LEVY INSTITUTE

The Levy Economics Institute of Bard College

Report

MARCH 2002

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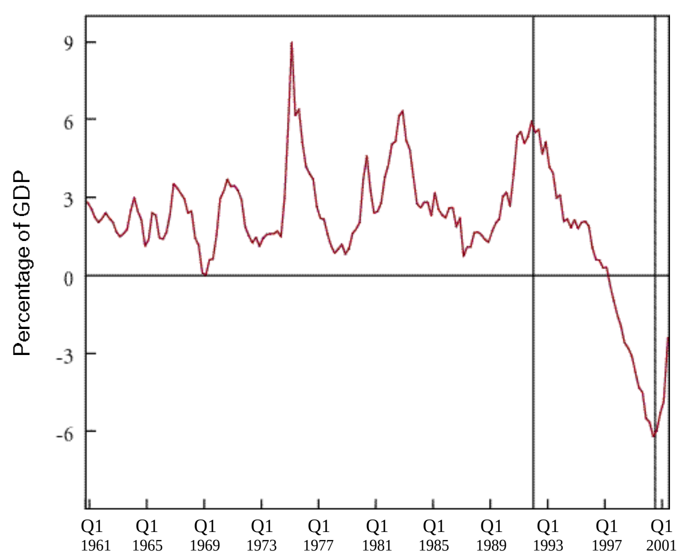
Distinguished Scholar Wynne Godley says that the 1990s expansion was powered uniquely and exceptionally by a huge fall in net saving by the private sector, the scale of which is illustrated in the chart below. In a new Levy Institute Policy Note (see page 10), Godley argues that the public sector must now step in and be the new motor that drives the economy.

Private Sector Balance as Percentage of GDP



Source: National Income and Product Accounts, U.S. Department of Commerce

From Kick-Start Strategy Fails to Fire Sputtering U.S. Economic Motor, Policy Note 2002/1, by Wynne Godley

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

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Shouldering Governmental Responsibility

L. Randall Wray

L. RANDALL WRAY

The recent responses of President Bush (in his State of the Union address on January 29) and Federal Reserve Chairman Alan Greenspan (in his Testimony on the State of the Economy before the Committee on the Budget, U.S. Senate, January 24) to our current economic calamity are a study in contrasts. As an unelected official, Greenspan is not held responsible for his mistakes. He prefers to err on the side of "caution," that is to say, tolerating greater job loss, higher unemployment, falling incomes, and more human suffering. Hence, it is not surprising to find Chairman Greenspan declaring that even though unemployment "will rise for a time," an economic stimulus package is not "critically important" because "the economy will recover in any event." The President, however, realizes that he barely squeaked by in the past election and that recessions have not been kind to the Bush family. As White House spokesman Ari Fleischer put it, "the president prefers to err on the side of creating jobs." Thus, the President announced that he would make "economic security for the American people" one of the three great priorities of the budget. He went on to clarify that his "economic security plan can be summed up in one word: jobs."

Since his appointment in 1987, Chairman Greenspan has consistently adopted a bias against full employment and robust growth. In addition, he has sung the praises of small government and free markets while, paradoxically, presiding over a very active and interventionist Fed. All told, the Fed admits to 48 changes to its funds rate target since 1990—more than one per quarter. Each policy meeting of the Federal Open Market Committee is eagerly anticipated and every word uttered by Chairman Greenspan in his frequent speeches and testimonies deconstructed to obtain some clue as to the Fed's next move. When Greenspan speaks of the irrational exuberance of Wall Street, announces "real interest rate" targets, sees inflation around some corner or other, hypes innovation and the New Economy, warns that productivity growth might paradoxically raise inflation, or worries that workers are no longer sufficiently insecure to keep wages down, financial markets react.

All of this policy activism seemed to have paid off during the Goldilocks years, with Greenspan somehow garnering most of the credit for robust growth with low inflation. At the height of his popularity he was reverently treated in Bob Woodward's *Maestro*, and won the highly coveted Enron Prize, awarded by the James A. Baker III Institute for Public Policy and made possible by a gift from the then high-flying Enron Corporation. At that time, the Fed had been trying to slow the economy for another tried-and-untrue soft landing, which morphed into the first hard landing of the new millennium. Not to worry, said all the pundits: the Fed's ability to control the economy is as secure as Enron's finances. The Fed lowered rates 11 times, but was no more able to save the economy than Kenneth Lay could save Enron by moving losses to subsidiaries. When the Fed now announces that "weakness in demand is abating" and "the outlook for economic recovery has become more promising," it should be given about as much credence as Arthur Andersen's evaluation of Enron's prospects.

