze publicly available data in order to assess the strength and durability of the expansion that probably began in 2009. They focus on four broad groups of markets that have shown signs of stress for the last several years: financial markets, markets for household goods and services, commodity markets, and labor markets. This kind of analysis does not yield numerical forecasts but it can provide important clues about the short-term outlook for the country's economic well-being, and cast light on some longer-run threats. In particular, dangers and stresses in the financial and banking systems are presently very serious, and labor market data show every sign of a widespread and severe weakness in aggregate demand. Unless there is new resolve for effective government action on the jobs front, drastic cuts in much-needed federal, state, and local programs will become the order of the day in the United States, as in much of Europe.

The Purchasing Power of a Week's Earnings, 2005Q1–2010Q4



Notes: Approximations used to compute monthly observations from quarterly data for real weekly earnings and nominal weekly earnings; earnings data not seasonally adjusted.
Sources: Bureau of Labor Statistics (BLS); authors' calculations.
From *Will the Recovery Continue?*

An Alternative Perspective on Global Imbalances and International Reserve Currencies

JAN KREGEL

Public Policy Brief No. 116, 2010

The stability of the international reserve currency's purchasing power is not so much a question of what serves as that currency as a question of the international adjustment mechanism, along with the compatibility of export-led development strategies with international payment balances. Export-led growth and free capital flows are the real causes of sustained international imbalances. The only way out of this predicament, says Senior Scholar Jan Kregel, is to shift to domestic demand–led development strategies; capital flows will also have to be part of the solution.

Debts, Deficits, Economic Recovery, and the US Government

DIMITRI B. PAPADIMITRIOU, GREG HANNSGEN

Public Policy Brief No. 114, 2010 (Highlights, No. 114A)

This brief evaluates the current path of fiscal deficits in the United States in the context of government debt and further spending, economic recovery, and unemployment. The authors are adamant that no justification exists for the belief that cutting spending or raising taxes by any amount will reduce the federal deficit, let alone permit solid growth. The worst fears about recent stimulative policies and rapid money-supply growth are proving incorrect once again. Instead, the United States must find the will to reinvigorate government and to maintain Keynesian macro stimulus in the face of ideological opposition and widespread mistrust of government.

The Great Crisis and the American Response

JAMES K. GALBRAITH

Public Policy Brief No. 112, 2010 (Highlights, No. 112A)

Senior Scholar James K. Galbraith argues the fundamental illusion of viewing the US economy through the free-market prism of deregulation, privatization, and a benevolent government operating mainly through monetary stabilization—the prevailing view among economists of the past three decades. The real sources of US economic power lie with those who manage and control the public-private sectors—especially the public institutions in those sectors—and who often have a political agenda in hand. Galbraith calls this the "predator state": a government that is intent, not upon restructuring the rules in any idealistic way, but upon using the existing institutions as a device for political patronage on a grand scale. And the predator state is closely aligned with financial deregulation.

The *New* New Deal Fracas: Did Roosevelt's "Anticompetitive" Legislation Slow the Recovery from the Great Depression?

DIMITRI B. PAPADIMITRIOU, GREG HANNSGEN

Public Policy Brief No. 104, 2009 (Highlights, No. 109A)

A wave of revisionist work claims that "anticompetitive" New Deal legislation such as the National Industrial Recovery Act (NIRA) and the National Labor Relations Act (NLRA) greatly slowed recovery from the Great Depression. Reviewing these claims in light of current policy debates, Papadimitriou and Hannsgen cast into doubt the argument that NIRA and NLRA significantly prolonged or worsened the Depression. Moreover, Social Security, federal deposit insurance, and other New Deal programs helped usher in an era of relative prosperity following World War II. Faced with combating the current recession and employment slump, the successful experience

The original Bretton Woods proposal did not envisage that international capital flows would play a substantial role in either financing payment imbalances or allocating international capital resources. The system has turned out rather differently. . . .

—From *An Alternative Perspective on Global Imbalances and International Reserve Currencies* with relief and public works, not the repercussions of pro-union and regulatory legislation, offers the most relevant and helpful lessons. (See also Policy Note 2009/10.)

POLICY NOTES

Is the Federal Debt Unsustainable?

JAMES K. GALBRAITH

Policy Note 2011/2

By general agreement, the federal budget is on an "unsustainable path." Try typing the phrase into Google News: 19 of the first 20 hits refer to the federal debt. But what does this actually mean? One suspects that some who use the phrase are guided by vague fears, or even that they don't quite know what to be afraid of. Some people fear that there may come a moment when the government's bond markets would close, forcing a default or "bankruptcy." But the government controls the legal-tender currency in which its bonds are issued and can always pay its bills with cash. A more plausible worry is inflation—notably, the threat of rising energy prices in an oil-short world—alongside depreciation of the dollar, either of which would reduce the real return on government bonds. But neither oil-price inflation nor dollar devaluation constitutes default, and neither would be intrinsically "unsustainable."

Regulation serves as a guarantee . . . that it's reasonably safe to participate in the commerce at hand—safe to eat the lettuce or to buy the electric appliance or to commit your savings to a financial institution.

—From *The Great Crisis and the American Response*

After a brief discussion of the major worries, Senior Scholar James K. Galbraith focuses on one, and only one, critical issue: the actual behavior of the public-debt-to-GDP ratio under differing economic assumptions through time. His conclusion? The CBO's assumption that the United States must offer a real interest rate on the public debt higher than the real growth rate by itself creates an unsustainability that is not otherwise there. Changing that one assumption completely alters the long-term dynamic of the public debt. By the terms of the CBO's own model, a low interest rate erases the notion that the US debt-to-GDP ratio is on an "unsustainable path." The prudent policy conclusion? Keep the projected interest rate down. Otherwise, stay cool: don't change the expected primary deficit abruptly, and allow the economy to recover through time.

Global Central Bank Focus: Facts on the Ground

PAUL MCCULLEY

Policy Note 2010/2

The developed world faces a cyclical deficiency of aggregate demand that is the product of a liquidity trap and the paradox of thrift. According to Paul McCulley, of PIMCO, front-loaded fiscal austerity would only add to that deflationary cocktail. This is why the market vigilantes are fleeing risk assets, which depend on growth for valuation support, rather than the sovereign debt of fiat-currency countries. McCulley bases his outlook on the financial balances approach (double-entry bookkeeping) pioneered by the late Distinguished Scholar Wynne Godley. Godley's analytical framework, says McCulley, should be the workhorse of discussions on global rebalancing.

Fiscal Stimulus, Job Creation, and the Economy: What Are the Lessons of the New Deal?

GREG HANNSGEN, DIMITRI B. PAPADIMITRIOU

Policy Note 2009/10

As the nation assesses the impact of the recent stimulus bill on job creation and economic growth, a group of academics continues to dispute the notion that the fiscal and job creation programs of the New Deal helped end the Great Depression. The work of these revisionists has led to a public discourse with obvious implications for the controversy surrounding fiscal stimulus bills.

The Levy Institute, which supports a new stimulus package—one that emphasizes jobs for the 9.8 percent of the workforce currently unemployed—is concerned about this debate. With Congress, the White House, pundits, and the press riveted on the all-important health care debate, skirmishes over economic theory and history are nothing but distractions, while millions wait for a new chance to do meaningful work, and effective—if imperfect—policy tools are readily at hand. (See also, Public Policy Brief No. 104.)

ONE-PAGERS

Will the Recovery Continue?

GREG HANNSGEN, DIMITRI B. PAPADIMITRIOU

One-Pager No. 10, 2011

With quantitative easing winding down and the latest payroll tax-cut measures set to expire at the end of this year, pressing questions loom about the current state of the US economic recovery and its ability to sustain itself in the absence of support from monetary and fiscal policy.

Reserve Currencies and the Dollar's Role in Containing Global Imbalances

JAN KREGEL

One-Pager No. 7, 2010

The stability of the international reserve currency's purchasing power is less a question of what serves as that currency and more a question of the international adjustment mechanism, as well as the compatibility of export-led development strategies with international payment balances. Export-led growth and free capital flows are the real causes of sustained international imbalances. The only way out of this predicament is to shift to domestic demand–led development strategies; capital flows must also be part of the solution.

A Balancing Act: How to End America's Trade Deficits

DIMITRI B. PAPADIMITRIOU

One-Pager No. 1, 2010

Now that US financial institutions have been brought back from the brink, the greatest threat to global economic stability is the gigantic trade imbalance between the United States, China, and other trading partners. A second big threat to economic stability, in the longer run, is global warming. Both problems are related to the US addiction to cheap imports and foreign oil—bad habits that a clever cap-and-trade system could help the nation finally kick.

We need to adapt the cap-and-trade systems that have worked well in other arenas (e.g., combating acid rain) to bring our imports into line—not only for America's own good, but for everyone else's as well.

—From *A Balancing Act*

WORKING PAPERS

Effective Demand in the Recent Evolution of the US Economy

JULIO LÖPEZ-GALLARDO, LUIS REYES-ORTIZ

Working Paper No. 673, June 2011

International Trade Theory and Policy: A Review of the Literature

SUNANDA SEN

Working Paper No. 635, November 2010

The Household Sector Financial Balance, Financing Gap, Financial Markets, and Economic Cycles in the US Economy: A Structural VAR Analysis

PAOLO CASADIO, ANTONIO PARADISO

Working Paper No. 632, November 2010

Does Excessive Sovereign Debt Really Hurt Growth? A Critique of *This Time Is Different*, by Reinhart and Rogoff

YEVA NERSISYAN, L. RANDALL WRAY

Working Paper No. 603, June 2010

Bretton Woods 2 Is Dead, Long Live Bretton Woods 3?

JÖRG BIBOW

Working Paper No. 597, May 2010

Revisiting "New Cambridge": The Three Financial Balances in a General Stock-flow Consistent Applied Modeling Strategy

CLAUDIO H. DOS SANTOS, ANTONIO C. MACEDO E SILVA

Working Paper No. 594, May 2010

Global Imbalances, the US Dollar, and How the Crisis at the Core of Global Finance Spread to "Self-Insuring" Emerging Market Economies

JÖRG BIBOW

Working Paper No. 591, March 2010

Lessons from the New Deal: Did the New Deal Prolong or Worsen the Great Depression?

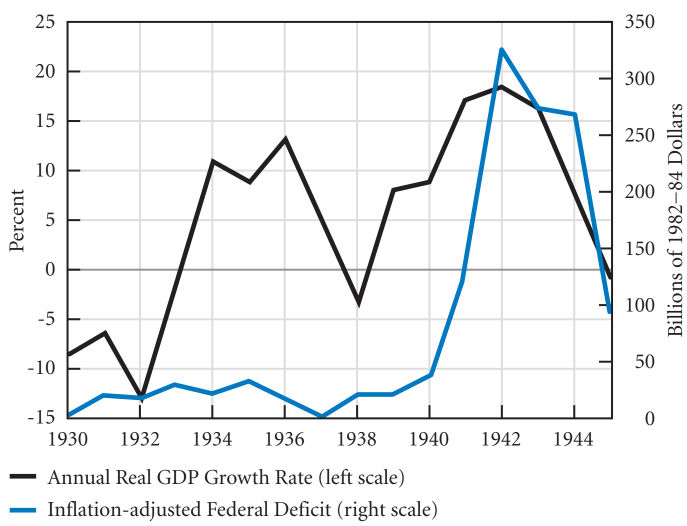
GREG HANNSGEN, DIMITRI B. PAPADIMITRIOU

Working Paper No. 581, October 2009

With monetary policy short on ammunition . . . , the only way to support domestic demand is to cut taxes in support of private incomes and spending or to boost public spending itself.

—From "Bretton Woods 2 Is Dead, Long Live Bretton Woods 3?"

Budget Deficit and Growth, 1930–45



Sources: Authors' calculations; Bureau of Economic Analysis, Office of Management and Budget; Bureau of Labor Statistics. All data accessed through FRED databank, www.stlouisfed.gov. From "Lessons from the New Deal"

PUBLIC POLICY BRIEF

Endgame for the Euro? Without Major Restructuring, the Eurozone Is Doomed

DIMITRI B. PAPADIMITRIOU, L. RANDALL WRAY, YEVA NERSISYAN

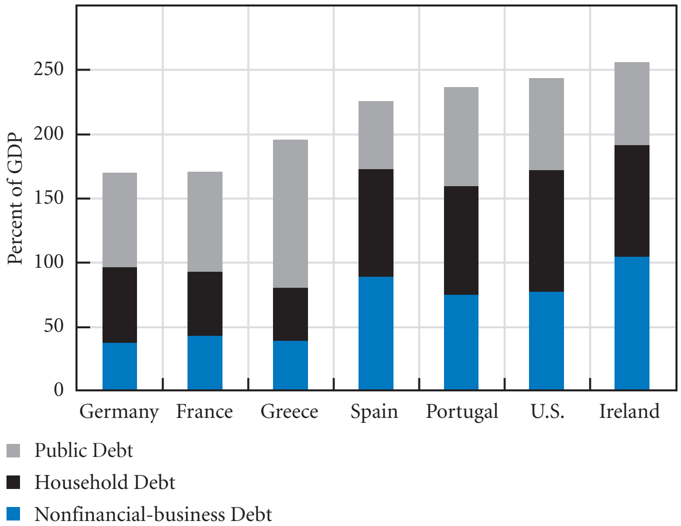
Public Policy Brief No. 113, 2010 (Highlights, No. 113A)

Critics argue that the current crisis in the European Union has exposed the profligacy of the Greek government and its citizens, who are stubbornly fighting proposed social spending cuts and refusing to live within their means. Yet Greece has one of the lowest per capita incomes in the EU, and its social safety net is modest compared to the rest of Europe. Since implementing its austerity program in January, Greece has reduced its budget deficit by 40 percent, largely through spending cuts. But slower growth is causing revenues to come in below targets, and fuel-tax increases have contributed to growing inflation. As the larger troubled economies like Spain and Italy also adopt austerity measures, the entire continent could find government revenues collapsing. No rescue plan can address the central problem: that countries with very different economies are yoked to the same currency. Lacking a sovereign currency and unable to devalue their way out of trouble, these countries are left with few viable options—and voters in Germany and France will soon tire of paying the bill.

Ultimately, of course, European countries would survive the death of the euro, but the end of a unified continental currency—and an increasingly unified economic actor called Europe—would leave the entire world poorer.

—From *Endgame for the Euro?*

Eurozone and US Outstanding-debt Levels, 2009 (in percent of GDP)



Sources: Calculations by Flavia Krause-Jackson and Giovanni Salzano of Bloomberg, based on ECB and Eurostat data. From *Endgame for the Euro?*

POLICY NOTES

A Modest Proposal for Overcoming the Euro Crisis

YANIS VAROUFAKIS, STUART HOLLAND

Policy Note 2011/3

This "Modest Proposal" outlines a comprehensive solution to the crisis in the eurozone that simultaneously addresses the three main dimensions of the crisis (sovereign debt, banking, and underinvestment), restructures both a share of sovereign debt and that of banks, and does not involve a fiscal transfer of taxpayers' money. Additionally, it requires no moves toward federation, no fiscal union, and no transfer union. It is in this sense, say the authors, that it deserves the epithet *modest*.

To stabilize the debt crisis, Varoufakis and Holland recommend a tranche transfer of the sovereign debt of each EU member-state to the European Central Bank (ECB), to be held as ECB bonds. Member-states would continue to service their share of debt, reducing the debt-servicing burden of the most exposed member-states without increasing the debt burden of the others. Rigorous stress testing and recapitalization through the European Financial Stability Facility (in exchange for equity) would cleanse the banks of questionable public and private paper assets, allowing them to turn future liquidity into loans to enterprises and households. And the European Investment Bank (EIB) would assume the role of effecting a "New Deal" for Europe, drawing upon a mix of its own bonds and the new eurobonds. In effect, the EIB would graduate into a European surplus-recycling mechanism—a mechanism without which no currency union can survive for long.

Lacking a sovereign currency and unable to devalue their way out of trouble, [EU debtor nations] are left with few viable options—and voters in Germany and France will soon tire of paying the bill.

—From *Is the Eurozone Doomed?*

What Happens if Germany Exits the Euro?

MARSHALL AUERBACK

Policy Note 2011/1

Like marriage, membership in the eurozone is supposed to be a lifetime commitment, "for better or for worse." But as we know, divorce does occur, even if the marriage was entered into with the best of intentions. And the recent turmoil in Europe has given rise to the idea that the euro itself might also be reversible, and that one or more countries might revert to a national currency. The prevailing thought has been that one of the weak periphery countries would be the first to call it a day. It may not, however, work out that way: suddenly, the biggest euro-skeptics in Europe are not the perfidious English but the Germans themselves.

