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Alice M. Rivlin, vice chair of the Board of Governors of the Federal Reserve System, talks to the press after her keynote address at the Eighth Annual Hyman P. Minsky Conference on Financial Structure.

- **"Should policy attempt to impose a speed limit on the economy?" ask Cambridge University Scholar Stephanie Bell and Senior Scholar L. Randall Wray.**

- **If German corporations are losing ground in global markets, it is not the cost of labor that is weakening them, but their system of corporate governance, according to Research Associate Mary O'Sullivan.**

- **Despite current troubles, the Japanese corporate model is still the one to follow, argues Research Associate William Lazonick.**

- **Demographic changes are stimulating research into the process of assimilation: Georges Vernez looks at barriers to educational achievement, Alejandro Portes and Lingxin Hao study the loss of multilingualism, and Senior Scholar Joel Perlmann finds new means to study the pace of ethnic intermarriage.**

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

S Jay Levy, *Chairman*
Dimitri B. Papadimitriou, *Executive Director*

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Eighth Annual Hyman P. Minsky Conference on Financial Structure

The Fragility of the International Financial System: Options for Policy

The financial crisis in Asia shattered the image of the region as an economic powerhouse secure from the problems that led to financial crises in Mexico and other Latin American nations in recent years. The rapid rate at which Asian nations sank into the crisis raised a host of questions regarding how to lift the region out of its economic slump, how to prevent such a crisis from occurring in other regions of the world, and how far the effects of the crisis will spread. These questions were the focus of the Eighth Annual Hyman P. Minsky Conference on Financial Structure, which was held April 23 and 24 at Blithewood. Summaries of remarks by the speakers and the participants in the five sessions follow.

Alice M. Rivlin

Drawing lessons from the Asian crisis has become a global industry and many who are analyzing the crisis are seeking someone to blame. But Alice M. Rivlin, vice chair of the Board of Governors of the Federal Reserve System, argued there is no one cause to the crisis. A host of factors played a role, among them ill-conceived investments, lax regulations, lender greed, moral hazard, politics, the failure of the International Monetary Fund to see the signs of impending crisis, and the failure of nations to heed IMF warnings when it did see trouble on the horizon. The important question now is how to avoid a similar crisis in the future.

Rivlin offered two key prescriptions, one relating to transparency and the other to supervision. Increased supervision and monitoring of emerging capital markets, which might help to prevent future crises, require clear, well-developed rules for supervision; a strong, independent central bank that is capable of monitoring capital markets; and increased transparency. More information—about the market itself, potential borrowers, and government budgets and fund reserves—must be made available to investors, lenders, and those responsible for monitoring capital markets. And this information must not only be available; it must be used. There was information available to those investing in Asia, but few bothered to look for it. If they had, many might have recognized the potential for disaster.

Transparency is also important for dealing with crises once they occur. When things go bad, investors and government authorities need to know just how bad they are. If a culture of transparency is established, investors will feel that they can trust the government's assessment of the situation and will be less likely to panic. In addition, once a crisis hits, authorities must decide which institutions to save and which to let go; they need complete information to sort out the strong and the weak. The fact that some must be allowed to fail also means that nations must have in place policies for handling bankruptcies so that debtors, creditors, and the courts all know immediately what they should do.

Although increased transparency and supervision might help prevent crises, it is unlikely that crises can be entirely eliminated. Thus, plans for dealing with them must be made in advance. Those plans ought to include some way of making private lenders pay their share of the resulting costs. Lenders who help precipitate the crisis should not be able to get out unscathed and leave the mass of citizens to pay for a bailout. Not only is this unfair, but lenders' knowledge that they will somehow be repaid also creates moral hazard—a situation in which investors take risks they would not take if they knew their investment could be lost.

As important as it is, designing a method to make investors share the burden will be difficult. Each crisis is different, and it is complicated to work with numerous cross-border players. These global players must be encouraged to work with nations in distress. Also, a balance must be reached. If investors are made to shoulder too great a burden, they might shun emerging markets that are in need of investment or they might bail out of such markets at the first sign of trouble, which could itself be the catalyst of a crisis.