Fortunately, President Bush recalls how much one of Greenspan's previous attempts at a soft landing cost President George H. W. Bush—no reliance on an unreliable Fed for him. The economy is in recession, and he recognizes that even his huge tax cuts for high-income earners and the billion dollars a month spent so far to prosecute the war on terrorism will not be enough to stem the tide. While Greenspan doesn't think government ought to do anything about growing job losses, the President knows the recession could cost him reelection. Hence, he is willing to increase the deficit to extend unemployment benefits and, more importantly, to create jobs. He recognizes that "we are citizens, with obligations to each other" and that we "want to be a nation that serves goals larger than self." Like President Kennedy 40 years ago, President Bush abandons the notion of self-interest on which Greenspan's free market/ small government model and ideology are based and calls upon citizens to embrace "a new culture of responsibility" while working to rebuild our communities.

President Bush has yet to adopt any policy that would target much tax relief for most Americans, such as a refundable credit against payroll taxes paid (which are more burdensome than income taxes). In addition, although the President has acknowledged the necessity of budget deficits, he wants to limit them to "small and short-term," urging Congress to restrain spending and act "in a fiscally responsible way." Unfortunately, this means that guns must come largely at the expense of butter. Finally, he attempts to link "good jobs" creation to "energy production at home"—that is, to ramped-up environmental destruction—and to expanded trade through Congressional approval of "trade promotion authority," the favored pseudonym for fast track authority that actually destroys good American jobs.

Where do the Democrats stand on all this? Unfortunately, they've decided to take on the budget balancing role usually monopolized by Republicans. Admittedly, House minority leader Dick Gephardt's response to the President's speech did not mention the lock boxes and surplus preservation at any cost that have become routine of late in pronouncements by post-Reagan Democrats. And he did, rightly, advocate a hike of the minimum wage, tax breaks for educational expenses, universal pensions, protection of retirement accounts from the next Enron-style fiasco, and defense of Social Security against hungry Wall Street brokerage firms who see payroll taxes as the only way to salvage the irrational exuberance that is now sorely missed. However, Gephardt did incongruously call for a bipartisan effort to figure out how to create jobs and grow the economy while reducing the government's deficit—an inherently impossible task.

The truth is that the projected $5+ trillion surpluses were a mirage, based on entirely unsustainable growth fueled by private sector borrowing. Politicians must reconcile themselves to the new reality that deficits are going to grow. President Bush correctly argued that "when America works, America prospers." He is correct in arguing that those Americans seeking jobs—officially almost 9 million of them, but actually double that—need our help. But creation of new jobs does not require environmental degradation, or expansion of trade, or education of the unemployed. Sound tax policy in the form of payroll tax credits could help by reducing the cost of American labor. However, tax policy alone will not be enough. In a downturn we cannot look to the private sector for job growth. Government must play a direct role in job creation.

Americans want to work. They want to rebuild communities. They want to help in emergencies, teach in troubled schools, and help in hot spots abroad. But most of them need incomes. The President says he wants to reduce dependency and guarantee "every American the dignity of a job," while building a nation that serves goals higher than self-interest. If this is true, he will create a national Freedom Corps with jobs for all, at a decent wage and available to anyone ready, willing, and able to work. Anything less is just political rhetoric.

L. Randall Wray is visiting senior scholar at the Levy Institute and a professor of economics at the University of Missouri, Kansas City.

The Economy and the Need for Action

James K. Galbraith

(Taken from remarks made at the National Press Club, Washington, D.C., on January 7, 2002)

The New Economy is dead. We are in a deep recession whose bottom has not yet been plumbed. Those who did not predict the recession now boldly predict recovery. But those projections lack substance, and those who make them lack credibility. Absent strong policy actions not presently in view, it is at least as likely, perhaps more likely, that the downdraft of this slump may continue for some time, and be followed at best by a long period of stagnation. Keynes wrote in 1930 that the world had been slow to realize that it was living in the shadow of the greatest economic catastrophe in history. We are not—yet—in a comparable position, but the point is that it is normal to underestimate the gravity of an economic downturn, particularly after a long period of prosperity. For this reason, we must start now to rethink our approach to policies and programs.