ONE-PAGER

Is the Eurozone Doomed? The Rescue Plan Cannot Address the Central Problem

DIMITRI B. PAPADIMITRIOU, L. RANDALL WRAY, YEVA NERSISYAN

One-Pager No. 4, 2010

The trillion-dollar rescue package European leaders aimed at the continent's growing debt crisis in May might well have been code-named Panacea. Stocks rose throughout the region, but the reprieve was short-lived: markets fell on the realization that, going forward, the bailout would not improve government finances. The entire rescue plan rests on the assumption that the eurozone's "problem children" can eventually get their fiscal houses in order. But no rescue plan can address the central problem: that countries with very different economies are yoked to the same currency.

WORKING PAPERS

What Does Norway Get Out Of Its Oil Fund, if Not More Strategic Infrastructure Investment?

MICHAEL HUDSON

Working Paper No. 657, March 2011

Unit Labor Costs in the Eurozone: The Competitiveness Debate Again

JESUS FELIPE, UTSAV KUMAR

Working Paper No. 651, February 2011

The Recycling Problem in a Currency Union

G. E. KRIMPAS

Working Paper No. 595, May 2010

PUBLICATIONS | REGION: ASIA

WORKING PAPERS

China in the Global Economy

SUNANDA SEN

Working Paper No. 642, December 2010

Asia and the Global Crisis: Recovery Prospects and the Future

JESUS FELIPE

Working Paper No. 619, September 2010

How to Sustain the Chinese Economic Miracle? The Risk of Unraveling the Global Rebalancing

JÖRG BIBOW

Working Paper No. 617, September 2010

Why China Has Succeeded—and Why It Will Continue to Do So

JESUS FELIPE, UTSAV KUMAR, NORIO USUI, ARNELYN ABDON

Working Paper No. 611, August 2010

The recycling problem . . . is not confined to a multicurrency setting: wherever there are surplus and deficit units—that is, everywhere—adjustment in real terms can be either upward or downward. The question is, Which?

—From "The Recycling Problem in a Currency Union"

Peter R. Fisher, *BlackRock, Inc., and former Under Secretary of the US Treasury for Domestic Finance;* Kevin M. Warsh, *Board of Governors of the Federal Reserve System;* and Richard Sylla, *Stern School of Business, New York University*

PROGRAM 2 | **MONETARY POLICY AND FINANCIAL STRUCTURE**

Commercial banks should be paying attention to their knitting . . . and not be out running a casino on the side.

—Paul A. Volcker Jr., speaking at the 19th Annual Hyman P. Minsky Conference

This program explores the structure of markets and institutions that operate in the financial sector. Research builds on the work of the late Distinguished Scholar Hyman P. Minsky—notably, his financial instability hypothesis—and explores the institutional, regulatory, and market arrangements that contribute to financial instability. Research also examines policies—such as changes to the regulatory structure and the development of new types of institutions—that are necessary to contain instability.

Recent research has concentrated on the structure of financial markets and institutions, with the aim of determining the fragility, and potential failure, of financial systems. Issues explored include the extent to which domestic and international economic events (such as the financial meltdown of 2007–08 and current global recession) coincide with the types of instabilities Minsky describes, and involve analyses of his policy recommendations for alleviating instability and other economic problems. Other subjects covered include the distributional effects of monetary policy, central banking and structural issues related to the European Monetary Union, the role of finance in small-business investment, and financial regulatory reform.

RESEARCH GROUP

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PUBLICATIONS

RESEARCH PROJECT REPORT

Minsky on the Reregulation and Restructuring of the Financial System: Will Dodd-Frank Prevent "It" from Happening Again?

Research Project Report, April 2011

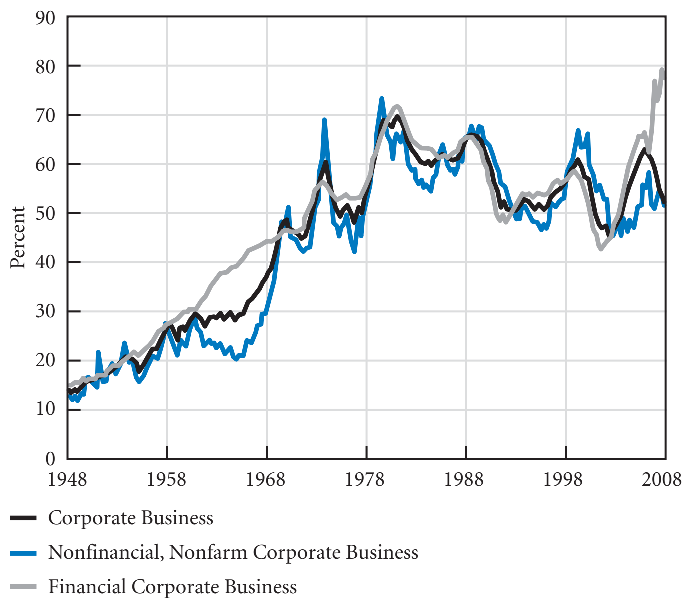
This monograph is part of the Institute's ongoing research program on Financial Instability and the Reregulation of Financial Institutions and Markets, funded by the Ford Foundation. This program's purpose is to investigate the causes and development of the recent financial crisis from the point of view of the late financial economist and Levy Distinguished Scholar Hyman P. Minsky. The monograph draws on Minsky's extensive work on regulation to review and analyze the Dodd Frank Wall Street Reform and Consumer Protection Act, enacted in 2010 in response to the crisis in the US subprime mortgage market; and to assess whether this new regulatory structure will prevent "It"—a debt deflation on the order of the Great Depression—from happening again.

Whether the Dodd Frank Act will fulfill its brief—in part, "to promote the financial stability in the United States by improving accountability and transparency in the financial system, to end 'too big to fail,' to protect the American taxpayer by ending bailouts, [and] to protect consumers from abusive financial services practices"—is an open question. As Minsky wrote in his landmark book *Stabilizing an Unstable Economy* (1986), "A new era of reform cannot be simply a series of piecemeal changes. Rather, a thorough, integrated approach to our economic problems must be developed." This is the ultimate goal of the Ford–Levy Institute project: a cohesive program of reforms of the financial architecture and associated regulatory reforms, both domestic and global.

Minsky argued in favor of a greater role for the central bank in promoting financial stability, given its position as unconstrained lender to the rest of the system; in exchange, it would leave economic policy to the fiscal decisions of the Treasury.

—From *Minsky on the Reregulation and Restructuring of the Financial System*

Corporate Sector Interest-service Ratio (in percent)



Source: BEA (NIPA, Tables 1.14, 7.11). From *Minsky on the Reregulation and Restructuring of the Financial System*

STRATEGIC ANALYSIS

A "People First" Strategy: Credit Cannot Flow When There Are No Creditworthy Borrowers or Profitable Projects

JAMES K. GALBRAITH

Strategic Analysis, April 2009

Today, we are in the shadow of a global catastrophe, and we need to come to grips with the crisis—fast. Senior Scholar James K. Galbraith outlines a number of measures that are needed now, including realistic economic forecasts, more honest bank auditing, effective financial regulation, measures to forestall evictions and keep people in their homes, and increased public retirement benefits. We are not in a temporary economic lull—an ordinary recession—from which we will emerge to return to business as usual, says Galbraith. Rather, we are at the beginning of a long, painful, profound, and irreversible process of change, and we need to start thinking and acting accordingly.

PUBLIC POLICY BRIEFS

It's Time to Rein In the Fed

SCOTT FULLWILER, L. RANDALL WRAY

Public Policy Brief No. 117, 2011

Scott Fullwiler and Senior Scholar L. Randall Wray review the roles of the Federal Reserve and the Treasury in the context of quantitative easing, and find that the financial crisis has highlighted the limited oversight of Congress and the limited transparency of the Fed. And since a Fed promise is ultimately a Treasury promise that carries the full faith and credit of the US government, the question is, Should the Fed be allowed to commit the public purse in times of national crisis?

The commercial banker's duty is to be skeptical; Minsky loved to repeat the banker's cliché, "I've never seen a pro forma I didn't like."

—From *What Should Banks Do?*

What Should Banks Do? A Minskyan Analysis

L. RANDALL WRAY

Public Policy Brief No. 115, 2010

In this Public Policy Brief, Senior Scholar L. Randall Wray examines the later works of Hyman P. Minsky, with a focus on Minsky's general approach to financial institutions and policy.

The New Deal reforms of the 1930s strengthened the financial system by separating investment banks from commercial banks and putting in place government guarantees such as deposit insurance. But the system's relative stability, and the relatively high rate of economic growth, encouraged innovations, which, over time, subverted those constraints. Financial wealth (and private debt) grew on trend, producing immense sums of money under professional management: we had entered what Minsky, in the early 1990s, labeled the "money manager" phase of capitalism. With help from the government, power was consolidated in a handful of huge firms that provided the four main financial services: commercial banking, payments services, investment banking, and mortgages. Brokers had no fiduciary responsibility to act in their clients' best interests, while financial institutions bet against households, firms, and governments. By the early 2000s, writes Wray, banking had strayed far from the (Minskyan) notion that it should promote "capital development" of the economy.

Deficit Hysteria Redux? Why We Should Stop Worrying About US Government Deficits

YEVA NERSISYAN, L. RANDALL WRAY

Public Policy Brief No. 111, 2010 (Highlights, No. 111A)

Deficits do not burden future generations with debt, nor do they crowd out private spending, argue Nersisyan and Wray. A sovereign nation with its own currency cannot become insolvent, they write, and government financing is unlike that of a household or firm. Moreover, automatic stabilizers, not government bailouts and the stimulus package, have prevented the US economic contraction from devolving into another Great Depression. Concerns about deficits and debts are unsubstantiated, and mask the real issue: the unwillingness of deficit hawks to allow government to work for the good of the people.

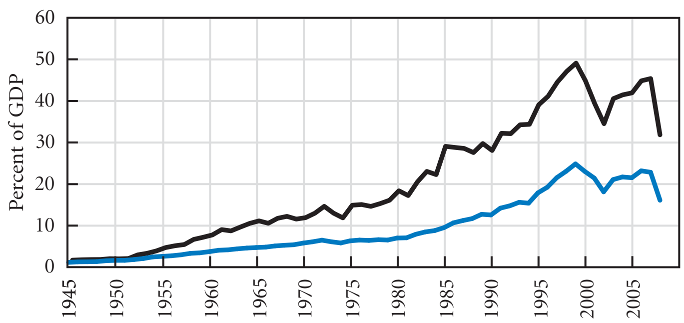
The Trouble with Pensions: Toward an Alternative Public Policy to Support Retirement

YEVA NERSISYAN, L. RANDALL WRAY

Public Policy Brief No. 109, 2010 (Highlights, No. 109A)

Pension funds have taken a big hit during the current financial crisis, with losses in the trillions of dollars. In addition, private and public pensions alike are experiencing significant funding shortfalls, as is the government-run Pension Benefit Guaranty Corporation, which insures the defined-benefit pension plans of private American companies. The authors find the employment-based pension system highly problematic, since the strategy for managing pension funds leads to excessive cost and risk in an effort to achieve above-average returns; the average fund manager, however, will achieve only the risk-free return. They therefore advocate expanding Social Security and encouraging private and public pensions to invest only in safe (risk-free) Treasury bonds—which, on average, will beat the net returns on risky assets.

Pension Fund Assets, 1945–2008 (in percent of GDP)



Private Pension Funds
State and Local Government Employee Retirement Funds

Source: Federal Reserve Flow of Funds Accounts.
From *The Trouble with Penisons*

Pension funds have become so large that they are capable of literally "moving markets." As they flow into a new class of assets, the sheer volume of funds under management will tend to cause prices to rise.

—From *The Trouble with Pensions*

No Going Back: Why We Cannot Restore Glass-Steagall's Segregation of Banking and Finance

JAN KREGEL

Public Policy Brief No. 107, 2010 (Highlights, No. 107A)

The purpose of the 1933 Banking Act—aka Glass-Steagall—was to prevent the exposure of commercial banks to the risks of investment banking and to ensure stability of the financial system. A proposed solution to the current financial crisis is to return to the basic tenets of this New Deal legislation.

This brief provides an in-depth account of the Banking Act, including the premises leading up to its adoption, its influence on the design of the financial system, and the subsequent erosion of its restrictions on securities trading (deregulation). A return to the Act's simple structure and strict segregation of (regulated) commercial and (unregulated) investment banking is unwarranted, says the author, in light of ongoing questions about the ability of commercial banks to compete with other financial institutions. Moreover, fundamental reform—consistent regulation of state and national charter banks—was bypassed by the 1933 Act.

The combined impact of money market funds and structured securitization is to convert less-liquid, higher-risk securities into securities that appear to be more liquid and lower risk: "riskless arbitrage."

—From *No Going Back*

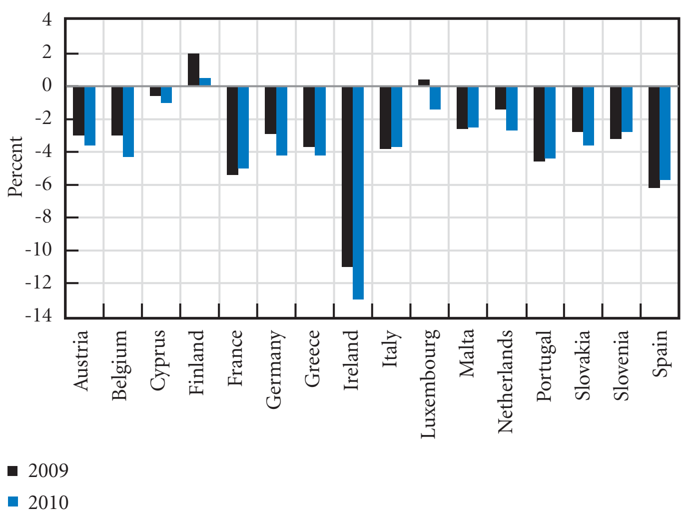
Can Euroland Survive?

STEPHANIE A. KELTON, L. RANDALL WRAY

Public Policy Brief No. 106, 2009 (Highlights, No. 106A)

Social unrest across Europe is growing as Euroland's economy collapses faster than that of the United States, the result of falling exports and a weaker fiscal response. The controversial title of this brief stems from the belief that the nature of the euro itself limits Euroland's fiscal policy space. The nations that have adopted the euro face "market-imposed" fiscal constraints on borrowing because they are not sovereign countries. Research Associate Stephanie Kelton and Senior Scholar L. Randall Wray foresee a real danger, in which these nations will be unable to prevent an accelerating slide toward economic depression that will threaten the existence of the European Union.

Projected EU-16 Budget Positions, 2009–10 (in percent)



Source: European Commission, Interim Forecast, January 2009.
From *Can Euroland Survive?*

It Isn't Working: Time for More Radical Policies

ÉRIC TYMOIGNE, L. RANDALL WRAY

Public Policy Brief No. 105, 2009 (Highlights, No. 105A)

The Obama administration has implemented several policies to "jump-start" the US economy—efforts that have focused largely on preserving the financial interests of major banks. But maintaining the status quo is not the solution, since it overlooks the debt problems of households and nonfinancial businesses, and re-creating the financial conditions that led to disaster will simply set the stage for a recurrence of the Great Depression or a Japanese-style "lost decade." Research Associate Éric Tymoigne and Senior Scholar L. Randall Wray recommend a more radical policy agenda, such as federal spending programs that directly provide jobs and sustain employment, thereby helping to restore the creditworthiness of borrowers, profitability of firms, and fiscal position of state and federal budgets.

Financial and Monetary Issues as the Crisis Unfolds

JAMES K. GALBRAITH

Public Policy Brief No. 103, 2009 (Highlights, No. 103A)

A group of experts associated with Economists for Peace and Security and the Initiative for Rethinking the Economy met in Paris to discuss financial and monetary issues. Their viewpoints, summarized here by Senior Scholar James K. Galbraith, are largely at odds with the global political and economic establishment.

Despite noting some success in averting a catastrophic collapse of liquidity and a decline in output, the Paris group was pessimistic about a sustained economic recovery and a return of high employment. The group's general consensus was that the precrisis financial system should not be restored, that reviving the financial sector first was not the way to revive the economy, and that governments should not pursue exit strategies that permit a return to the status quo. Rather, the group agreed that the crisis exposes the need for profound reform to meet a range of physical and social objectives.

The Global Crisis and the Implications for Developing Countries and the BRICs: Is the *B* Really Justified?