Martin Mayer

Martin Mayer, well-known author and visiting scholar at The Brookings Institution, addressed central banks' role in financial crises. Few governments believe that they can afford to let their banking system fail, and most will intervene to save it. In many cases they actually guarantee bank loans, which turns bank losses into quasi-government losses. The role of central banks as savior not only creates moral hazard—investors take big risks because they know that ultimately the government will step in and save the banks, and them as well—but also tends to generate panic in a crisis. Rather than calmly deciding which banks to save and which to let go, central banks tend to try and save them all.

The problem is that in many nations the monetary system is under the control of banks because it is linked to the lending system. Central banks must intervene to save the banking system because they must save the monetary system. Central banks also have a tendency to manipulate interest rates to manage currency values. But in an integrated system, such as that in Asia, an international money market cannot operate efficiently when interest rates in one currency are higher than those in another but their exchange rate is stable. Such a situation draws investors from low-interest nations into high-interest nations.

Once a crisis does occur, getting out of it is difficult. Regardless of what form of bankruptcy system is put in place to deal with collapsed institutions, failures will result in a mess. Governments must unload the bad assets and let some banks fail, but, unfortunately, most governments are reluctant to do so. Creditors are unlikely to be of much help; most will be scrambling to escape rather than offering to work things out with other creditors, debtors, and governments. The best solution is creation of some sort of authority that has the power to force creditors to behave and wait it out.

There are some changes that could be made in the banking system that might help prevent future crises. The fact that it is unlikely that governments will stop intervening to protect their banks encourages banks to continue the practice of lending to one another. But interbank lending, especially short-term lending, should be stopped. Its great danger is that banks too easily make loans to one another without knowing how borrowed funds are being used. It would help to have some sort of international authority capable of monitoring interbank lending.

Other changes include better accounting practices, increased transparency, and increased market discipline, but perhaps the best hedge against crises is for central banks to end their unconditional support of the banking system and separate the banking system from the monetary system. So long as banks know that their central bank will save them, they will continue to engage in risky lending practices. Finally, it might be time to reexamine the entire financial system. Distinctions between such things as capital and current accounts and long- and short-term lending no longer fit the global world. As a result, the regulatory process is behind the times, which only makes it more difficult to supervise the international financial system.

Session 1. International Banking Crises: Causes and Solutions

The first conference session was moderated by **Walter M. Cadette**, Levy Institute senior fellow. Participants were **James R. Barth**, Lowder Eminent Scholar in Finance, Auburn University; **Glenn Yago**, director of Capital Studies, Milken Institute; and **Lawrence R. Uhlick**, executive director and general counsel, Institute of International Bankers.

Barth and Yago jointly presented research that examines various financial systems in an effort to learn what factors cause financial crises. They found that there are many varieties of financial systems but all have the same goal—to funnel money from saving to investment. Systems that are well-developed and perform this function efficiently play a key role in promoting economic growth. Research shows that nations with a large share of the world's gross domestic product are also nations with well-developed financial systems. This research also points to several indicators of impending collapse in financial systems—a rapid increase in bank lending, a growth in the ratio of short-term debt to reserves, and rigidity in the bond and equity markets.

A number of researchers and policymakers have blamed the Asian financial crisis on lax supervision of financial markets, but Uhlick said the regulators are not solely at fault. Poor economic management resulted in a deteriorating economic situation, and once the deterioration began, increased supervision could not have stopped it. In fact, too much supervision once a crisis begins only makes the crisis worse because the very fact of the increased supervision tends to make bankers panic rather than calming them. This is not to say that supervision should not be improved. Supervision should be consolidated at the international level so that regulators within each nation can keep tabs on the global activities of their banks. Currently, regulators pay little attention to what banks in their country are doing in other nations.

Session 2. The IMF, the World Bank, and the Global Lender of Last Resort

Function, Part I

Executive Director **Dimitri B. Papadimitriou** moderated this session. Participants were **Karin Lissakers**, executive director for the United States at the International Monetary Fund, and **Yukio Yoshimura**, executive director for Japan at the International Monetary Fund.