JAMES K. GALBRAITH

The idea of the New Economy had three main elements—all of them articulated in official documents of the late 1990s, especially by the Federal Reserve. The first held that new technologies were generating a permanent boost to productivity growth, perhaps a return to the "normal" rates of the 1950s and 1960s, mitigating the supposed trade-off between unemployment and inflation. The second held that government need play no major role in economic life, and that government debts could be eliminated over time through budget surpluses. The third held that economic management, in the short and medium term, could be entrusted to the Federal Reserve itself. High interest rates would cool inflationary ardor. Lower interest rates, when required, would fuel investment and keep the country at work.

If all this had been true, then the recession we are in should not have happened, except for some unpredictable shock. But there was no shock until September 11, many months after the downturn began. The New Economy began to expire with the Nasdaq's collapse in April 2000. The larger downturn began in March 2001 by quasi-official calculation—half a year before the September crisis. The roots of the present slump go back to the previous administration. The prosperity of that time was authentic; it was not false or artificial, but it was also unsustainable, on grounds plainly visible then, absent major policy changes.

The grounds for this judgment were not a mystery. They were stated at the time by Wynne Godley of the Levy Institute, by Paul Davidson at the University of Tennessee, by myself, and a handful of others. These were also three in number.

First, the techno-boom was in great part a financial bubble, fueled after 1997 in part by accelerated capital inflow from abroad. The bubble was made worse, not better, by the rise in interest rates in early 1999, and by the Federal Reserve's failure to curb margin lending, which it had the power to do. But blame also lies in the general techno-cheerleading of the time, in which Chairman Greenspan, President Clinton, many economists, and the media participated recklessly. We are reading the corporate post-mortems in the press now, on a daily basis.

Second, federal surpluses were dangerous. As I have said before, economists used to call this fiscal drag, but the term was forgotten in the late 1990s. Taxes in excess of public spending strain the private sector. They oblige households and businesses to support growth by adding to their own burden of debts. This process could, and did, continue for some time in a rising market, but it could not go on forever. And when it eventually stopped, the simple effort by households to align spending with income implies a fierce drop in total GDP—as much as 6 percentage points, relative to trend, and a rise of unemployment to above 7 percent. We are not nearly done with this process; unfortunately, in my view, we may be as little as halfway through it as of late fall.

Third, monetary policy could support growth only so long as households and business were willing to expand their debt loads. When debt loads got high, rising interest rates became especially dangerous. And once the willingness to take on new debts declines, lower interest rates can only provide the minor relief of a reduction in servicing costs. By themselves, lower interest rates cannot rekindle the info-tech boom. Nor will lower interest rates induce most households to buy new durable goods, beyond the limited willingness of automakers to liquidate inventories at loss—another process that obscured the recession for a short time last fall, feeding premature recovery hopes. Monetary policy, in short, loses effect when you need it most.

I was once known as a critic of Mr. Greenspan, except for a period of years when I gave him credit—with some justice—for ignoring the "speed limits" of inflation-obsessed economists and so bringing us to full employment without inflation. Which proved, to Greenspan's authentic fame and my profession's eternal embarrassment, that it could be done. For someone who, as a youth, helped to draft the Humphrey-Hawkins Full Employment and Balanced Growth Act, with its 4 percent unemployment, 3 percent inflation target, this was sweet. But looking forward, Mr. Greenspan deserves neither praise nor criticism. He has simply lost relevance. His New Paradigm no longer exists. When he leaves the scene, sooner or later as he may choose, it will be a fairly quiet event. The scene of action has shifted to the President and Congress, and it will stay there, I believe, for a long time to come.

The reason is straightforward. The private sector will not be the motor of the next expansion any time soon. It will take time before households restore their debt-to-income ratios and become willing to return in strength to the markets for housing and durable goods. It will take time before banks absorb their present losses and become willing to lend to them again. It will take time before investors discover the next new thing—the enthusiasm of the next new age. Meanwhile, time has to pass. We are returning, as Godley puts it, from an abnormal toward a normal situation. Normally, the private sector tries to have more income than spending, not considerably less. Since it cannot raise its income, it must reduce spending and pay down debt.

This "new normality" can be, potentially, one of very great distress, suffering, and wasted human potential. It can also be what is perhaps particularly important just now: a time when the world might lose confidence in the economic leadership potential of the United States, unless we act. I have declined to place the blame for this on George Bush, and for a reason. It doesn't matter to anyone, politically, why we are in this mess. What matters is whether and by what means we can get out. A recession belongs not to any past administration, but to the President, who has responsibility to bring it to an early and conclusive end. That is Bush's problem. It is not a problem he is showing any sign of an ability to solve.