JAN KREGEL

Public Policy Brief No. 102, 2009 (Highlights, No. 102A)

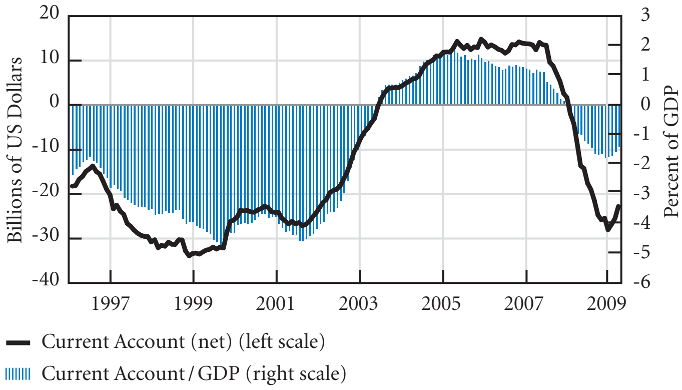
The term *BRIC*, coined by Goldman Sachs in 2001, refers to the fast-growing developing economies of Brazil, Russia, India, and China—a class of middle-income emerging-market economies of relatively large size that are capable of self-sustained expansion. By 2050, their combined economies could exceed the combined economies of today's richest countries. However, there are concerns about how the current financial crisis will affect the BRICs, and Goldman has questioned whether Brazil should remain within this group.

Based on the factors driving global trade, and the implications of the crisis for developing countries, a return to the positive conditions underlying the recent sharp increase in growth and external accounts is unlikely, says Senior Scholar Jan Kregel. The key for developing countries is to convert from export-led to domestic demand–led growth. From this standpoint, writes the author, Brazil seems in a much stronger position than the other BRIC countries.

The current crisis could have been avoided if increased household consumption had been financed through wage increases, and if financial institutions had used their earnings to augment bank capital rather than employee bonuses.

—From *It's That "Vision" Thing*

Brazil's Current Account Balance, 1996–2009 (in billions of US dollars)



Source: Banco Central do Brasil.
From *The Global Crisis and the Implications for Developing Countries and the BRICs*

Government spending needs to operate like a ratchet: it should increase in bad times to get us out of recessions, and increase in good times to generate demand for growth. . . .

—From *The Return of Big Government*

It's That "Vision" Thing: Why the Bailouts Aren't Working, and Why a New Financial System Is Needed

JAN KREGEL

Public Policy Brief No. 100, 2009 (Highlights, No. 100A)

The Federal Reserve's response to the current financial crisis has been praised because it introduced a zero interest rate policy more rapidly than the Bank of Japan did during the Japanese crisis of the 1990s, and the Fed embraced massive "quantitative easing." However, despite vast capital injections, the banking system is not lending in support of the private sector. The lessons of the Great Depression suggest that any successful financial policy requires an understanding of how the system failed, and the introduction of a new financial structure designed to correct this failure. The current crisis could have been avoided, writes the author, if increased household consumption had been financed through wage increases, and if financial institutions had used their earnings to augment bank capital rather than bonuses.

The Return of Big Government: Policy Advice for President Obama

L. RANDALL WRAY

Public Policy Brief No. 99, 2009 (Highlights, No. 99A)

In the current global financial crisis, economists and policymakers have re-embraced Big Government as a means of preventing the reoccurrence of a debt-deflation depression. The danger, however, is that policy may not downsize finance and replace money manager capitalism. What is needed is a permanently larger fiscal presence, with more public services, and the removal (or reversal, where possible) of all of former Treasury Secretary Henry Paulson's actions: the United States can afford any necessary spending and bailouts, without burdening future generations. Policy designed to push private investment introduces inflationary pressures, promotes inequality, and creates excessive productive capacity. Ensuring a sustainable growth path will require job creation, income growth, debt relief, public infrastructure investment, more public services—and a greater role for government.

The Case Against Intergenerational Accounting: The Accounting Campaign Against Social Security and Medicare

JAMES K. GALBRAITH, L. RANDALL WRAY, WARREN MOSLER

Public Policy Brief No. 98, 2009 (Highlights, No. 98A)

The Federal Accounting Standards Advisory Board (FASAB) has proposed subjecting the entire federal budget to "intergenerational accounting"—which purports to calculate the debt burden that will be left for future generations—and is soliciting comments on the recommendations of its two "exposure drafts." Among those recommendations: slashing Social Security and Medicare.

Senior Scholars James K. Galbraith and L. Randall Wray, and Warren Mosler, Valance Company, find the FASAB exposure drafts flawed in terms of basic matters of accounting. Federal budget accounting should not follow the same procedures adopted by households or business firms, they say, since the government operates in the public interest, with the power to impose taxes and issue money. There is no evidence, nor any economic theory, behind the proposition that government spending needs to match receipts. Social Security and Medicare spending need not be politically constrained by tax receipts—there cannot be any "underfunding." What matters is the overall fiscal stance of the government, not the stance attributed to one part of the budget.

Whether we are setting fuel taxes or payroll taxes, the tax rate should be administered in such a manner that it achieves the public interest, not with a view to matching spending in any particular federal program.

—From *The Case Against Intergenerational Accounting*

After the Bust: The Outlook for Macroeconomics and Macroeconomic Policy

THOMAS I. PALLEY

Public Policy Brief No. 97, 2009 (Highlights, No. 97A)

"Change" was the buzzword of the Obama campaign, voiced in response to a political agenda shaped by financial turmoil and a global economic crisis. According to Thomas I. Palley, the neoliberal economic policy paradigm underlying that agenda must itself change, if the policy response to the crisis is to succeed. Mainstream economic theory remains unreformed, and a return to failed policies is likely if a deep crisis is averted now.

A salient feature of the neoliberal economy is the disconnect between wages and productivity growth. Workers are boxed in on all sides by globalization, labor market flexibility, inflation concerns, and eroding government services. Financialization, the economic foundation of neoliberalism, primarily serves the interests of financial markets and top management. Thus, reversing the neoliberal paradigm will require a policy agenda that addresses financialization and ensures that financial markets and firms are more closely aligned with the greater public interest.

POLICY NOTES

Was Keynes's Monetary Policy, *à Outrance* in the *Treatise*, a Forerunner of ZIRP and QE? Did He Change His Mind in the *General Theory*?

JAN KREGEL

Policy Note 2011/4

At the end of 1930, as the 1929 US stock market crash was starting to impact the real economy in the form of falling commodity prices, falling output, and rising unemployment, John Maynard Keynes, in the concluding chapters of his *Treatise on Money*, launched a challenge to monetary authorities to take "deliberate and vigorous action" to reduce interest rates and reverse the crisis. He argues that until "extraordinary," "unorthodox" monetary policy action "has been taken along such lines as these and has failed, need we, in the light of the argument of this treatise, admit that the banking system can *not*, on this occasion, control the rate of investment, and, therefore, the level of prices."

The “unorthodox” policies that Keynes recommends are a near-perfect description of the Japanese central bank’s experiment with a zero interest rate policy (ZIRP) in the 1990s and the Federal Reserve’s experiment with ZIRP, accompanied by quantitative easing (QE1 and QE2), during the recent crisis. These experiments may be considered a response to Keynes’s challenge, and to provide a clear test of his belief in the power of monetary policy to counter financial crisis. That response would appear to be an unequivocal *No*.

A New “Teachable” Moment?

MARSHALL AUERBACK

Policy Note 2010/4

Those trying to justify the results of the midterm elections expressed a common refrain: the government’s fiscal stimulus to save the US economy from depression undermined growth, and fiscal restraint is the key to economic expansion. This view stems from a failure to understand a fundamental reality of bookkeeping: when the government runs a surplus (deficit), the nongovernment sector runs a deficit (surplus). If the new GOP Congress cuts government spending now, *deficits will go higher*, as growth slows, automatic stabilizers kick in, and tax revenues fall farther. And if extending the Bush tax cuts faces congressional gridlock, taxes will rise in 2011, further draining aggregate demand. Moreover, the United States has potential solvency issues if the debt ceiling is reached and Congress does not raise it. This chain of events could create a new financial crisis and effectively force the US government to default on its debt. The question is whether or not President Obama will embrace this “teachable” moment about US main sector balances. Recent remarks to the press about deficit reduction suggest otherwise.

When the government runs a surplus, the nongovernment sector has to run a deficit, and vice versa. . . . This is a fundamental reality of bookkeeping.

—From *A New “Teachable” Moment?*

Why the IMF Meetings Failed, and the Coming Capital Controls

MICHAEL HUDSON

Policy Note 2010/3

The global financial breakdown is part of the price being paid for the refusal of the Federal Reserve and Treasury to accept a prime axiom of banking: debts that cannot be paid, won’t be. These agencies tried to “save” the banking system from debt write-downs by keeping the debt overhead in place, while reinflating asset prices. Confronted with the repayment burden that is shrinking the US economy, the Fed actually provided opportunities for predatory finance by helping banks “earn their way out of negative equity,” which led to excessive financial speculation. It is understandable that countries whose economies have been targeted by global speculators are seeking alternative arrangements, says Research Associate Michael Hudson. But it appears that these arrangements cannot be achieved via the International Monetary Fund or any other international forum in ways that US financial strategists will accept willingly.

Observations on the Problem of “Too Big to Fail/Save/Resolve”

JAN KREGEL

Policy Note 2009/11

Past experience suggests that multifunctional banking is the leading source of financial crisis, while large bank size contributes to contagion and systemic risk. This indicates that resolving large banks will not address the problems associated with multifunctional banking—a conclusion reached after every financial crisis. But past solutions may not be appropriate for present conditions. The approach to the current crisis has been to resolve small- and medium-size banks through the FDIC, while banks considered “too big to fail” are given both direct and indirect government support. Many of these larger banks have been allowed to absorb smaller banks through FDIC resolution, creating even larger banks. Thus, the current thrust of government regulatory reform—increased capital and liquidity requirements, and further legislation—is unlikely to lessen the systemic risks these institutions pose.

Banks Running Wild: The Subversion of Insurance by "Life Settlements" and Credit Default Swaps

MARSHALL AUERBACK, L. RANDALL WRAY

Policy Note 2009/9

Oblivious to any lessons that might have been learned from the global financial mess it has created, Wall Street is actively looking for the next asset bubble. Perhaps in the market for death it has found a replacement for the collapsed markets in subprime mortgage–backed securities and credit default swaps (CDSs). Instead of making bets on the "death" of securities, investors can now gamble on the death of human beings by purchasing "life settlements"—life insurance policies that the ill and elderly sell for cash. These policies are then packaged together as bonds—securitized—and resold to investors, who receive payouts when the people covered by the policies die. Just as the sale of a CDS creates a vested interest in financial calamity, the act of securitizing life insurance policies creates huge financial incentives that favor personal calamity. The authors of this Policy Note argue that this is a subversion—or an inversion—of insurance, and it raises important public policy issues: Should we allow the marketing of an instrument in which holders have a financial stake in death? More generally, should we allow the "innovation" of products that condone speculation under the guise of providing insurance?

Experience suggests that multifunctional banking is the leading source of financial crisis, while large size contributes to contagion and systemic risk.

—From *Observations on the Problem of "Too Big to Fail/Save/Resolve"*

ONE-PAGERS

Minsky's View of Capitalism and Banking in America

L. RANDALL WRAY

One-Pager No. 6, 2010

Before we can reform the financial system, we need to understand what banks do—or, better yet, what banks *should* do. The author examines Hyman P. Minsky's views on banking and the proper role of the financial system: not simply to finance investment in physical capital but to promote the "capital development" of the economy as a whole.

"The Spectre of Banking"

MARTIN MAYER

One-Pager No. 3, 2010

A year and a half after the collapse in the financial markets, the debate about necessary "reforms" is still in its early stages, and none of the debaters seriously claims that his solution will in fact prevent a new crisis. The problem, says Martin Mayer, of The Brookings Institution, is that the proposed remedies deal with superficial matters of industrial organization and regulatory procedure, while the real problems—outsized, ungovernable financial firms and rampant securitization—lie on a more profound level.

Reforms without Politicians: What We Can Do Today to Straighten Out Financial Markets

JAN KREGEL

One-Pager No. 2, 2010

Congress is currently debating new regulations for financial institutions in an effort to avoid a repeat of the recent crisis that brought the banking system to the brink. Some of those proposed changes would be valuable. What no one seems to have noticed, however, is that the government already has the power to address some of the most important factors that contributed to the crisis. Today—right now—Washington could change a few key rules and prevent a repeat of the rampant speculation, and possible fraud, that led to so much trouble this last time around.

TESTIMONY

Statement of Professor James K. Galbraith to the Subcommittee on Domestic Monetary Policy and Technology, Committee on Financial Services, US House of Representatives

JAMES K. GALBRAITH

Testimony, July 9, 2009

After $7 trillion in losses that the taxpayers of the world must find a way to finance, it should be noncontroversial that we can't afford any more innovation on Wall Street.

—From *"The Spectre of Banking"*

Galbraith's remarks before the House Financial Services Committee primarily concerned the functions of the Federal Reserve under the Obama administration's proposals for financial regulation reform—specifically, the extent to which the newly proposed role of systemic risk regulator might conflict with the Federal Reserve's traditional role as the independent authority on monetary policy.

Galbraith pointed out that the Fed's primary mission is macroeconomic, and that "rigorous enforcement of safety and soundness regulation is never going to be the first priority of the agency in the run-up to a financial crisis." Systemic risk regulation needs to be deeply integrated into ongoing examination and supervision—a function best taken on by an agency with no institutional identification with the interests of the regulated sector. That agency, said Galbraith, is the Federal Deposit Insurance Corporation. If systemic risk is to be subject to consolidated prudential regulation, why not place that responsibility in the hands of an agency for which it is the first priority?

WORKING PAPERS

Race, Power, and the Subprime/Foreclosure Crisis: A Mesoanalysis

GARY A. DYMSKI, JESUS HERNANDEZ, LISA MOHANTY

Working Paper No. 669, May 2011

Hegemonic Currencies during the Crisis: The Dollar versus the Euro in a Cartalist Perspective

DAVID FIELDS, MATÍAS VERNENGO

Working Paper No. 666, April 2011

Causes of Financial Instability: Don't Forget Finance

DIRK BEZEMER

Working Paper No. 665, April 2011

Can Portugal Escape Stagnation without Opting Out from the Eurzone?

PEDRO LEAO, ALFONSO PALACIO-VERA

Working Paper No. 664, March 2011

The Financial Crisis Viewed from the Perspective of the "Social Costs" Theory

L. RANDALL WRAY

Working Paper No. 662, March 2011

Minsky's Money Manager Capitalism and the Global Financial Crisis

L. RANDALL WRAY

Working Paper No. 661, March 2011

Financial Markets

JÖRG BIBOW

Working Paper No. 660, March 2011

Minsky Crisis

L. RANDALL WRAY

Working Paper No. 659, March 2011

Keynes after 75 Years: Rethinking Money as a Public Monopoly

L. RANDALL WRAY

Working Paper No. 658, March 2011

Money in Finance

L. RANDALL WRAY

Working Paper No. 656, March 2011

A Minskyan Road to Financial Reform

L. RANDALL WRAY

Working Paper No. 655, March 2011

Measuring Macroprudential Risk: Financial Fragility Indexes

ÉRIC TYMOIGNE

Working Paper No. 654, March 2011

Financial Keynesianism and Market Instability

L. RANDALL WRAY

Working Paper No. 653, March 2011

Fiscal Policy: Why Aggregate Demand Management Fails and What to Do about It

PAVLINA R. TCHERNEVA

Working Paper No. 650, January 2011

Fiscal Policy Effectiveness: Lessons from the Great Recession

PAVLINA R. TCHERNEVA

Working Paper No. 649, January 2011

Money

L. RANDALL WRAY

Working Paper No. 647, December 2010

Quantitative Easing and Proposals for Reform of Monetary Policy Operations

SCOTT FULLWILER, L. RANDALL WRAY

Working Paper No. 645, December 2010

The Central Bank "Printing Press": Boon or Bane? Remedies for High Unemployment and Fears of Fiscal Crisis

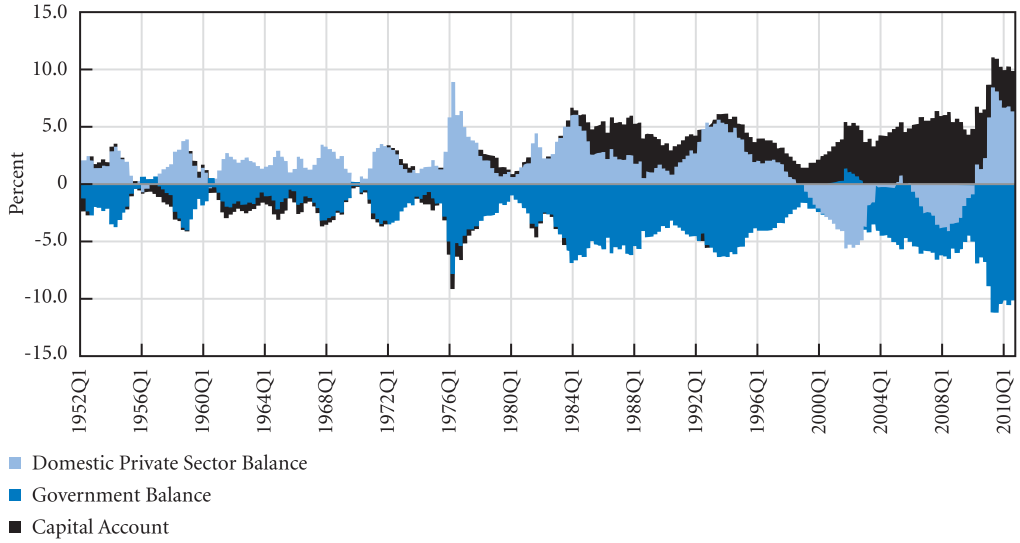
GREG HANNSGEN, DIMITRI B. PAPADIMITRIOU

Working Paper No. 640, December 2010

Appropriate fiscal stimulus . . . will provide an effective remedy for what ails the US economy. The "big bank" Fed cannot do much more than it has already done; the rest is up to what Minsky called "big government" policy operating in the public interest.