Karin Lissakers, executive director for the United States at the International Monetary Fund

Lissakers took issue with critics who say the IMF has stepped beyond its traditional role. It has always been its role to provide temporary financing to nations so that they can get back on their feet with minimal damage to themselves and the rest of the world. Asian nations became vulnerable because they became dependent on foreign borrowing to finance growth. Eventually, they exhausted the foreign credit needed to keep their banks afloat. It is unrealistic to believe that at that point they could have worked out the problem on their own. Nations will not let their banking system collapse. Thus, they would have intervened and in the absence of IMF help would have resorted to such policies as currency depreciation and trade restrictions, which would have resulted only in greater economic damage. The IMF can minimize the damage by providing financial support to nations in a crisis, acting as the coordinator for international assistance, and helping nations initiate the policy reforms needed to get them back on track. It is true that the IMF's assistance might be a source of moral hazard, but, in general, the cost to the world economy and to people's lives is less with the IMF than without it.

Yoshimura said numerous factors played a role in the Asian crisis including account imbalances, a bubbling property market, lax supervision, weak financial markets, large capital inflows that made it difficult to manage exchange rates, and market panic that led to depreciated and volatile currencies. Despite this variety in causes there are things that can be done to minimize the chance of future crises. On a national level countries should improve their supervision of the financial sector and focus on sound, stable macroeconomic policies. On the international level there should be improved coordination among agencies such as the IMF and the World Bank to create a better international regulatory system. And this system needs to increase its supervision of cross-border capital flows, especially short-term flows. Improved coordination will also allow for speedier intervention when a crisis does occur to prevent it from spreading.

Session 3. The Asian Crisis, Its Impact on the U.S. Economy, and the Role of the IMF

Levy Institute Visiting Scholar **Mathew Forstater** moderated the third session. **Wynne Godley**, Levy Institute distinguished scholar, and **Jan A. Kregel**, Levy Institute visiting senior scholar and professor of economics at the University of Bologna and The Johns Hopkins University, made a joint presentation. Other participants were **Albert Fishlow**, Paul A. Volcker Senior Fellow for International Economics at the Council on Foreign Relations, and **James K.**

Glassman, holder of the DeWitt Wallace-Reader's Digest Chair in Communications in a Free Society at the American Enterprise Institute.

Godley and Kregel's research indicates the Asian crisis will have wider repercussions on the United States economy than many believe. There are some weaknesses in the American economy. As a result of the rise in the stock market and exchange rate during 1997, foreign investors are now earning a rate of return on their U.S. investments that exceeds the normal rate of growth of the American economy, which leads to growth of the U.S. net external debt. Also, U.S. consumption and investment are now higher than income and have been sustained for some time by unprecedented rates of private sector borrowing. This cannot go on much longer and it is likely the U.S. economy will dramatically slow within the next 18 months. The possible repercussions of the crisis on the U.S. and the world economy become more apparent if one uses data and economic models that are more accurate than those used by the International Monetary Fund. IMF economic forecasts fail to take into account the total interdependence of the world economic system and fail to consider the global effects of individual nations' possible policy responses to the crisis.

Fishlow presented a much more optimistic view. Korea and Thailand are on the road to recovery. The Asian nation facing the greatest challenge is Indonesia, but its problems are more political than economic. It would be capable of recovery were its political leaders willing to implement reforms. In Asia much of the trouble was related to the exchange rates and the inflow of foreign capital. These problems can be solved by restructuring the financial system and once that is done, the economies of these nations will be back on track. It is highly unlikely that the Asian nations will retreat from the global economy. It is more likely that they will remain fully integrated in the international global system and will continue to experience economic growth once they come out of the current crisis.

From left to right, Mathew Forstater, Levy Institute visiting scholar; Albert Fishlow, Paul A. Volcker Senior Fellow for International Economics, Council on Foreign Relations; James K. Glassman, holder of the DeWitt Wallace-Reader's Digest Chair in Communications in a Free Society, American Enterprise Institute; Jan A. Kregel, Levy Institute visiting senior scholar