The President began his term by passing a tax cut that, he assured us, would help the economy continue to grow. He has taken the slump as an occasion, mainly, to try for still more tax cuts, again weighted to the rich and to large corporations. In December, Congress rightly resisted those measures. Had they passed, there would have been calls to "wait and see" what effects they might have. But there would have been no effects.

After the calamity of September 11, the Democrats had better instincts. They want expanded unemployment insurance, cash relief in the form of more rebates, extended health coverage for those unemployed. This is to the good. But the Democrats' approach has also reflected an unwillingness to let go of the New Economy—to give up the idea that, somehow, a little "stimulus" is all that is needed, and things will return to the golden equilibrium of the late 1990s. This notion lies behind calls to keep everything "short-term" and "temporary," and, above all, "not to disturb the long-term budget outlook." The long-term budget outlook, however—surpluses indefinitely, and an end to public debts in 14 years—was a chimera from the beginning. Let's get over it. Budget deficits, within reason, are normal. Under present conditions, large deficits are and may well continue to be necessary for a long time to come.

What was not chimerical, what was real, was the actual prosperity of two and three years back. This we can and must restore. But to do so requires action—serious action, and on a large and lasting scale What action? The right agenda can be summed up, out of practical necessity, in two words: public spending. Increased public spending is the practical means to restore full employment. It may remain the only practical means for a long time. I do not say this on ideological grounds, but rather, as plain technical fact. And the sooner we face up to it, the better.

Why can't Greenspan do it? Because the private sector is tapped out. It will probably remain so until time passes and debts are paid down. In the meantime, Mr. Greenspan could help by driving down the interest rate on long-term loans and bonds. But he probably won't do this, because the financial sector is making its only money these days on the yield curve—essentially by borrowing from the public at very low rates and lending to the government at substantially higher rates, as it did from 1990 to 1994. So the private credit mechanism is stuck for now. Why can't tax cuts do it? Certain types of tax cuts, particularly a temporary cut in payroll tax rates, might help a little. But as the reaction to the first rebates proved, most such windfalls will be saved, not spent. True, increased private saving improves household balance sheets, and this will help down the road. But the effect will not be felt soon. Meanwhile the Republican approach to tax cuts—back-loaded and top-heavy—is by far the least likely to have a constructive effect on private spending or on business investment.

For completeness, let me mention the trade picture. Exports are not going to pull us out of this slump. The dollar is far too high, to begin with. And the rest of the world is moving into recession with us—so deep, in many places, as to compare already to the Great Depression. In Argentina in the past few days, the beacon of the neoliberal world order has repudiated its own participation in that order. Addressing those issues has to become part of our own agenda. But it isn't going to be the leading item.

That leaves public spending. Let me spurn the weasel word "investment," beloved as protective covering by my fellow progressives. Spending is what we need. A few years ago we didn't need expanded public spending because the private sector was carrying the economy forward. But circumstances have changed; now we do. Many things should be done: unemployment insurance, health care, aid to schools, transportation systems, the environment, a prescription drug benefit (should we get so lucky), a new home health care program for seniors would absorb many thousands of semiskilled people in useful work of true benefit for our oldest population. There are things to do. There are people to do them. Why not bring them together? So wrote Keynes in 1929; the same is true today. To paraphrase Keynes again, "Ah, no," says Mr. Greenspan. "We cannot do that. It would be most unwise. Abra would rise. Cadabra would come down. We cannot do anything, for that would mean that we cannot do anything else."

At this moment, of course, the sad fact is that the political deadlock will prevent progress on many of these issues. Progress, moreover, should not be purchased at the price of vast tax cuts for all time to come. Quite the contrary, the correct tax action is to freeze the 2001 tax cuts at present levels, and certainly not to accelerate or expand them. And that leaves but one clear path forward for the immediate future. It is the path of fiscal assistance, on a large scale and without strong federal controls, to the states and localities.

One of the greatest dangers just now lies in the reaction of state and local governments to the slump. They are being forced to cut many billions—$75 to $100 billion next year is an early estimate—from their budgets and their capital projects. From the larger economic point of view, this is lunacy. No state, no city or town, should be cutting a single dime from their budgets on account of the slump! On the contrary, they should be expanding activity in every direction. But they can only do this if the federal government shovels money at them. And that is what the federal government should now do.