—From "Financial Keynesianism and Market Instability"

Sector Financial Balances as a Percent of GDP, 1952Q1–2010Q3



Sources: NIPA; Federal Reserve Flow of Funds; authors' calculations.
From "Quantitative Easing and Proposals for Reform of Monetary Policy Operations"

The greatest need at a time of worldwide economic stagnation is for an adjustment of the entire global economy, toward fuller employment and away from the precipice of deflation.

—From "The Central Bank 'Printing Press'"

US "Quantitative Easing" Is Fracturing the Global Economy

MICHAEL HUDSON

Working Paper No. 639, November 2010

Financial Stability, Regulatory Buffers, and Economic Growth: Some Postrecession Regulatory Implications

ÉRIC TYMOIGNE

Working Paper No. 637, November 2010

Bernanke's Paradox: Can He Reconcile His Position on the Federal Budget with His Recent Charge to Prevent Deflation?

PAVLINA R. TCHERNEVA

Working Paper No. 636, November 2010

How Brazil Can Defend Itself Against Financialization and Keep Its Economic Surplus for Itself

MICHAEL HUDSON

Working Paper No. 634, November 2010

Managing Finance in Emerging Economies: The Case of India

SUNANDA SEN

Working Paper No. 630, October 2010

A Post Keynesian Perspective on the Rise of Central Bank Independence: A Dubious Success Story in Monetary Economics

JÖRG BIBOW

Working Paper No. 625, October 2010

The Meltdown of the Global Economy: A Keynes-Minsky Episode?

SUNANDA SEN

Working Paper No. 623, September 2010

Innocent Frauds Meet Goodhart's Law in Monetary Policy

DIRK BEZEMER, GEOFFREY GARDINER

Working Paper No. 622, September 2010

The "Keynesian Moment" in Policymaking, the Perils Ahead, and a Flow-of-funds Interpretation of Fiscal Policy

ANDREA TERZI

Working Paper No. 614, August 2010

What Do Banks Do? What Should Banks Do?

L. RANDALL WRAY

Working Paper No. 612, August 2010

Changes in Central Bank Procedures during the Subprime Crisis and Their Repercussions on Monetary Theory

MARC LAVOIE

Working Paper No. 606, August 2010

Detecting Ponzi Finance: An Evolutionary Approach to the Measure of Financial Fragility

ÉRIC TYMOIGNE

Working Paper No. 605, June 2010

In order to stop Ponzi finance and to promote financial stability, we need a return to sound underwriting practices based on income.

—From "Detecting Ponzi Finance"

Three Futures for Postcrisis Banking in the Americas: The Financial Trilemma and the Wall Street Complex

GARY A. DYMSKI

Working Paper No. 604, June 2010

Fiscal Responsibility: What Exactly Does It Mean?

JAN KREGEL

Working Paper No. 602, June 2010

Too Big to Fail in Financial Crisis: Motives, Countermeasures, and Prospects

BERNARD SHULL

Working Paper No. 601, June 2010

A Contribution to the Theory of Financial Fragility and Crisis

AMIT BHADURI

Working Paper No. 593, May 2010

The Global Financial Crisis and a New Capitalism?

LUIZ CARLOS BRESSER-PEREIRA

Working Paper No. 592, May 2010

The Global Financial Crisis and the Shift to Shadow Banking

YEVA NERSISYAN, L. RANDALL WRAY

Working Paper No. 587, February 2010

Is This the Minsky Moment for Reform of Financial Regulation?

JAN KREGEL

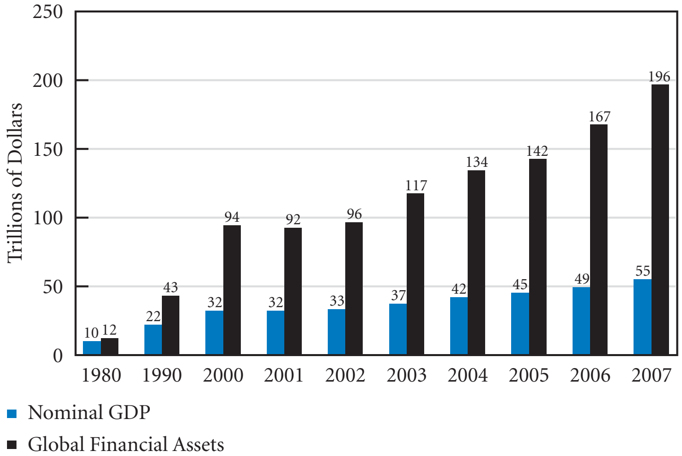
Working Paper No. 586, February 2010

Is Reregulation of the Financial System an Oxymoron?

JAN KREGEL

Working Paper No. 585, February 2010

Financial and Real Wealth in the United States, 1980–2007



Source: McKinsey Global Institute. From "The Global Financial Crisis and a New Capitalism?"

As long as the policy is to provide sufficient liquidity in the hope that asset prices will return to levels that allow banks to remain solvent with minimum capital injections, there can and will be no meaningful reform or regulation of the financial system.

—From "Is Reregulation of the Financial System an Oxymoron?"

The Global Crisis and the Future of the Dollar: Toward Bretton Woods III?

JÖRG BIBOW

Working Paper No. 584, February 2010

The Euro and Its Guardian of Stability: The Fiction and Reality of the 10th Anniversary Blast

JÖRG BIBOW

Working Paper No. 583, November 2009

Minsky Moments, Russell Chickens, and Gray Swans: The Methodological Puzzles of the Financial Instability Analysis

ALESSANDRO VERCELLI

Working Paper No. 582, November 2009

An Alternative View of Finance, Saving, Deficits, and Liquidity

L. RANDALL WRAY

Working Paper No. 580, October 2009

A Perspective on Minsky Moments: The Core of the Financial Instability Hypothesis in Light of the Subprime Crisis

ALESSANDRO VERCELLI

Working Paper No. 579, October 2009

Money Manager Capitalism and the Global Financial Crisis

L. RANDALL WRAY

Working Paper No. 578, September 2009

A Financial Sector Balance Approach and the Cyclical Dynamics of the US Economy

PAOLO CASADIO, ANTONIO PARADISO

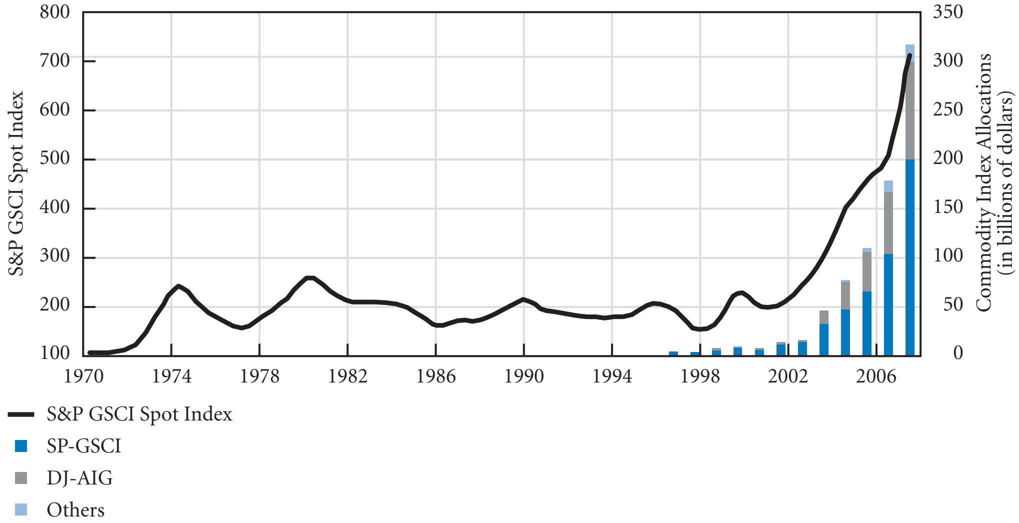
Working Paper No. 576, September 2009

A Critical Assessment of Seven Reports on Financial Reform: A Minskyan Perspective, Part IV: Summary Tables

ÉRIC TYMOIGNE

Working Paper No. 574.4, August 2009

S&P GSCI Spot Price Commodity Index versus Index Speculator Assets, 1970–2008



Sources: Bloomberg, Goldman Sachs, CFTC Commitments of Traders CIT Supplement; calculations based on CFTC COT/CIT report. From "Money Manager Capitalism and the Global Financial Crisis"

Only a Fed insulated from short-term, political impulses can focus on crafting the right mix of policies for the economy in the long term.

—Richard W. Fisher, speaking at the 19th Annual Hyman P. Minsky Conference

A Critical Assessment of Seven Reports on Financial Reform: A Minskyan Perspective, Part III: G30, OECD, GAO, ICMBS Reports

ÉRIC TYMOIGNE

Working Paper No. 574.3, August 2009

A Critical Assessment of Seven Reports on Financial Reform: A Minskyan Perspective, Part II: Treasury, CRMPG Reports, Financial Stability Forum

ÉRIC TYMOIGNE

Working Paper No. 574.2, August 2009

A Critical Assessment of Seven Reports on Financial Reform: A Minskyan Perspective, Part I: Key Concepts and Main Points

ÉRIC TYMOIGNE

Working Paper No. 574.1, August 2009

Securitization, Deregulation, Economic Stability, and Financial Crisis, Part II: Deregulation, the Financial Crisis, and Policy Implications

ÉRIC TYMOIGNE

Working Paper No. 573.2, August 2009

Securitization, Deregulation, Economic Stability, and Financial Crisis, Part I: The Evolution of Securitization

ÉRIC TYMOIGNE

Working Paper No. 573.1, August 2009

Ajit Zacharias, *Levy Institute*

PROGRAM 3 | THE DISTRIBUTION OF INCOME AND WEALTH, AND THE LEVY INSTITUTE MEASURE OF ECONOMIC WELL-BEING (LIMEW)

With the current economic crisis hitting minority communities (especially black and Hispanic communities) particularly hard, a national debate on alleviating the racial economic gap is imperative.

—From *Has Progress Been Made in Alleviating Racial Economic Inequality?*

Economic inequality has been a prominent and perennial concern in economics and public policy. The rise in inequality that occurred during the 1970s and early 1980s stimulated interest in the study of its causes and consequences. Experience from the 1990s suggests that economic growth and prosperity no longer dramatically reduce economic inequality. The persistent inequalities within nations and across nations raise several key issues that demand scholarship and innovative policies to aid in their resolution.

Recognizing this, the Levy Institute has maintained since its founding an active research program on the distribution of earnings, income, and wealth. Research in this area includes studies on the economic well-being of the elderly, public and private pensions, well-being over the life course, the role of assets in economic well-being, and the determinants of the accumulation of wealth.

It is widely acknowledged that existing official measures of economic well-being need to be improved in order to generate accurate cross-sectional and intertemporal comparisons. The picture of economic well-being can vary significantly, depending on the measure used. Alternative measures are also crucially important for the formulation and evaluation of a wide variety of social and economic policies. The Levy Institute Measure of Economic Well-Being (LIMEW) and related research is aimed at bridging this gap.

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Edward N. Wolff, *Senior Scholar*
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Ajit Zacharias, *Senior Scholar*
Selçuk Eren, *Research Scholar*
Thomas Masterson, *Research Scholar*
Robert Haveman, *Research Associate*
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Susan E. Mayer, *Research Associate*
Branko Milanovic, *Research Associate*
Jacques Silber, *Research Associate*
Barbara Wolfe, *Research Associate*

THE LEVY INSTITUTE MEASURE OF ECONOMIC WELL-BEING (LIMEW)

The LIMEW is informed by the view that three key institutions—the market, state, and household—mediate a household's access to the goods and services produced in a modern market economy. The magnitude of the access that the household can exercise is approximated by a measure of well-being that reflects the resources the household can command for facilitating current consumption or acquiring physical or financial assets. The three institutions form interdependent parts of an organic entity, and household economic well-being is fundamentally shaped by the complex functioning of this entity.

The LIMEW has two crucial characteristics. First, its focus is limited to components that can be converted into money equivalents. Second, it is a household-level measure that can be evaluated for households in different economic and demographic groups—for example, those in different percentiles of the income distribution or in different racial groups.

The LIMEW is constructed as the sum of the following components: base money income (gross money income less government cash transfers and property income), the value of certain employer-provided in-kind benefits, income from wealth, net government expenditures (transfers and public consumption net of taxes), and the value of household production. In the absence of an ideal, unified database with which to measure household economic well-being, the LIMEW is built using, for the most part, information from income and employment surveys (e.g., the Annual Demographic Supplement of the Current Population Survey, conducted by the US Census Bureau), other surveys on wealth and time use, National Income and Product Accounts, and government agencies.

One strand of research related to the LIMEW focuses on the conceptual, methodological, and data problems involved in measuring economic well-being. Another line of research analyzes specific aspects of the level and distribution of economic well-being. The ultimate goals of the project are to provide, at regular intervals, LIMEW estimates for the United States and other countries in the Organisation for Economic Co-operation and Development, and to relate the measure and its components to the changing economic and policy environment.

An unavoidable part of constructing measures of economic well-being is that one needs to choose among assumptions that are arguably equally tenable.

—From "The Levy Institute Measure of Well-Being, Great Britain, 1995 and 2005"

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Ajit Zacharias, *Senior Scholar*
Selçuk Eren, *Research Scholar*
Thomas Masterson, *Research Scholar*

PUBLICATIONS

LIMEW REPORT

Has Progress Been Made in Alleviating Racial Economic Inequality?

THOMAS MASTERSON, AJIT ZACHARIAS, EDWARD N. WOLFF
LIMEW Report, November 2009

Defining US society as "postracial" may be premature. Studies continue to show wide racial gaps in income and, especially, wealth; although there is some evidence that income gaps have shrunk over the past half century, wealth inequality is large and persistent.

In this report, Research Scholar Masterson and Senior Scholars Zacharias and Wolff examine trends in economic well-being between 1959 and 2007 based on the race and/or ethnicity of households. Using the Levy Institute Measure of Economic Well-Being, they find that changes in household wealth and net government expenditure are the key elements in the story that unfolds about racial differences.

WORKING PAPERS

The Levy Institute Measure of Economic Well-Being, Great Britain, 1995 and 2005

SELÇUK EREN, THOMAS MASTERSON, EDWARD N. WOLFF, AJIT ZACHARIAS

Working Paper No. 667, April 2011

Quality of Match for Statistical Matches Used in the 1995 and 2005 LIMEW Estimates for Great Britain

THOMAS MASTERSON

Working Paper No. 663, March 2011

Quality of Match for Statistical Matches Used in the 1992 and 2007 LIMEW Estimates for the United States

THOMAS MASTERSON

Working Paper No. 618, September 2010

Quality of Match for Statistical Matches Used in the 1999 and 2005 LIMEW Estimates for Canada

THOMAS MASTERSON

Working Paper No. 615, September 2010

Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze—an Update to 2007

EDWARD N. WOLFF

Working Paper No. 589, March 2010

The rising debt of the middle class made them vulnerable to income shocks and set the stage for the mortgage crises of 2008 and 2009 and the resulting financial meltdown.

—From "Recent Trends in Household Wealth in the United States"

Jan Kregel and
Rania Antonopoulos,
Levy Institute

PROGRAM 4 | GENDER EQUALITY AND THE ECONOMY

While gender inequalities have diminished in some aspects of life, they remain deeply rooted in others. In no country around the world do men and women enjoy complete equality in economic and political participation, earnings, educational attainment, general health, and physical security. These gender gaps undermine economic growth and development and are costly to individuals and households.