Steps including loan guarantees, new types of bonds that could be purchased by pension funds, extension of required spend-out periods and the like, would strengthen the position of local authorities in the credit markets. They should take advantage of low rates and the drop in private borrowing to stockpile money now and spend it on schools, transportation initiatives, urban amenities, parks, and the environment, as soon as their planning and management capacities permit. General purpose fiscal assistance—Nixon's revenue-sharing—should be reenacted on a large scale for the next several years. The purpose should be threefold: first, to sustain all state and local spending at current levels; second, to meet the needs for relief, job creation, and mandated security measures; and third, to support property and sales tax relief for state and local rate-payers. Sales tax relief, especially, is only received by those who spend.

All in all, revenue sharing can, and should, be a large effort. Under present conditions, with all the risks on the down-side, it is far better to do too much than too little. Should the budget process and rules stand in the way of these measures, there is a simple solution: suspend the budget process. Congress sets the rules; Congress can change them. We are, as the President has said, in a state of war. From a psychological and social standpoint, this is true, whether we are fighting anyone just now or not. The price of war should not be paid with job loss, service cuts, or school closures. To the contrary, the emergency since September 11 has driven home to Americans the value of public service and the worth of the public sector. No one should feel inhibited, by accounting rules, against putting money behind that conviction.

Finally, let me return to the institution at the heart of this conference. What should we do about the Federal Reserve? There is a certain justice in irrelevance, in a return to obscurity well-deserved. This is an institution that has failed the country. As late as May 2000, even after the burst of the technology bubble, it was still raising interest rates. What for? To fight an inflation that never existed, and never would—a purely imaginary, purely illusory inflation. For people with such imaginations, there are better institutions than a central bank. With all its analysts and forecasters, the Federal Reserve still miscalled this recession.

A year ago, the Fed predicted "stronger conditions to emerge as the year progresses." This would be due to "the remarkable step-up in structural productivity growth since the mid 1990s," as a result of which—a truly incredible comment—"an end to profitable investment opportunities in the technology area does not yet seem to be in sight." And in July 2001, three months into the recession, another report expressed more of the same favorable views of the economy and its prospects for growth.

Twenty-five years ago, Bob Auerbach and I helped to design, for Henry Reuss, the Humphrey-Hawkins monetary oversight process. We did so preciselyso that Congress would have a record of official thinking at a moment such as now. Our design worked extremely well. The evidence is plainly on view. What we need now is an inquiry that goes more deeply into the causes of the analytical and predictive failures so clearly laid out before us in the record of the official reports. Congress should establish a commission of inquiry into the recent policy failures of the Federal Reserve. Such a commission could be charged with many questions. For instance, why didn't the Federal Reserve foresee, diagnose, and act prudently against the technology bubble in 1998 and 1999? Why did it raise interest rates in 1999–2000 to fight an inflation that was never in prospect? Why didn't it foresee the recession? Why did it continue to forecast recovery even as the recession deepened? Why did Chairman Greenspan support a counterproductive tax policy in the spring of 2001, squandering fiscal resources now urgently needed? Further, what are all those analysts and economists for, at the Board of Governors and in the regional banks? Were they consulted on these decisions? What did they say? What are they doing now? And if they are, in fact, themselves the agents of misanalysis and misunderstanding, then why do we need them? No other country maintains a central bank research establishment of such size and scope.

Economists, analysts, and forecasters who cannot disabuse themselves of 13 failed doctrines, including monetarism and the natural rate of unemployment, or who are prone to enthusiasms such as the cult of the microchip, may be harmless enough in academic life. And there, surely, rather than in positions of public responsibility, is where they belong. And so, let's have a commission. We could call it the Auerbach Commission. I know just the man to put in charge.

James K. Galbraith is a Levy Institute senior scholar and professor at the Lyndon B. Johnson School of Public Affairs and the Department of Government at the University of Texas, Austin.

New Working Papers

Israeli Attitudes about Inter Vivos Transfers

Seymour Spilerman and Yuval Elmelech
Working Paper No. 341
www.levy.org/docs/wrkpap/papers/341.html

The accumulation of household wealth in western countries since the end of World War II has led to a growing interest in the question of how financial assets are transmitted across generations. There are two main reasons for this interest. One, common in stratification research, is that it sheds light on the replication of inequality. Second, it has been a topic of interest in the family literature because the timing and volume of parental transfers is a potential source of strain in the relationship between generations. While there has been research on the issue of asset transfers, little of it directly examines parental values and attitudes about intergenerational transfers, either in terms of motives or feelings of obligation toward children. In this working paper, Seymour Spilerman of the Center for the Study of Wealth and Inequality at Columbia University and Visiting Scholar Yuval Elmelech seek to fill this research gap.

Using data from the 1994–1995 Survey of Families in Israel, which includes responses to questions on such topics as household income and wealth, assistance received from parents and given to children, and views about financial responsibilities. Spilerman and Elmelech construct a model that they use to examine attitudes in Israel about intergenerational assistance and their effects on transfer decisions by parents. They find that the attitudinal disposition and the respondent's standard of living—a measure of resource level—have considerable impacts on the transfer decision, and that the attitudinal disposition itself is not affected by the fact of having made past transfers. Essentially they argue that strong evidence exists that attitudes influence behavior, even aside from the availability of resources for making a transfer, but there is no support for a cognitive consistency argument.

Spilerman and Elmelech also maintain that views about parental obligations are probably not independent of a country's economic and social organization. Israel is a country in which the need for parental support is high and the level of parental involvement in the financial lives of young adults is often considerable. In a country with an extensive program of public assistance for young adults, there may be less need for private family transfers and less of a sense of parental responsibility to provide support. Similarly, where young couples face severe liquidity constraints or otherwise require substantial resources in order to begin a household, parental feelings of obligation may be heightened.

A Note on the Hicksian Concept of Income

Ajit Zacharias
Working Paper No. 342
www.levy.org/docs/wrkpap/papers/342.html

The question of what constitutes income has long preoccupied economists and policymakers. Concepts of personal and national income used by most government agencies and economists today are often compared against the Haig-Simons-Hicks (HSH) concept of income, which, implicitly or explicitly, is usually considered to be the theoretical concept of income. It states that income is the maximum amount that can be consumed in a given period of time while keeping real wealth unchanged. In this working paper, Research Fellow Ajit Zacharias argues that, given the HSH concept's pervasive influence in policymaking, it is worth examining the original context in which it was constructed.

Zacharias argues that of the three architects of this concept, John R. Hicks made the most theoretically sophisticated contribution. Through an examination of the economist's work, particularly the discussion of income concepts in chapter 14 of Hicks's Value and Capital, Zacharias concludes that there is nothing "Hicksian" about the HSH concept of income. Furthermore, he argues that Hicks's failure to distinguish between definition and calculation and the consequent lack of adequate ex post concepts make it impossible for his income definitions to serve as a basis for income accounting.

Poles and Italians Then, Mexicans Now? Immigrant-to-Native Wage Ratios, 1910 and 1940

Joel Perlmann
Working Paper No. 343
www.levy.org/docs/wrkpap/papers/343.html

Much of the discussion among social scientists about immigration focuses on the disadvantages faced by an immigrant who enters the U.S. labor force with lower skill levels than those possessed by the typical native white worker. Will such an immigrant, they frequently ask, manage to improve upon his or her condition and will the children of such an immigrant be able to advance even further? In earlier periods of U.S. history, immigrants did manage to catch up. In the period 1890–1920, waves of immigrants from southern, central, and eastern Europe migrated to the United States—a modern, industrial society very different from the societies they had left. By about 1980, no appreciable differences could be found between the socioeconomic position of the descendants of these immigrants and the descendants of much earlier arrivals to the United States. Current concerns about the ability of low-skill immigrants to advance themselves in American society focus mainly on Mexican immigrants.

In this working paper, Senior Scholar Joel Perlmann examines the question asked by many who study immigration issues—will today's Mexican immigrants be as successful as past immigrants in "catching up" with the native population? In articles published in the New York Review of Books in 2001, Christopher Jencks of Harvard University drew on research by George Borjas to show that the wage ratios of Mexicans compared to relevant U.S. workers today were far worse than comparable wage ratios of immigrants compared to native white workers in 1910; as a result, it will be much more difficult for today's Mexican immigrants to catch up with the native population. Thus, Jencks argued, the United States should reconsider its immigration policy, especially with regard to Mexico. Perlmann reexamines the early evidence on which Jencks based his conclusion, drawing on the Integrated Public Use Microdata Sample (IPUMS) datasets for the years 1900, 1910, 1940, and 1950. Perlmann concludes that, although a good deal of ambiguity is involved in the materials, tests made to date do not contradict Jencks's conclusions about wage ratios.