The Levy Institute's Gender Equality and the Economy (GEE) program focuses on the ways in which economic processes and policies affect gender equality and examines the influence of gender inequalities on economic outcomes. GEE's goal is to stimulate reexamination of key economic concepts, models, and indicators—with a particular view to reformulating policy. It offers a broad view of what an economy is and how it functions, bringing into the analysis not only paid work but also the unpaid work (e.g., caring for families and community volunteerism) that enables the market economy to function. Ultimately, the program seeks to contribute knowledge that improves women's status and helps them realize their rights in the United States and other countries.

Gender-informed, well-designed public job creation has the potential to steer the economy in a direction that is both efficient and equitable. . . .

—From *Unpaid Work and the Economy*

RESEARCH

GEE research concentrates on three primary themes: gender equality and public finance; gender dimensions of macroeconomic and international economic policy; and gender equality, poverty, and well-being in national and international perspective. Public finance (which includes taxation, spending by public bodies on goods and services, provision of income transfers from governments to households, and government borrowing and debt) has the potential to reduce or increase gender inequalities. Yet very little research exists on the ways in which various public finance policies influence gender inequality within and across countries and over time. How much do tax and transfer policies offset market-based gender-income inequalities? Does a greater voice for women in public policy result in changes in the size and composition of government budgets? What are the gender biases of taxation and tax-policy reforms?

In the past decade, a growing body of work has explored how macroeconomic outcomes are affected by gender inequalities, and how gender inequalities are influenced by macroeconomic policies. Although gender equality is not the focus of macroeconomic policy, such policies cannot be assumed to be gender neutral. Does a balanced-budget requirement make the reduction of gender inequality more difficult? Is a focus on public investment and full employment sufficient for achieving gender equality? How can economic growth and gender equality be made compatible? What is the impact of employment guarantee strategies on gender equality and pro-poor development? Can gender equality improve the employment/inflation trade-off?

The Levy Institute Measure of Economic Well-Being (see page 35) was established in order to improve existing official measures of economic well-being and allow for accurate cross-sectional and intertemporal comparisons. GEE enhances this area of the Institute's work by developing research on the intersection of gender inequality and other forms of deprivation. Research includes the reexamination of UN indicators for measuring gender inequality and women's empowerment, new analyses of time-use data, and the preparation of recommendations for the refinement of existing measures and/or the development of alternative indicators that can be used in policy formulation.

JOINT UNDP–LEVY INSTITUTE STUDY ON EMPLOYMENT GUARANTEE STRATEGIES (EGS)

The recent financial turmoil has proven that when markets fail, government intervention is indispensable. One manifestation of market failure is the inability of private sector investment to absorb surplus labor. In such instances, government should intervene as employer of last resort, pursuing a policy of public job creation, which is particularly beneficial in promoting inclusive growth and preventing the marginalization of the poor and unskilled. In addition to physical infrastructure, areas that have immense potential to create much-needed jobs include social service delivery and social infrastructure.

"Impact of Public Employment Guarantee Strategies on Gender Equality and Pro-poor Development," a joint study of the Institute and the United Nations Development Programme, suggests that by bringing together public job creation and unpaid work, well-designed employment guarantee policies can promote job creation, gender equality, and pro-poor development—thus contributing toward achieving all of the Millennium Development Goals. The study, under the direction of Senior Scholar and GEE Program Director Rania Antonopoulos, examines the outcomes of two EGS programs: South Africa's Expanded Public Works Programme, and India's National Rural Employment Guarantee Act.

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Pinaki Chakraborty, *Research Associate*
Valeria Esquivel, *Research Associate*
Indira Hirway, *Research Associate*
Tamar Khitarishvili, *Research Associate*
Emel Memis, *Research Associate*
Imraan Valodia, *Research Associate*
Taun Toay, *Research Analyst*

PUBLICATIONS

PUBLIC POLICY BRIEF

Why President Obama Should Care About "Care": An Effective and Equitable Investment Strategy for Job Creation

RANIA ANTONOPOULOS, KIJONG KIM, THOMAS MASTERSON, AJIT ZACHARIAS

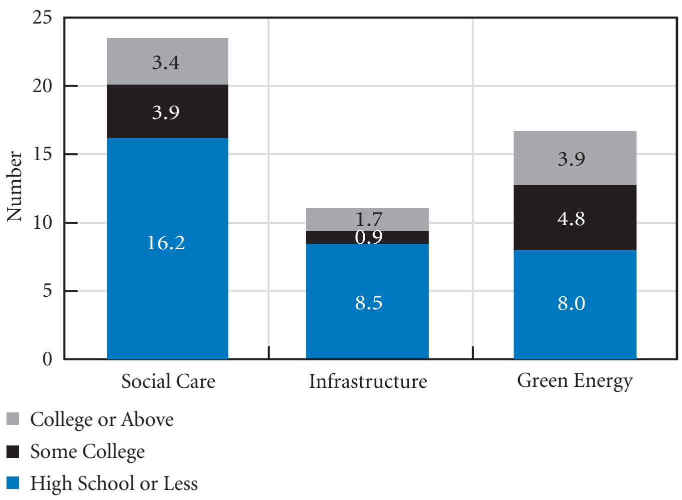
Public Policy Brief No. 108, 2010 (Highlights, No. 108A)

In his State of the Union address in January 2010, President Obama acknowledged that "our most urgent task is job creation"—that a move toward full employment will lay the foundation for long-term economic growth and ensure that the federal government creates the necessary conditions for businesses to expand and hire more workers. According to a recent Levy Institute study, the government needs to identify and invest in projects that have the potential for massive, and immediate, public job creation. The study concludes that social sector investment, such as early childhood education and home-based care, would generate twice as many jobs as infrastructure spending and nearly 1.5 times the number created by investment in green energy, while catering to the most vulnerable segments of the workforce.

Policy design that frets over "deficit spending" on job creation while generously disbursing billions to provide the necessary lifelines to those firms considered "too big to fail" discredits the social-inclusiveness principles of democratic states.

—From Why President Obama Should Care about "Care"

Number of Jobs Created per $1 Million in Spending, by Educational Level



Sources: Pollin, Wicks-Lim, and Garrett-Peltier 2009; authors' calculations.
From *Why President Obama Should Care about "Care"*

WORKING PAPERS

Gendered Aspects of Globalization

SUNANDA SEN

Working Paper No. 621, September 2010

Time and Poverty from a Developing Country Perspective

RANIA ANTONOPOULOS, EMEL MEMIS

Working Paper No. 600, May 2010

The Economic and Financial Crises in CEE and CIS: Gender Perspectives and Policy Choices

FATMA GÜL ÜNAL, MIRJANA DOKMANOVIC, RAFIS ABAZOV

Working Paper No. 598, May 2010

Determining Gender Equity in Fiscal Federalism: Analytical Issues and Empirical Evidence from India

LEKHA S. CHAKRABORTY

Working Paper No. 590, March 2010

Explaining the Gender Wage Gap in Georgia

TAMAR KHITARISHVILI

Working Paper No. 577, September 2009

The Unequal Burden of Poverty on Time Use

BURCA KIZILIRMAK, EMEL MEMIS

Working Paper No. 572, August 2009

From Unpaid to Paid Care Work: The Macroeconomic Implications of HIV and AIDS on Women's Time-tax Burdens

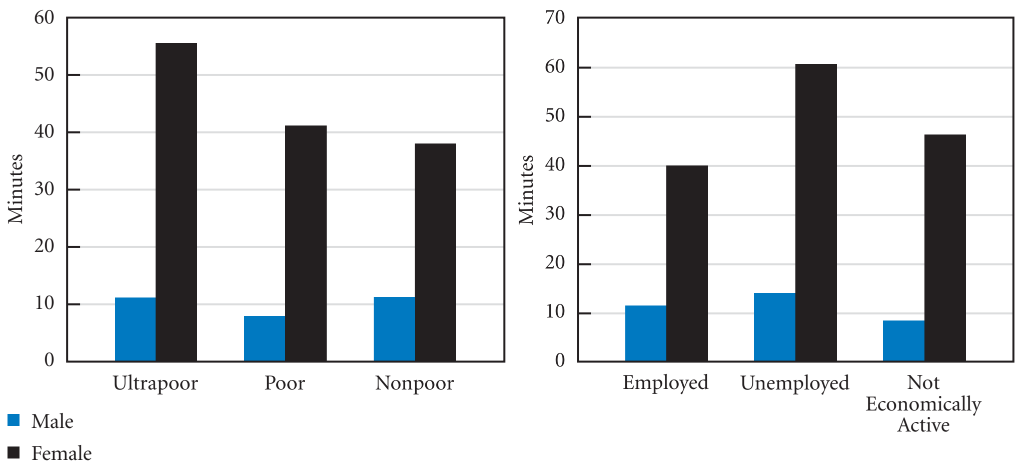
RANIA ANTONOPOULOS, TAUN TOAY

Working Paper No. 570, July 2009

While almost all countries provide some form of social security, few provide a basic social protection floor for all citizens.

—From "The Economic and Financial Crises in CEE and CIS"

Average Time Spent on Social Care, by Income and Employment Status, 2009



Source: Authors' calculations. From "From Unpaid to Paid Care Work"

Rebeca Grynspan, *United Nations*

PROGRAM 5 | EMPLOYMENT POLICY AND LABOR MARKETS

Today, in the toughest economy since the Great Depression, there are 14.5 million unemployed—9.4 percent of the labor force—and six job seekers for each available job. Involuntary part-time workers—those employed less than full-time for economic reasons—number approximately 9 million. And roughly 15 million full-time workers earn wages that place them at or below the official poverty line. Clearly, there is room for improvement on the jobs front.

In response to this problem, Levy Institute scholars have proposed a full-employment, or job-opportunity, program that would not only employ all who are willing and able to work but also increase flexibility between economic sectors, thereby lowering the social and economic costs of unemployment. This program is preferable to alternatives such as a reduction of the workweek or employment subsidies, neither of which is sure to raise employment—and both may have serious side effects. Other labor market policies studied by Levy Institute scholars include the job-creation potential of social service–delivery sectors, the effects of employment expansion on poverty, and the distributional impact of the American Recovery and Reinvestment Act of 2009.

A key component of policy reform . . . must be a commitment to keeping aggregate demand high and the economy running hot.

—From *Economic Policy for the Real World*

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PUBLICATIONS

POLICY NOTES

Economic Policy for the Real World

CHARLES J. WHALEN

Policy Note 2010/1

The nation's economic challenges are daunting. Restoring robust American prosperity and widespread economic opportunity will not be easy. But, as Hyman P. Minsky stressed, "Policy can change both the details and the overall character of the economy."

It's clear that what the United States now faces is not simply a cyclical crisis, or even an employment crisis, writes Charles J. Whalen, of Utica College. Rather, it is a standard-of-living-and-economic-opportunity crisis—the latest phase in a decadeslong "silent depression." In order to resolve it, the policy response must acknowledge a deep-seated structural problem, one rooted in the evolution of US economic development. Policymakers must pursue an agenda of recovery and reform that includes, at minimum, a major assistance package for state and local governments, more relief for the unemployed and those facing foreclosure, tougher supervision of financial institutions, stronger automatic stabilizers (e.g., public service employment), policies that foster economic opportunities for working families, improved retirement security, and labor law reform that gives workers a more realistic chance to organize and bargain collectively.

In spite of the glamour of high finance . . . efficient production and full employment are what count.

—From A Proposal for a Federal Employment Reserve Authority

A Proposal for a Federal Employment Reserve Authority

MARTIN SHUBIK

Policy Note 2009/5

An ad hoc, emergency approach to the deepening recession has a great chance of wasting billions of dollars by mismatching skills and needs. This policy note outlines a proposal aimed directly at providing good planning consistent with maintaining market freedom and minimizing pork-barrel legislation. Instead of an emergency relief program on the order of the New Deal Works Progress Administration, Shubik proposes a permanent agency modeled on the Federal Reserve that would monitor unemployment in each state and maintain a list of potential public works projects. Financing for any project could then be set in place as soon as the unemployment level in any state exceeded the trigger value, eliminating the need for relief legislation during a crisis.

A Crisis in Coordination and Competence

MARTIN SHUBIK

Policy Note 2009/4

The current deepening recession demands a "quick fix" solution now, but a longer-fix solution must be put into place along with it. There is already considerable talk about the possible need for a large public works program to follow the massive infusion of funds into the financial and automobile sectors. But who is going to manage it? For the United States to weather this great economic storm, at least four sets of highly different talents—political, bureaucratic, financial, and industrial—must be lined up and coordinated. Without their coordination, economic recommendations—no matter how good they may appear in theory—will fail in execution.

Obama's Job Creation Promise: A Modest Proposal to Guarantee That He Meets and Exceeds Expectations

PAVLINA R. TCHERNEVA

Policy Note 2009/1

Job creation is once again at the forefront of policy action, and for advocates of pro-employment policies, President Obama's Keynesian bent is a most welcome change. However, there are concerns that the administration's current stimulus plan simply does not go far enough, and that a large-scale public investment program may face shortages of skilled labor, put upward pressure on wages, and leave women and minorities behind. Research Associate Pavlina R. Tcherneva writes that all of these concerns can be addressed by a simple amendment to the plan: the guarantee of a job to *any* unemployed individual who is ready, willing, and able to participate in the economic recovery—that is, targeting the unemployed directly.

While the ameliorating impact of the stimulus plan on the employment situation is surely welcome, . . . the government could have achieved more at the same cost by skewing the stimulus package toward outlays rather than tax cuts.

—From *Who Gains from President Obama's Stimulus Package . . . And How Much?*

ONE-PAGER

Did Problems with SSDI Cause the Output-Jobs Disconnect?

GREG HANNSGEN

One-Pager No. 9, 2011

WORKING PAPERS

Public Job-creation Programs: The Economic Benefits of Investing in Social Care

RANIA ANTONOPOULOS, KIJONG KIM

Working Paper No. 671, May 2011

The Freedom Budget at 45: Functional Finance and Full Employment

MATHEW FORSTATER

Working Paper No. 668, May 2011

A Reassessment of the Use of Unit Labor Costs as a Tool for Competitiveness and Policy Analyses in India

JESUS FELIPE, UTSAV KUMAR

Working Paper No. 624, September 2010

Investing in Care: A Strategy for Effective and Equitable Job Creation

RANIA ANTONOPOULOS, KIJONG KIM, THOMAS MASTERSON, AJIT ZACHARIAS

Working Paper No. 610, August 2010

Assessing the Returns to Education in Georgia

TAMAR KHITARISHVILI

Working Paper No. 608, August 2010

Extrinsic Rewards and Intrinsic Motives: Standard and Behavioral Approaches to Agency and Labor Markets

JAMES B. REBITZER, LOWELL J. TAYLOR

Working Paper No. 607, August 2010

Decomposition of the Black-White Wage Differential in the Physician Market

TSU-YU TSAO, ANDREW PEARLMAN

Working Paper No. 588, March 2010

Joel Perlmann, *Levy Institute*

PROGRAM 6 | IMMIGRATION, ETHNICITY, AND SOCIAL STRUCTURE

The goal of policymakers should not necessarily be the attainment of racial integration, but the elimination of amenity and price differences that have persisted along racial lines.

—From "Racial Preferences in a Small Urban Housing Market"

Central to this program is the research initiative "Ethnicity and Economy in America—Past and Present," which focuses on the processes by which immigrants and their descendants are assimilated into US economic life. The Levy Institute believes that this work will shed light on current policy issues related to immigration, such as international competitiveness, the labor market, income distribution, and poverty.

The initiative comprises three research projects:

(1) "The Jews circa 1900: Social Structure in Europe and America" focuses on social characteristics that help to explain the rapid socioeconomic rise of Eastern European Jewish immigrants who entered the US economy at the turn of the 20th century. Census data that were previously unavailable or not machine readable are used to examine social and economic characteristics of Eastern European Jews who emigrated to the United States, as well as those who remained in Europe.

(2) "Assimilation and the Third Generation" explores the assimilation of immigrants into the socioeconomic mainstream of the United States, and the social and economic experiences of their American-born children. Special attention is paid to a few large groups whose absorption seemed especially slow and painful during the first and second generations: Irish immigrants who arrived in the mid 19th century, Italians and Poles who immigrated between 1880 and 1920, Mexicans who arrived throughout much of the 20th century, and Southern-born blacks who migrated north. Census data are used in new ways in order to identify and trace second- and third-generation Americans.

(3) "The New Immigration's Second Generation" reviews literature that deals with the economic progress made, and difficulties faced, by children of today's immigrants—that is, in the first decades of the 21st century. Their experiences are compared with those faced by children of immigrants at the turn of the 20th century.