New Policy Note

Kick-Start Strategy Fails to Fire Sputtering U.S. Economic Motor

Wynne Godley
Policy Note 2002/1
www.levy.org/docs/pn/02-1.html

A growing number of policymakers and economists are expressing their belief that the recession-hit U.S. economy is now entering, if not already in, a stage of recovery. But what exactly is a "recovery"? Recession is defined as two consecutive quarters of negative growth, with the corollary that positive growth, however small, qualifies as a recovery. In this policy note, Distinguished Scholar Wynne Godley notes that there really is no significant difference between a decline of 0.1 percent per annum and growth of 0.1 percent. Both, he says, are so far below productive potential that they would be experienced as an increasingly severe recession if continued for any length of time. Godley states that no growth rate much below 3 percent should be called recovery at all, since unemployment would be rising and profits and capacity utilization falling.

Godley argues that if a "growth recession" is to be avoided, there is a strategic need for a new motor to drive the economy, particularly if there is a further decline in private expenditure relative to income that could generate a further hole in aggregate demand. Such an engine must be driven by the public sector, not the private. Godley states that without a substantial and continuously increasing fiscal stimulus, the U.S. recession will continue for several more years. At the very least, he believes this will take the form of seriously abnormal growth.

Levy Institute News

Events

CONFERENCE

The 12th Annual Hyman P. Minsky Conference on Financial Markets: "Recession and Recovery: Economic Policy in Uncertain Times"

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

SYMPOSIUM

New Directions in Research on Gender-Aware Macroeconomics and International Economics

May 9–10, 2002, Blithewood, Annandale-on-Hudson, New York
By invitation only.

CALL FOR PAPERS

Economic Mobility in the United States and Other Advanced Countries

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

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

The focus of the conference is on empirical research on economic mobility in the United States and other advanced countries. Potential topics include:

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

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

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

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

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PHILIP ARESTIS

Publications: "The 1520–1640 'Great Inflation': An Early Case of Controversy on the Nature of Money" (with P. Howells), Journal of Post Keynesian Economics, Winter 2001–2002; "Causes of Euro Instability" (with Malcolm Sawyer, I. Biefang-Frisancho Mariscal, and A. Brown) and "Macroeconomics of Sterling and the Euro" (with Malcolm Sawyer), in A. El-Agraa, ed., The Euro and Britain: Implications of Moving into the EMU, London: Prentice Hall, 2002; "The Euro: Reflections on the First Three Years" (with Malcolm Sawyer, A. Brown, and K. Mouratidis), International Review of Applied Economics, January 2002.

Presentations: "Economics of the Third Way: Labour and the Challenges to EMU Macropolicies," Department of Economics, University of Bilbao, Spain, January 26; "Financial Policies and the Average Productivity of Capital: Evidence from Developed and Developing Economies" (with P. Demetriades and B. Fattouh), Eastern Economics Association, Boston, March 15–17.

SENIOR SCHOLAR
WALTER M. CADETTE

Publications: "Social Security Privatization: A Bad Idea," in Arno Tausch, ed., The Three Pillars of Wisdom? A Reader on Globalization, World Bank Pension Models, and Welfare Society, Huntington, New York: Nova Science, 2002; "Health Care Finance: A Dysfunctional System," Quarterly Commentary of Sanders Research Associates Limited, First Quarter, 2002.

Presentation: "Health Care Finance: A Dysfunctional System," Ruth M. Shellens Memorial Lecture, Calvary Hospital, the Bronx, New York, February 28.

SENIOR SCHOLAR
JAMES K. GALBRAITH

Publication: "The Importance of Being Sufficiently Equal," Social Philosophy and Policy, Winter 2002.

Presentation: "The Economy and the Need for Action," National Press Club, Washington, D.C., January 7.

PRESIDENT
DIMITRI B. PAPADIMITRIOU

Presentations: "The U.S. Recession: Can the Federal Reserve Pick up the Tempo?," The Stern School, New York University, New York City, February 22; "'Rational Allocation of Resources' or 'Scarcity' Are Not the Economic Problems," Religious Belief and Economic Behavior, Bard College, Annandale-on-Hudson, N.Y., March 6; "Recession and Recovery: Guidelines for Policy," International Applied Business Research Conference, Puerto Vallarta, Mexico, March 15.

SENIOR SCHOLAR
JOEL PERLMANN

Publication: "Comments on Second-Generation Transnationalism," in Peggy Leavitt and Mary Waters, eds., Second Generation Transnationalism, New York: Russell Sage Foundation, forthcoming.