RESEARCH GROUP ON ISRAELI SOCIAL STRUCTURE AND INEQUALITY

This second long-term research initiative, begun in the fall of 2008, focuses on three domains of inequality in Israel.

First, ethnic origin and immigration status play key roles in shaping the Israeli stratification system. Crucial is the division between Jews and Arabs, and, among Jews, the division between Mizrachim (Jews from Muslim, mostly Arab, lands) and Ashkenazim (Jews of European descent). First- and second-generation Mizrachim lag behind Ashkenazim on various measures of economic well-being, such as education and labor market attainment. The issue of second-generation catch-up or decline, which reverberates through discussions of contemporary American and European immigration, is also common in social science literature on Israel. The Levy approach is characterized by a closer look at the evidence, especially by individual country of origin and over time, and a perspective of international comparisons.

Second, Israel today has one of the highest rates of poverty in the developed world, and the gaps between the wealthy and the poor have increased substantially over the past three decades. The Levy Institute will explore the shifting income and wealth distributions in Israel during the recent years of increasing privatization policies and globalization trends.

Third, the Levy Institute looks to study the results of the massive restructuring of Israeli higher education over the past decade and a half: the creation of a large number of smaller “colleges” of varying quality, where before there had been only a half-dozen universities, all of them essentially research institutions. The 2008 Israel Integrated Census of Population and Housing should provide data on the connection between the expansion of the educational system and returns to schooling.

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PUBLICATIONS

WORKING PAPERS

Views of European Races among the Research Staff of the US Immigration Commission and the Census Bureau, ca. 1910

JOEL PERLMANN

Working Paper No. 648, January 2011

Immigrant Parents’ Attributes versus Discrimination: New Evidence in the Debate about the Creation of Second Generation Educational Outcomes in Israel

JOEL PERLMANN, YUVAL ELMELECH

Working Paper No. 633, November 2010

Racial Preferences in a Small Urban Housing Market: A Spatial Econometric Analysis of Microneighborhoods in Kingston, New York

SANJAYA DESILVA, ANH PHAM, MICHAEL SMITH

Working Paper No. 599, May 2010

James K. Galbraith, *Levy Institute*

PROGRAM 7 | ECONOMIC POLICY FOR THE 21ST CENTURY, INCLUDING FEDERAL BUDGET POLICY AND EXPLORATIONS IN THEORY AND EMPIRICAL ANALYSIS

A Medicare buy-in would provide a genuine "public option" that, by competing against private insurance companies, would help control costs.

—From *Toward True Health Care Reform*

Nearly all Levy Institute research focuses not only on economic analysis but also on the creation of possible strategies through which policymakers could solve the problem at hand. Program 7 includes research on those macroeconomic policy areas most closely associated with public sector activities: monetary policy and financial institutions, federal budget policy, and the labor market. Examples of studies on monetary policy and financial institutions include explorations of the repercussions the introduction of the euro has had on monetary and fiscal policies and monetary institutions within the European Union; the effectiveness of monetary policy; and Minskyan analyses of the current global recession. Examinations of federal budget policies cover such topics as the effects of budget surpluses on the economy, the need for fiscal expansion to combat economic torpor, and analyses of the Social Security and health care systems.

FEDERAL BUDGET POLICY

The demographic shift resulting from the aging of the baby boomer generation presents a number of potential dilemmas for policymakers. Whether a shrinking working-age population can support its own dependents, in addition to retirees, has led to debates about the increasing size of budgets for Social Security, Medicare, and Medicaid—now and in the future. Questions are raised about whether these government programs can continue to function in the same manner, and achieve the same goals, as they do today. Will structural reform be necessary? Do we wish to provide the same, or a higher, level of support equally throughout the aging population? Should some, or all, benefits be "income tested"? What can be done today to offset future problems?

In aggregate terms, fiscal debates have turned from what constitutes the necessary size and composition of a stimulus package to what should be done about the federal deficit. Some economists have argued that, by creating a wider pool of funds available for investment, "fiscal responsibility" resulted in greater access to investment funds by private sector firms, which, in turn, stimulated economic growth. Others contend that the unprecedented growth of the 1990s happened in spite of budget surpluses, and that if the composition of private versus public funding had been more in balance, growth and employment would have expanded even further. These debates are related to those that surround the current demand shortfall and to calls for additional fiscal stimulus: if budget surpluses were the cause of economic growth, an argument can be made that fiscal stimulus should focus on investment-targeted tax cuts. If, however, surpluses were the result of economic growth, then demand-led fiscal policies, such as spending programs and tax cuts aimed broadly over the income distribution, should be the focus.

In responding to the issues listed above, Levy Institute scholars have concentrated recent research on evaluating proposals that would alter the structure of Social Security in order to deal with future funding shortfalls, privatize any or all of the Social Security program, and restructure Medicaid financing to widen the availability of funding for long-term care. Other recent analyses deal with specific budgetary issues, such as tax-cut proposals and the efficacy of quantitative easing.

EXPLORATIONS IN THEORY AND EMPIRICAL ANALYSIS

On occasion, scholars at the Levy Institute conduct research that does not fall within a current program or general topic area. Such study might include examination of a subject of particular policy interest, empirical research that has grown out of work in a current program area, or initial exploration in an area being considered for a new research program. Recent studies have included the transition from industrial capitalism to a financialized bubble economy, the link between market failure and land concentration in Turkey, and alpha-stable shocks in monetary SVAR (structural vector autoregression).

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PUBLICATIONS

PUBLIC POLICY BRIEF

Toward True Health Care Reform: More Care, Less Insurance

MARSHALL AUERBACK, L. RANDALL WRAY

Public Policy Brief No. 110, 2010 (Highlights, No. 110A)

The US health care system is the most costly in the world, yet produces inferior outcomes relative to systems in other countries. This brief examines the health care reform debate and argues that the basic structure of the health care system is unlikely to change, because "reform" measures actually promote the status quo. The authors would prefer to see a reduced role for private insurers and an increased role for government funding. A Medicare buy-in ("public option") for people under 65 would provide more cost control (by competing with private insurance), expand the patient risk pool, and enhance the global competitiveness of US corporations—thus bringing the US health care system closer to the "ideal" low-cost, universal insurance plan.

The sophistication of a country's export basket has proven to be a good predictor of future growth: controlling for initial income, countries with a more sophisticated export basket (also initially) grow faster.

—From "Modeling Technological Progress and Investment in China"

POLICY NOTE

The "Unintended Consequences" Game

MARTIN SHUBIK

Policy Note 2009/6

Each new piece of legislation contains loopholes that benefit a new class of entrepreneurs (and their lawyers); some of these loopholes are small, but others are such that one could drive a bullion-laden truck through them. Research Associate Martin Shubik suggests creating a "war gaming group" within the Department of Justice to stress-test all major new legislation, with a first prize of $1 million to be awarded to the competing lawyer or team of lawyers who finds the most egregious loophole—a small amount relative to the potential savings.

WORKING PAPERS

Income Distribution in a Monetary Economy: A Ricardo-Keynes Synthesis

NAZIM KADRI EKINCI

Working Paper No. 672, May 2011

The Product Space: What Does It Say About the Opportunities for Growth and Structural Transformation of Sub-Saharan Africa?

ARNELYN ABDON, JESUS FELIPE

Working Paper No. 670, May 2011

The Dismal State of Macroeconomics and the Opportunity for a New Beginning

L. RANDALL WRAY

Working Paper No. 652, March 2011

How Rich Countries Became Rich and Why Poor Countries Remain Poor: It's the Economic Structure . . . *Duh!*

JESUS FELIPE, UTSAV KUMAR, ARNELYN ABDON

Working Paper No. 644, December 2010

Modeling Technological Progress and Investment in China: Some Caveats

JESUS FELIPE, JOHN MCCOMBIE

Working Paper No. 643, December 2010

Disaggregating the Resource Curse: Is the Curse More Difficult to Dispel in Oil States than in Mineral States?

TIMOTHY AZARCHS, TAMAR KHITARISHVILI

Working Paper No. 641, December 2010

Exports, Capabilities, and Industrial Policy in India

JESUS FELIPE, UTSAV KUMAR, ARNELYN ABDON

Working Paper No. 638, November 2010

Exploring the Philippine Economic Landscape and Structural Change Using the Input-Output Framework

NEDELYN MAGTIBAY-RAMOS, GEMMA ESTRADA, JESUS FELIPE

Working Paper No. 631, October 2010

The Impact of Geography and Natural Resource Abundance on Growth in Central Asia

JESUS FELIPE, UTSAV KUMAR

Working Paper No. 629, October 2010

The Role of Trade Facilitation in Central Asia: A Gravity Model

JESUS FELIPE, UTSAV KUMAR

Working Paper No. 628, October 2010

The Transition from Industrial Capitalism to a Financialized Bubble Economy

MICHAEL HUDSON

Working Paper No. 627, October 2010

Technical Change in India's Organized Manufacturing Sector

JESUS FELIPE, UTSAV KUMAR

Working Paper No. 626, October 2010

Product Complexity and Economic Development

ARNELYN ABDON, MARIFE BACATE, JESUS FELIPE, UTSAV KUMAR

Working Paper No. 616, September 2010

As You Sow So Shall You Reap: From Capabilities to Opportunities

JESUS FELIPE, UTSAV KUMAR, ARNELYN ABDON

Working Paper No. 613, August 2010

Using Capabilities to Project Growth, 2010–30

JESUS FELIPE, UTSAV KUMAR, ARNELYN ABDON

Working Paper No. 609, August 2010

Infinite-variance, Alpha-stable Shocks in Monetary SVAR

GREG HANNSGEN

Working Paper No. 596, May 2010

Market Failure and Land Concentration

FATMA GÜL ÜNAL

Working Paper No. 575, August 2009

How Well Do Individuals Predict the Selling Prices of Their Homes?

HUGO BENÍTEZ-SILVA, SELCUK EREN, FRANK HEILAND, SERGI JIMÉNEZ-MARTÍN

Working Paper No. 571, August 2009

The financialization of real estate is a distinctly 20th-century phenomenon, going hand in hand with the democratization of property ownership.

—From "The Transition from Industrial Capitalism to a Financialized Bubble Economy"

PROGRAM 8 | EQUALITY OF EDUCATIONAL OPPORTUNITY IN THE 21ST CENTURY

At least since publication of James Coleman's *Equality of Educational Opportunity* in 1966, social scientists and policymakers have been concerned with identifying barriers to equal opportunity and developing strategies to overcome them. Today, concerns about equal educational opportunity support a variety of school reform activities as well as efforts to ensure that more students move from high school to college and actually complete a degree.

While this focus is reasonable, Levy Institute scholars believe it leaves out two crucial factors. First, there are not enough jobs—let alone "good jobs"—to go around. There are fewer jobs in the United States today than in 2000, even though there are 11 million more workers seeking them. According to some estimates, a full count of unemployment (which would include those who cannot find full-time jobs and therefore work part-time, and those who want to work and have stopped looking for work) would run very much higher than the official unemployment rate of the US workforce. Knowledge that jobs are scarce may encourage the most "able" students to work harder in school, but it discourages many others and may diminish overall achievement.

We have asked schools to educate children who come to school bearing all the problems this country would prefer to ignore.

—Ellen Condliffe Lagemann

Beyond that, if one is African American, the chances are greater of going to prison than to college. According to a 2009 report by the Pew Center on the States, 9.2 percent of African American adults are in prison (compared to 3.7 percent of Hispanic adults and 2.2 percent of white adults); 7.0 percent of African Americans are enrolled in college or graduate school. For young people in many inner-city neighborhoods, prison is an expected part of the life cycle. Many factors have contributed to increasing rates of incarceration, but Levy Institute scholars are convinced that a lack of job opportunity in the "regular" economy is central among them. This lack depresses aspiration and often triggers a chain of events that have negative consequences—dropping out of school, engaging in crime, spending time in prison, and being unable to find stable employment upon release. From this perspective, the pipeline to prison that is a central fact of childhood for many African Americans is as much a barrier to equal educational opportunity as it is a consequence of poor schools.

Levy Institute scholars believe that education policies that ignore these realities are myopic. They focus on participation and success in particular institutions rather than on mapping opportunity and life chances for different groups within the population. They separate rather than join matters of demography, schooling, and labor markets. These policies reflect the ways in which research universities have parsed social science and they do not advance approaches likely to yield effective knowledge for policy and practice.

With all this in mind, the Institute established a new research program in 2009: Equality of Educational Opportunity in the 21st Century. The program will serve as an umbrella for a variety of projects, including, "Assessments of the Bard Prison Initiative," "Seminar on Youth Education and Employment," and "Social Science and Social Policy since Coleman."

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CONFERENCES AND SYMPOSIA

PROGRAMS: THE STATE OF THE US AND WORLD ECONOMIES; MONETARY POLICY AND FINANCIAL STRUCTURE

THE HYMAN P. MINSKY SUMMER SEMINAR

June 18–26, 2011
Levy Economics Institute of Bard College
Organized with Support from the Ford Foundation

The second annual Hyman P. Minsky Summer Seminar drew 47 students from 17 countries. Organized by Jan Kregel, Dimitri B. Papadimitriou, and L. Randall Wray, this annual program is of particular interest to graduate students and those at the beginning of their academic or professional career. The faculty includes well-known economists concentrating on and expanding Minsky's work in the areas of systemic fragility and financial theory. This year, lectures and panel discussions focused on financial reform, reserve banking, central bank operations, employment guarantee policies, community development banking, the financial balances approach to global rebalancing, stock-flow consistent modeling, and the global economic outlook.

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Mathew Forstater, *Levy Institute* and *University of Missouri–Kansas City*
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Lucas Azeredo da Silva Teixeira, *IPEA and UNICAMP, Brazil*
Josh Temin, *Washington University in St. Louis*

Gary Gensler, *US Commodity Futures Trading Commission*

PROGRAMS: THE STATE OF THE US AND WORLD ECONOMIES; MONETARY POLICY AND FINANCIAL STRUCTURE

The 20th Annual Hyman P. Minsky Conference on the State of the US and World Economies
FINANCIAL REFORM AND THE REAL ECONOMY

April 13–15, 2011
Ford Foundation, New York City

A Conference Organized by the Levy Economics Institute of Bard College with Support from the Ford Foundation

Hyman Minsky was convinced that a program of financial reform must be based on a critique of the existing system that identifies both what has gone wrong and why it happened. In the context of the 2007–08 crisis, this raises a number of questions: Should ending too-big-to-fail be the cornerstone of reform? Do the markets' pursuit of self-interest generate real societal benefits? Is financial sector growth actually good for the real economy? Will the recently passed US financial reform bill make the entire financial system, not only the banks, safer?

The 20th Annual Minsky Conference—with 300 participants, the Institute's largest conference to date—addressed the ongoing effects of the global financial crisis on the real economy. The European, Latin American, and Asian responses to the crisis were compared, and proposals for reforming the international financial architecture were reviewed. Central bank exit strategies were also considered. In addition to Federal Reserve Bank Presidents Charles Evans and Charles Plosser, Gary Gensler of the CFTC, and former PIMCO managing director Paul McCulley, keynote speakers included FDIC head Sheila Bair ("Financial Reform: The Road Ahead"), Paul Tucker of the Bank of England ("Financial Stability and the UK's Macroprudential Regime"), Argentine central bank president Mercedes Marcó del Pont ("International Crisis and Policy Space: Challenges for Emerging Countries"), and Brookings scholar Martin Mayer ("The Man Who Got It Right: Hyman P. Minsky and the Economics of Trouble").