VISITING SENIOR SCHOLAR
MALCOLM SAWYER

Publications: "The Euro: Reflections on the First Three Years" (with P. Arestis, A. Brown, and K. Mouratidis), International Review of Applied Economics, January 2002; "The NAIRU, Aggregate Demand and Investment," Metroeconomica, February 2002; "Causes of Euro Instability" (with P. Arestis, I. Biefang-Frisancho Mariscal, and A. Brown) and "Macroeconomics of Sterling and the Euro" (with P. Arestis), in A. El-Agraa, ed., The Euro and Britain: Implications of Moving into the EMU, London: Prentice Hall, 2002.

Presentations: "Budget Deficits and Economic Policy," University of Linz, Austria, January 17; "Monetary and Fiscal Policy in the Eurozone," Chamber of Labour, Vienna, Austria, January 18; "Monetary Policy in the U.K. and the Eurozone," Atlantic Conference on Central Banking, Maritime Institute, Baltimore, March 2–3.

SENIOR SCHOLAR

EDWARD N. WOLFF

Publications: Top Heavy: A Study of Increasing Inequality of Wealth in America, New York: The New Press, 2002; "The Stagnating Fortunes of the Middle Class," Social Philosophy and Policy, Winter 2002, rpt. in Ellen Frankel Paul, Fred D. Miller Jr., and Jeffrey Paul, eds., Should Differences in Income and Wealth Matter?, Cambridge, England: Cambridge University Press, 2002; "The Economic Status of Parents in Postwar America," in Sylvia Hewlitt, Nancy Rankin, and Cornel West, eds., Taking Parenting Public: The Case for a New Social Movement, Lanham, Maryland: Rowman and Littlefield, 2002; "Comparative Income and Wealth Distribution," in Malcolm Warner, ed., International Encyclopedia of Business and Management, Second Edition, London: Thomson Learning, 2002. **Presentations:** "Recent Trends in Living Standards in the United States," U.S. Basic Income Group Conference, New York, March 8–9, and Eastern Economics Association, Boston, March 15–17.

VISITING SENIOR SCHOLAR

L. RANDALL WRAY

Media: Interview, Australian National Student Network, December 10; Interview, Australian National Channel 4, December 11; Interview, Fox Channel 4, Kansas City, January.

VISITING SCHOLAR

JÖRG BIBOW

Publications: "The Monetary Policies of the European Central Bank and the Euro's (Mal-)Performance: A Stability-Oriented Assessment," International Review of Applied Economics, January 2002; "The Markets versus the ECB, and the Euro's Plunge," Eastern Economic Journal, Winter 2002; "Market Failure or Central Bank Failure? The Case of the Euro and the European Central Bank," Challenge, March/April 2002. **Presentation:** "What Has Happened to Monetarism?" European Society for the History of Economic Thought Conference, University of Crete, March 14–17.

VISITING FULBRIGHT SCHOLAR

QIYU TU

Presentations: "Short-Term Costs vs. Long-Term Benefits?: The Decision-Making of China's WTO Agreement," Harvard-Yenching Institute, Harvard University, Cambridge, Massachusetts, January 11; "China's Economic Transition," Keck Center for International and Strategic Studies, Claremont McKenna College, Claremont, California, March 12; "The WTO and China's New March," Asian and Asian American Institute, California State University, Los Angeles, March 13; "China's WTO Membership and the New Strategy of Internationalization," Global Studies Project, California State University, Dominguez Hills, March 14.

RESEARCH ASSOCIATE

WILLEM THORBECKE

Publications: "A Dual Mandate for the Federal Reserve: The Pursuit of Price Stability and Full Employment," Eastern Economic Journal, Spring 2002; "European Macroeconomic Policy Interdependencies" (with Christian Eigen-Zucchi), in Thomas L. Brewer and Gavin Boyd, eds., Globalizing Europe, Northampton, Mass.: Edward Elgar, 2002. **Presentations:** "Monetary Policy, Risk Management, and Bank Lending: Evidence from Turkey," Asian Development Bank Institute, Tokyo, December 26; "The Economic Outlook," LRI Institute, Fairfax, Virginia, January 29; "U.S. Structural Change, Macroeconomic Policy Issues," Center for Global Change and Governance, Rutgers University, Newark, New Jersey, March 15; "Parchment, Guns, and Liberty: Constitutional Insights in Churchill's History of the English-Speaking Peoples," American Public Choice Society Annual Meetings, San Diego, California, March 24.

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