PARTICIPANTS

Phil Angelides, *Financial Crisis Inquiry Commission*
Marshall Auerback, *Levy Institute* and *The Roosevelt Institute*
Sheila C. Bair, *Federal Deposit Insurance Corporation*
Richard S. Berner, *Morgan Stanley*
John Cassidy, The New Yorker
Vítor Constâncio, *European Central Bank*
Eric Dash, The New York Times
Charles L. Evans, *Federal Reserve Bank of Chicago*
José M. Gabilondo, *Florida International University*
James K. Galbraith, *Levy Institute* and *University of Texas at Austin*
Gary Gensler, *US Commodity Futures Trading Commission*
Gary B. Gorton, *Yale University* and *National Bureau of Economic Research*
Michael Greenberger, *The University of Maryland School of Law*
Francesco Guerrera, Financial Times
Peter Hooper, *Deutche Bank Securities*
William H. Janeway, *Warburg Pincus* and *Cambridge in America*
Robert A. Johnson, *Institute for New Economic Thinking*
Jan Kregel, *Levy Institute* and *Tallinn Technical University*
Justin Lahart, The Wall Street Journal
Roger Lowenstein, The New York Times
Jeff Madrick, Challenge, *The Roosevelt Institute*, and *The New School for Social Research*
Michael W. Masters, *Masters Capital Management, LLC*
Martin Mayer, *The Brookings Institution*
Paul A. McCulley, *Society of Fellows, Global Interdependence Center; formerly, PIMCO*
Joe Nocera, The New York Times
Arturo O'Connell, *Central Bank of Argentina*
Athanasios Orphanides, *Central Bank of Cyprus* and *Governing Council, European Central Bank*
Dimitri B. Papadimitriou, *Levy Institute*
Robert W. Parenteau, *Levy Institute* and *MacroStrategy Edge*
Charles I. Plosser, *Federal Reserve Bank of Philadelphia*
Alex J. Pollock, *American Enterprise Institute for Public Policy Research*
Mercedes Marcó del Pont, *Central Bank of Argentina*
Stephen S. Roach, *Morgan Stanley* and *Yale University*
Andrew Sheng, *China Banking Regulatory Commission* and *Tsinghua University*
Philip Suttle, *The Institute of International Finance*
Paul Tucker, *Bank of England*
Éric Tymoigne, *Levy Institute* and *Lewis and Clark College*
Louis Uchitelle, The New York Times
Steve Randy Waldman, *Interfluidity.com*
Lori M. Wallach, *Global Trade Watch, Public Citizen*
L. Randall Wray, *Levy Institute* and *University of Missouri–Kansas City*

Jan Kregel, *Levy Institute*

PROGRAMS: THE STATE OF THE US AND WORLD ECONOMIES; MONETARY POLICY AND FINANCIAL STRUCTURE

THE HYMAN P. MINSKY SUMMER SEMINAR AND CONFERENCE

June 19–29, 2010
Levy Economics Institute of Bard College
Organized with Support from the Ford Foundation

The first annual Minsky Summer Seminar took place on the Bard College campus June 19–26, 2010, and was followed by a three-day Conference. The Seminar offered a rigorous discussion of theoretical and applied aspects of Minskyan economics, with an examination of meaningful prescriptive policies relevant to the current economic and financial crisis. Sixty students from 16 countries attended lectures and discussion sessions on topics ranging from Minsky's theory of investment, to green jobs and guaranteed employment programs, to financial imbalances in the eurozone. The Conference provided a forum for the presentation and discussion of papers and works in progress dealing with Minskyan themes, concentrated in the following areas: stock-flow modeling and policy simulations; financial fragility; modern money, endogeneity, and functional finance; asset bubbles; employment of last resort and poverty reduction; and macroeconomic stability.

SEMINAR FACULTY

Rania Antonopoulos, *Levy Institute*
Robert J. Barbera, *Investment Technology Group, Inc.*
Paul Davidson, Journal of Post Keynesian Economics and *The New School for Social Research*
Steven M. Fazzari, *Levy Institute* and *Washington University in St. Louis*
Mathew Forstater, *Levy Institute* and *University of Missouri–Kansas City*
John Henry, *University of Missouri–Kansas City*

Stephanie A. Kelton, *Levy Institute* and *University of Missouri–Kansas City*
Jan Kregel, *Levy Institute* and *Tallinn University of Technology, Estonia*
Marc Lavoie, *University of Ottawa, Canada*
Dimitri B. Papadimitriou, *Levy Institute*
Robert W. Parenteau, *Levy Institute* and *MacroStrategy Edge*
Pavlina R. Tcherneva, *Levy Institute* and *Franklin and Marshall College*
Jan Toporowski, *School of Oriental and African Studies, University of London, England*
Éric Tymoigne, *Levy Institute* and *Lewis and Clark College*
Charles J. Whalen, *School of Industrial and Labor Relations, Cornell University*
L. Randall Wray, *Levy Institute* and *University of Missouri–Kansas City*
Gennaro Zezza, *Levy Institute* and *University of Cassino, Italy*

SEMINAR PARTICIPANTS

Tanweer Akram, *ING Investment Management*
Radhouan Ben Chalbia, *University of Sfax, Tunisia*
Thomas Bernhardt, *The New School for Social Research*
Juan M. Berrondo, *Telecom Argentina*
Roberto Alexandre Zanchetta Borghi, *State University of Campinas, Brazil*
Aldo Caliari, *Rethinking Bretton Woods Project, Center of Concern*
Kevin W. Capehart, *American University*
Eugenio Caverzasi, *University of Pavia, Italy*
Jennifer Churchill, *School of Oriental and African Studies, University of London, England*
Alan Cibils, *National University of General Sarmiento (UNGS), Buenos Aires, Argentina*
Daniel Negreiros Conceicao, *University of Missouri–Kansas City*
Moritz Alberto Cruz Blanco, *Economic Research Institute (IIEc), National Autonomous University of Mexico (UNAM)*
Yannis Dafermos, *University of Athens, Greece*
Serkan Demirkilic, *University of Massachusetts Amherst*
Corrado DiGuilmi, *University of Technology, Sydney, Australia*
Ryan Dodd, *University of Missouri–Kansas City*
Janet Dzator, *University of Newcastle, Australia*
Lief Erickson, *University of Missouri–Kansas City*
Martin Fiszbein, *Brown University*
Leonardo Flauzino de Souza, *State University of Campinas, Brazil*
Georgios Galanis, *School of Oriental and African Studies, University of London, England*
Aida J. Garcia Lazaro, *National Autonomous University of Mexico (UNAM)*
Antoine Godin, *University of Pavia, Italy*
Joshua P. Golden, *Ohio University*
Andrew R. Johnson, *University of Missouri–Kansas City*
Ewa Karwowski, *National Treasury, South Africa*
Tajkira Khandoker, *University of Newcastle, Australia*
Fernando Lara Lopez, *Metropolitan Autonomous University, Mexico*
Yan Liang, *Willamette University*
Igor Lopes Rocha, *State University of Campinas, Brazil*
Jorge Lopez Martinez, *PIMDCE, Mexico*
David Alberto Maldonado Tafoya, *National Autonomous University of Mexico (UNAM)*
Amine Marouane, *University of Sfax, Tunisia*

Guilherme Santos Mello, *State University of Campinas, Brazil*
Monika Meireles, *National Autonomous University of Mexico (UNAM)*
Jo Michell, *School of Oriental and African Studies, University of London, England*
Jesús Muñoz, *Southern Anáhuac University, Mexico*
Yeva Nersisyan, *University of Missouri–Kansas City*
Maria Nikolaidi, *University of Athens, Greece*
Leonid Okneanski, *Fortis Insurance*
Omosalewa Olawoye, *Laurentian University, Sudbury, Ontario, Canada*
Jago Penrose, *School of Oriental and African Studies, University of London, England*
Manoel Pires, *Brazilian Ministry of Finance*
Ognjen Radonjic, *University of Belgrade, Serbia*
Devin Rafferty, *University of Missouri–Kansas City*
Martin Rapetti, *University of Massachusetts Amherst*
Felipe Rezende, *University of Missouri–Kansas City*
Armando Sanchez, *Economic Research Institute (IIEc), National Autonomous University of Mexico (UNAM)*
Michael Savoury, *University of Ottawa, Canada*
Jin Son, *Seoul National University, Korea*
Daniela Tavasci, *School of Oriental and African Studies, University of London, England*
Eleonora Tubio, *CEDES, Argentina*
Eva Ugarte Pineda, *PIMDCE, Mexico*
Luigi Maria Antonio Ventimiglia Di Monteforte, *School of Oriental and African Studies, University of London, England*
Shujoya Venugopalan, *School of Oriental and African Studies, University of London, England*
Stefan Voss, *Bayerische Landesbank*

CONFERENCE PARTICIPANTS

Arie Arnon, *Ben Gurion University, Beersheeba,* and *Van Leer Jerusalem Institute, Israel*
Jesús Muñoz Bandala, *Southern Anáhuac University, Mexico*
Radhouan Ben Chalbia, *University of Sfax, Tunisia*
Roberto Borghi, *State University of Campinas, Brazil*
C. Chiarella, *University of Technology, Sydney, Australia*
Daniel Conceiçao, *University of Missouri–Kansas City*
Yannis Dafermos, *University of Athens, Greece*
Paul Davidson, Journal of Post Keynesian Economics and *The New School for Social Research*
Corrado Di Guilmi, *University of Technology, Sydney, Australia*
Janet Dzator, *University of Newcastle, Australia*
Michael Hudson, *University of Missouri–Kansas City*
Arturo Huerta, *National Autonomous University of Mexico (UNAM)*
Marie-Pierre Jacquin, *Groupe ESC Dijon Bourgogne*
Steve Keen, *University of Western Sydney, Australia*
Tajkira Khandoker, *University of Newcastle, Australia*
Srdjan Kokotovic, *Foundation for the Advancement of Economics*
Jan Kregel, *Levy Institute* and *Tallinn University of Technology, Estonia*
Marc Lavoie, *University of Ottawa, Canada*
Noemi Levy, *National Autonomous University of Mexico (UNAM)*
Siqiwen Li, *University of Newcastle* and *La Trobe University, Melbourne, Australia*

Gilberto Libanio, *Universidade Federal de Minas Gerais (UFMG)–Brazil*
Henry C. K. Liu, *Financial analyst*
Amine Marouane, *University of Sfax, Tunisia*
Thomas Masterson, *Levy Institute*
Yeva Nersisyan, *University of Missouri–Kansas City*
Anastasia Nesvetailova, *City University of London, England*
Maria Nikolaidi, *University of Athens, Greece*
Ronen Palan, *University of Birmingham, England*
Dimitri B. Papadimitriou, *Levy Institute*
Robert W. Parenteau, *Levy Institute* and *MacroStrategy Edge*
Ognjen Radonjic, *University of Belgrade, Serbia*
Felipe Rezende, *University of Missouri–Kansas City*
Igor Lopes Rocha, *State University of Campinas, Brazil*
Soon Ryoo, *Adelphi University*
Sunanda Sen, *Indian Council of Social Sciences*
Christine Sinapi, *Groupe ESC Dijon Bourgogne*
Raina Smyth, *Lyrical Partners, LP*
Nicholas Snowden, *Lancaster University Management School, England*
Taun Toay, *Levy Institute*
Jan Toporowski, *School of Oriental and African Studies, University of London, England*
Éric Tymoigne, *Levy Institute* and *Lewis and Clark College*
L. Randall Wray, *Levy Institute* and *University of Missouri–Kansas City*
Ajit Zacharias, *Levy Institute*
Gennaro Zezza, *Levy Institute* and *University of Cassino, Italy*

Paul Krugman, *Princeton University*, *London School of Economics*, and The New York Times

PROGRAMS: THE STATE OF THE US AND WORLD ECONOMIES; MONETARY POLICY AND FINANCIAL STRUCTURE

The 19th Annual Hyman P. Minsky Conference on the State of the US and World Economies
AFTER THE CRISIS: PLANNING A NEW FINANCIAL STRUCTURE

April 14–16, 2010

Ford Foundation, New York City

A Conference Organized by the Levy Economics Institute of Bard College with Support from the Ford Foundation

Unlike other analysts who looked to causes relating to shocks and foolish policy, Hyman P. Minsky (1919–1996) argued that the processes generating financial instability are natural and endogenous to the system. He was convinced that economic systems are prone to instability and crisis, and urged that lessons be learned from the events of 1929–33, so that "it"—the Great Depression—could not happen again.

The 2010 Minsky conference drew more than 250 participants from academia, government, and the financial sector. Over three days, in dozens of panels and keynote talks, presenters addressed issues relating to the shape of the postcrisis financial landscape, including the reregulation and supervision of financial institutions; relevance of the Glass-Steagall Act; roles of the Federal Reserve, FDIC, and Treasury; moral hazard of the "too big to fail" doctrine; debt deflation; and economics of the Big Bank and Big Government.

Speakers also compared the European and Latin American responses to the financial crisis and proposals for reforming the global financial architecture. Central bank exit strategies, both national and international, were considered.

PARTICIPANTS

Robert J. Barbera, *Investment Technology Group, Inc.*

Nelson H. Barbosa Filho, *Secretary of Economic Policy, Federal Government of Brazil*

Eric Barthalon, *Allianz Investment Management, SE*

Luiz Carlos Bresser-Pereira, *Getulio Vargas Foundation*

James Bullard, *Federal Reserve Bank of St. Louis*

Fernando J. Cardim de Carvalho, *Federal University of Rio de Janeiro, Brazil*

Richard S. Carnell, *Fordham University,* and *former Assistant Secretary of the Treasury for Financial Institutions*

John Cassidy, The New Yorker

Jane D'Arista, *Political Economy Research Institute, University of Massachusetts Amherst*

Bert Ely, *Ely & Company, Inc.*

Keith S. Ernst, *Center for Responsible Lending*

Peter R. Fisher, *BlackRock, Inc.,* and *former Under Secretary of the Treasury for Domestic Finance*

Richard W. Fisher, *Federal Reserve Bank of Dallas*

James K. Galbraith, *Levy Institute* and *University of Texas at Austin*

Michael Greenberger, *The University of Maryland School of Law*

Philipp Hartmann, *European Central Bank*

Jan Hatzius, *Goldman Sachs*

Thomas M. Hoenig, *Federal Reserve Bank of Kansas City*

Rainer Kattel, *Tallinn University of Technology, Estonia*

Jan Kregel, *Levy Institute* and *Tallinn University of Technology, Estonia*

Paul Krugman, *Princeton University*, *London School of Economics*, and The New York Times

Eugene A. Ludwig, *Promontory Financial Group, LLC,* and *former Comptroller of the Currency*

Jeff Madrick, Challenge, *Roosevelt Institute*, and *The New School for Social Research*

Martin Mayer, *The Brookings Institution*

Paul McCulley, *PIMCO*

Gretchen Morgenson, The New York Times

Richard H. Neiman, *New York State Superintendent of Banks* and *Member, TARP Congressional Oversight Panel*

Dimitri B. Papadimitriou, *Levy Institute*

Robert W. Parenteau, *Levy Institute* and *MacroStrategy Edge*

Ernest T. Patrikis, *White & Case, LLP*, and *former First Vice President, Federal Reserve Bank of New York*

Sandra Pianalto, *Federal Reserve Bank of Cleveland*

Bernard Shull, *Hunter College* and *NERA Economic Consulting*

Deborah Solomon, The Wall Street Journal

Eliot Spitzer, *54th Governor of New York* and *former New York State Attorney General*

Richard Sylla, *New York University*

Louis Uchitelle, The New York Times

Frank Veneroso, *Veneroso Associates, LLC*

Paul A. Volcker Jr., *Economic Recovery Advisory Board* and *former Chairman of the Federal Reserve Board*

Kevin M. Warsh, *Board of Governors of the Federal Reserve System*

L. Randall Wray, *Levy Institute* and *University of Missouri–Kansas City*

9TH GEM-IWG International Conference on Gender, Macroeconomics, and International Economics and Summer Seminar

GENDER AND THE GLOBAL ECONOMIC CRISIS

July 13–14, 2009

United Nations, New York City

Co-organized by the Government of Mexico; International Working Group on Gender, Macroeconomics, and International Economics; UNDESA/UNDAW; UNDP; UNIFEM; Levy Economics Institute of Bard College; and IDRC (Canada), with Additional Support from the Ford Foundation and the Participation of the Government of Canada

The ninth annual conference of the International Working Group on Gender, Macroeconomics, and International Economics (GEM-IWG) followed an intensive two-week seminar held at the Levy Institute's main research and conference facility in Annandale-on-Hudson, New York, June 29 – July 10. Both events were organized as part of the Knowledge Networking Program, which was established by GEM-IWG to strengthen intellectual links among economists working on similar issues. This year's program, organized in partnership with the Levy Institute's Gender Equality and the Economy program, centered on the origins and consequences of the global economic downturn. In addition to theoretical papers, presentations included empirical contributions with regional and country-level emphasis; evaluations of government responses to the crisis, and policy recommendations; and comparisons of the current crisis with earlier ones—including lessons learned.

PARTICIPANTS

Bola Akanji, *Nigerian Institute of Social and Economic Research; GEM-IWG*

Rania Antonopoulos, *Levy Institute; GEM-IWG*

Amit Bhaduri, *University of Pavia, Italy,* and *Jawaharlal Nehru University, New Delhi, India*

Madhu Bhaduri, *Ambassador of the Government of India (retired)*

Boris Branisa, *University of Göttingen, Germany*

Nilüfer Çagatay, *Levy Institute* and *University of Utah; GEM-IWG*

Francisco Cos-Montiel, *International Development Research Centre, Canada*

Alma Espino, *Interdisciplinary Center for Development Studies (CIEDUR), Uruguay; GEM-IWG*

Yassine Fall, *United Nations Development Fund for Women (UNIFEM)*

Rocío García Gaytán, *National Institute of Women (INMUJERES), Mexico*

Jayati Ghosh, *International Development Economics Associates* and *Jawaharlal Nehru University, New Delhi, India*

Heather Gibb, *The North-South Institute, Canada; GEM-IWG*

Alicia Girón, *National Autonomous University of Mexico (UNAM); GEM-IWG*

Carolyn Hannan, *United Nations Division for the Advancement of Women*

Soraya Hassanali, *Canadian International Development Agency, Government of Canada*

Indira Hirway, *Levy Institute* and *Centre for Development Alternatives, Ahmedabad, India*

Sara Hsu, *IC^2 Institute, University of Texas at Austin*

Ozge Izdes, *University of Utah; GEM-IWG*

Selim Jahan, *Poverty Practice, Bureau for Development Policy, United Nations Development Programme*

Kijong Kim, *Levy Institute*
Stephan Klasenn, *University of Göttingen, Germany*
Feridoon Koohi-Kamali, *Levy Institute*
Jan Kregel, *Levy Institute*
Jomo Kwame Sundaram, *United Nations Department of Economic and Social Affairs*
Thomas Masterson, *Levy Institute*
Manuel Montes, *United Nations Department of Economic and Social Affairs*
Jennifer Olmsted, *Drew University*
Naoko Otobe, *International Labour Organization*
Parthaprathim Pal, *Indian Institute of Management, Calcutta; GEM-IWG*
Dimitri B. Papadimitriou, *Levy Institute*
Eka Sepashvili, *Tbilisi State University, Georgia; GEM-IWG*
Anwar M. Shaikh, *Levy Institute*
Alison Vásconez Rodríguez, *GLACSO, Ecuador; GEM-IWG*
Mariama Williams, *Integrated Policy Research Institute* and *International Gender and Trade Network; GEM-IWG*
L. Randall Wray, *Levy Institute*
Ajit Zacharias, *Levy Institute*
Maria Ziegler, *University of Göttingen, Germany*

AFFILIATED PROGRAMS

Sanjaya DeSilva, *Levy Institute, and Assistant Professor of Economics, Bard College*

The **Economics Program** at Bard College, a degree-granting program within the Division of Social Studies, inquires into "the nature and causes of the wealth of nations" (Adam Smith). The principal aim of an economics program offered within a liberal arts setting is not to train students in how to manage a business or maximize the value of an investment portfolio, but to show how alternative economic systems arise, why they succeed, and why they fail. Because issues of public policy invariably have an economic dimension, all informed citizens should be familiar with basic economic principles. In addition to its BA curriculum, the Economics Program offers several courses of general interest at the 100 level (no prerequisites), as well as courses of special interest to students majoring in political studies, historical studies, sociology, philosophy, American studies, or community, regional, and environmental studies.

The Bard Program in Economics and Finance, now in its fourth year, is a five-year BS/BA dual-degree program designed to meet the needs of students who wish to achieve a broad education in the liberal arts and sciences, even as they prepare themselves for careers in the financial world. Graduates earn a BS degree in economics and finance and a BA degree in one of four academic divisions: arts; languages and literature; science, mathematics, and computing; or social studies (in a field other than economics). Core courses include micro- and macroeconomics, foundations of finance and investment, money and banking, international trade and finance, econometrics, corporate finance, and the senior-year Capstone Experience Project, a comprehensive, research-intensive thesis or project of original scholarship. The Bard Program in Economics and Finance is directed by Levy Institute President Dimitri B. Papadimitriou.

Economists for Full Employment (EFE) is a knowledge-sharing initiative designed to link and mobilize a global community of economists, academics, public policy advocates, nongovernmental organizations, and nonprofits. EFE's principal objective is to place decent job creation at the center of development and macroeconomic policy strategies. EFE advances policy-oriented research that is linked to the design and implementation of full-employment schemes. It works to improve employment outcomes by influencing and leveraging the policies and programs of development agencies and financial institutions. Its interactive website, designed and hosted by the Levy Institute, is the hub of the EFE operational network. It provides news of upcoming events and links to other organizations and information networks, maintains a bibliographic database, and hosts an open forum for EFE members.

Economists for Peace and Security (EPS), an independent not-for-profit organization housed at the Levy Institute, is an international network of economists with affiliates in 17 countries. Since 1989, EPS has been the economic community's voice on issues of war, armaments, and conflict reduction, and has served as a clearinghouse for research on these issues. The organization works to inform social scientists, citizens, journalists, and policymakers about the full costs of war and conflict, and to propose feasible alternative approaches to building international security. EPS is accredited, with special consultative status, by the United Nations' Department of Public Information and the UN Economic and Social Council.

In November 2008, EPS, the Charles Léopold Mayer Foundation Initiative for Rethinking the Economy, and the Levy Institute jointly organized a conference at the New School's Schwartz Center for Economic Policy Analysis in New York City. The topic of the conference was "The Financial Crisis, the US Economy, and International Security in the New Administration," and its objective was to analyze the nascent Obama administration's proposed economic policies and to offer actionable recommendations for addressing the financial crisis.

The International Working Group on Gender, Macroeconomics, and International Economics (GEM-IWG) was formed in 1994 for the purpose of promoting research, teaching, policymaking, and advocacy on gender-equitable approaches to macroeconomics, international economics, and globalization. GEM-IWG comprises five regional groups and nine thematic groups (addressing specific subjects). These groups are composed of fellows, instructors, and participants from GEM-IWG's summer courses and conferences. GEM-IWG's Knowledge Networking Program, inaugurated in the summer of 2003, is designed to strengthen intellectual links among economists whose work focuses on the interface of gender, globalization, and macroeconomic policy. The program consists of a self-study module and an intensive two-week course, followed by a conference.

The 2009 Knowledge Networking Program, organized in partnership with the Levy Institute's Gender Equality and the Economy program, centered on the global economic downturn and the formulation of gender-equitable policy responses. In June, more than 30 fellows gathered at the Institute's main research and conference facility on the Bard College campus for a two-week seminar. They exchanged ideas and explored various aspects of the crisis from a gender perspective, including its origins, its impact on banking and credit, and its implications for trade and pro-poor development. Additional program support was provided by UNIFEM, the UNDP (RBLAC), IDRC, the Ford Foundation, and the Heinrich Boll Foundation. The seminar preceded the 9th GEM-IWG International Conference on Gender, Macroeconomics, and International Economics, held at United Nations headquarters in New York City (see pages 62–63).

NEW INITIATIVES

Ford Foundation – Levy Institute Project on Financial Instability and the Reregulation of Financial Institutions and Markets

The rapidity with which the crisis in the US subprime mortgage market spread to financial markets in all the major financial centers was a clear representation of the fact that financial institutions are no longer limited to their home markets. This suggests a systemic fault in the current business model of these institutions, and in the regulation and supervision of domestic and global financial markets.

In 2008 and 2010, the Levy Institute received generous underwriting grants from the **Ford Foundation** in support of research to examine financial instability and reregulation in light of the global financial crisis. The goals of the Ford-Levy Project are to formulate proposals for the reform of mortgage finance and a new regulatory framework for the financial system as a whole; and to assess the implications of domestic reregulation on the global financial system. Another of the project's aims is the formation of a worldwide research network with the common objective of creating a global agenda for reform. Senior Scholar Jan Kregel, director of the Institute's Monetary Policy and Financial Structure program, heads the Levy research team, and the Institute's annual Minsky Conference provides a forum for presentation of project outcomes.

The Ford Foundation has awarded the Institute a supplemental grant supporting two projects related to this ongoing work. The first is an analysis of material in the Minsky Archive (see below), with the twin goals of integrating it into the existing project on financial reregulation, preparing a separate publication on its implications for further research in this area, and supporting the publication of Hyman P. Minsky's intellectual biography. The second part of the grant builds on the work of the Institute's Distribution of Income and Wealth research program to assess the role of public consumption—government spending on education, infrastructure, and public health and safety—in the economy's overall recovery.

In 2010, The Hyman P. Minsky Summer Seminar was instituted as part of the Ford-Levy Project. (See pages 52–53 and 56–59.)

Minsky Archive

In 2010, the papers of the late financial economist and Levy Distinguished Scholar Hyman P. Minsky (1919–1996) were catalogued and made available for research. The papers comprise writings, correspondence, notes, and ephemera, much of it centered on understanding and explaining financial crises. The Archive is housed at the Institute's library, and is available to scholars seeking a deeper understanding of the work of this influential economist. An online finding aid provides an in-depth listing of the Archive's holdings. In 2011, the Institute received a grant from **Andrew Sheng** that will enable us to digitize Minsky's late writings and make them more readily accessible to researchers.

International Comparisons in Economic Well-Being among Advanced Industrialized Countries

The **Alfred P. Sloan Foundation** awarded the Institute a generous grant in support of research within the Levy Institute Measure of Economic Well-Being (LIMEW) program. Standard measures of national income and product indicate that the United States is now ahead of most other Organisation for Economic Co-operation and Development (OECD) countries; however, it is not clear that it would maintain its lead in terms of a comprehensive measure of household economic well-being such as the LIMEW. The aim of the project is to develop comparable measures of economic well-being in four other OECD countries: Canada, Germany, France, and the United Kingdom. Comparative analysis of the LIMEW measure among these countries will provide a much broader and richer context for evaluating the United States' performance. The project is co-directed by Senior Scholars Edward N. Wolff and Ajit Zacharias.

Study for Developing a Pilot Program of Direct Job Creation in Greece

Countries around the world face the challenge of structural, seasonal, and cyclical unemployment—and Greece is no exception. Workweek reductions and employment subsidies have failed to generate more employment, and often have adverse consequences for output and the balance of trade. Direct public-service job creation enables communities to actively transform their own economic and social environment. With underwriting from the **Labour Institute of the Greek General Confederation of Workers**, the Institute is designing a pilot program of direct job creation that will offer transitional jobs supporting skills training, capacity building, and entrepreneurship. This two-year project includes an analysis of existing safety nets and data collection preparatory to establishing a baseline for evaluation of outcomes. President Dimitri B. Papadimitriou is project director.

Partnership with the Central Bank of Ecuador

The Institute has entered into a cooperative agreement with the **Central Bank of Ecuador (ECB)** to provide guidance in setting up the agency's research section, with the goal of strengthening its capacity for financial and economic policy analysis—critical to sound decision making. The Institute will develop activities to support information sharing and debate, including fora, seminars, and workshops; conduct case studies in the field of financial regulation; and develop a joint research agenda to strengthen the monetary and financial structure of Ecuador as well as the wider region.

"Next Step" Papers

In association with the Paris-based **Veblen Institute for Economic Reforms**, the Levy Institute will co-publish a series of public policy briefs in French translation. The "Next Steps" Papers are aimed at generating viable proposals for reforming the financial architecture, and making these proposals accessible to a broader network of reform advocates and policymakers.

The "Great Recession": Gender Perspectives on Current Challenges and Future Opportunities

Canada's **International Development Research Centre** awarded a grant to the Institute's Gender Equality and the Economy (GEE) program toward publication of a book on the gender impact of the recent economic crisis. *The "Great Recession": Gender Perspectives on Current Challenges and Future Opportunities*, edited by GEE Program Director Rania Antonopoulos, will examine the gender impact of the crisis on employment, the effectiveness of the American Recovery and Reinvestment Act, and whether government responses to the crisis ameliorated or exacerbated existing problems in Argentina, Mexico, India, China, Turkey, and Romania.

Why Time Deficits Matter: Implications for Poverty Measurement and Poverty Reduction Strategies

In a joint initiative with the **United Nations Development Programme Regional Service Centre**, the Institute is developing estimates of time poverty and time-adjusted income poverty for Argentina, Chile, and Mexico, to more accurately measure poverty in these areas and to formulate more effective policies for reducing poverty while promoting gender equity. The new, alternative measure will provide a true profile of poverty—its incidence, depth, and demographic characteristics—and highlight the connection between time constraints and poverty status.

Women's Economic Empowerment through Public Service Job Creation

With funding from the **Instituto Nacional de las Mujeres**, the Institute is designing a government-funded, pro-poor employment guarantee program to benefit women living in rural Mexico. The key development objective of this program is to promote the economic empowerment of women in marginalized areas by providing a guaranteed number of days of work per year. Potential employment areas include environmental cleanup, reforestation, water conservation, maintenance of public spaces, and afterschool programs. In terms of immediate, direct outputs, the program is expected to create new jobs and community assets, provide income support, and enhance social service delivery. The project is directed by Senior Scholar Rania Antonopoulos.


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SELECTED RECENT PUBLICATIONS

"Employment Guarantee Policies: A Gender Perspective." Policy Brief No. 2, Poverty Reduction and Gender Equality Series. United Nations Development Programme, April 2010.

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SELECTED RECENT PUBLICATIONS

"A New Paradigm for Macroeconomic Policy" (with M. C. Sawyer). *International Papers in Public Policy*, Vol. 7, No. 1/2/3, 2011.

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BA in economics, Istanbul Bilgi University; MA and Ph.D., State University of New York at Stony Brook. *Current Position:* Research Scholar, Levy Institute. *Areas of Interest:* Migration of labor, income and educational mobility in developing countries, applied microeconomics

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SELECTED RECENT PUBLICATIONS

"Inequality and Economic and Political Change: A Comparative Perspective." *Cambridge Journal of Regions, Economy and Society*, Vol. 4, No. 1, March 2011.

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"Inequality, Unemployment and Growth: New Measures for Old Controversies." *Journal of Economic Inequality*, Vol. 7, No. 2, 2009.


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SELECTED RECENT PUBLICATIONS

"A Random Walk down Maple Lane? A Critique of the Neoclassical Theory of Consumption with Reference to Housing Wealth." In A. Marsh and K. Gibb, eds. *Housing Economics*. SAGE Publications, 2011.

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SELECTED RECENT PUBLICATION

"Responding to the Crisis, Promoting Gender Equality: Stimulus Packages and Public Job Creation" (with R. Antonopoulos). S. Dullein et al., eds. *The World Economy in Crisis—The Return of Keynesianism?* Metropolis-Verlag, 2010.


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SELECTED RECENT PUBLICATIONS

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SELECTED RECENT PUBLICATIONS

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SELECTED RECENT PUBLICATIONS

Solidarity Economy I: Building Alternatives for People and Planet: Papers and Reports from the U.S. Forum on the Solidarity Economy 2009 (edited with E. Kawano and J. Teller-Elsberg). Center for Popular Economics, 2010.

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SELECTED RECENT PUBLICATIONS

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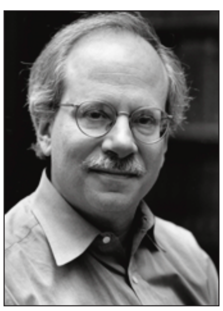

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SELECTED RECENT PUBLICATIONS

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SELECTED RECENT PUBLICATIONS

"Recent Trends in Household Wealth, 1983–2009: The Irresistible Rise of Household Debt." *Review of Economics and Institutions*, Vol. 2, No. 1, Winter 2011.

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BA, University of the Pacific; MA, Ph.D., Washington University in St. Louis. *Current Positions:* Senior Scholar, Levy Institute; Professor of Economics and Director of Research, Center for Full Employment and Price Stability, University of Missouri–Kansas City. *Areas of Interest:* Employer-of-last-resort programs, Social Security, monetary economics, macroeconomics, monetary policy

SELECTED RECENT PUBLICATIONS

Review of *This Time Is Different: Eight Centuries of Financial Folly*, by Carmen M. Reinhart and Kenneth Rogoff (with Y. Nersisyan). *Challenge*, Vol. 54, No. 1, January–February 2011.

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Ajit Zacharias

AJIT ZACHARIAS

BA, University of Kerala; MA, University of Bombay; Ph.D., The New School for Social Research. *Current Position:* Senior Scholar, Levy Institute. *Areas of Interest:* Concepts and measurement of economic well-being, effects of taxes and government spending on well-being, valuation of non-cash transfers, time use

SELECTED RECENT PUBLICATIONS

"Caste Stratification and Wealth Inequality in India" (with V. Vakulabharanam). *World Development*. Article in press, May 2011.

"Do Gender Disparities in Employment Increase Profitability? Evidence from the United States" (with M. Mahoney). *Feminist Economics*, Vol. 15, No. 3, July 2009.


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Degree in economics, University of Naples. *Current Positions:* Research Scholar, Levy Institute; Associate Professor, Faculty of Law, University of Cassino, Italy. *Areas of Interest:* Macroeconomic modeling; economic growth, innovation, and regional convergence; distance learning

SELECTED RECENT PUBLICATIONS

"Income Distribution and Borrowing: Growth and Financial Balances in the U.S. Economy." In P. Arestis, R. Sobreira, and J. L. Obrero, eds. *The Financial Crisis: Origins and Implications*. Palgrave Macmillan, 2011.

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