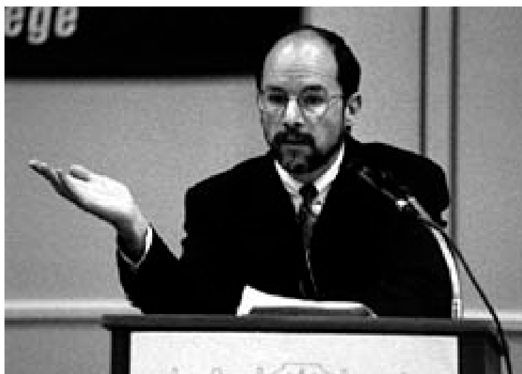
Glassman criticized the IMF for its handling of the Asian crisis. The cause of the Asian crisis was that Asian banks borrowed short-term in foreign currency to cover long-term loans. The foreign lenders did not investigate those receiving the money. The IMF's policy of stepping in to pay off the loans only encourages moral hazard. The IMF should stay out of such crises and let the market deal with them. It is not its role to decide to transfer money from some nations to others. The market is better at performing such financial transfers. The IMF should limit itself to acting as a coordinator to bring together those who can help nations through a crisis. If it does lend, it should lend at penalty rates and not attempt to make loan conditions, which many nations ignore anyway.

Session 4. The IMF, the World Bank, and the Global Lender of Last Resort Function, Part II

Levy Institute Assistant Director **Frances M. Spring** moderated this session. Participants were **Martin J. Gruenberg**, senior Democratic counsel of the Senate Committee on Banking, Housing, and Urban Affairs; **Stijn Claessens**, principal economist in the Economic Management Department of the World Bank; **Robert Z. Lawrence**, Albert L. Williams Professor of International Trade and Investment at the John F. Kennedy School of Government, Harvard University; and **Charles D. Toy**, vice president and general counsel of the Overseas Private Investment Corporation. Gruenberg discussed U.S. funding to the IMF, but he asked that his comments be off the record.

Claessens said there are four important lessons to be learned from the Asian crisis. First, nations

must focus on microeconomic as well as macroeconomic issues; it is clear that microeconomic weaknesses can occur even with strong macroeconomic policies. Second, the financial system needs more transparency. Many governments and investors were unable to take proper action as the crisis developed because they did not have enough information to make decisions. Third, governments and international agencies responding to a crisis must consider its social effects, that is, its impacts on ordinary citizens. Fourth, relying on short-term capital flows to finance loans involves great risk. These lessons show that financial systems should be restructured to reduce dependence on short-term borrowing, to increase regulation, and to become more transparent.



Robert Z. Lawrence, Albert L. Williams Professor of International Trade and Investment at the John F. Kennedy School of Government, Harvard University

Lawrence sees an inconsistency between what some researchers and policymakers want the IMF to be and what it is capable of. Some argue the IMF should be the lender of last resort—when nations have exhausted their own financial resources, the IMF will step in to help—but the IMF is not capable of performing this function. A real lender of last resort must not only lend without limits (which prevents panic because investors know they will get paid), but also guarantee all good loans. The IMF does not have unlimited funds that would allow it to lend without limits. It receives its revenue from independent nations. It does not have the information to determine which loans are sound, and therefore could be paid off, and which loans are not. A real lender of last resort would need much more power and authority than the IMF has, but it is unlikely that independent nation-states would be willing to give it such power. It is time for nations to consider seriously what role they want the IMF to play and how much power they want it to have.

Toy said the Overseas Private Investment Corporation is an important tool that can be used to help Asian nations through their current crisis. OPIC mobilizes private capital and skill for development projects in developing nations and guarantees investors against losses due to political change. This guarantee can be used by OPIC to help restore investor confidence following a financial crisis, such as that in Asia. A danger of such a crisis is that investors might be reluctant to get back into the market. OPIC's aim is to get private investment flowing back into the region.

Session 5. Minskian Financial Instability in Asia

Levy Institute Senior Scholar **L. Randall Wray** moderated the fifth and final session. Participants were Jan Kregel and **Walker Todd**, attorney and economic consultant.

Kregel said that had the Asian nations followed the policy suggestions of Hyman P. Minsky, they might have avoided their current crisis. Minsky, a leading scholar in financial systems, argued that big government and an active central bank lend stability to financial systems.

Government is needed to keep aggregate demand from falling below a certain floor and a central bank is needed to act as lender of last resort in order to keep banks solvent. Neither of these important conditions existed in Asia. The Asian governments played only a small economic role. The central banks were hampered by the fact that much of the lending was in U.S. dollars and yen rather than in local currencies. They could offer only limited financial support—they could lend only as much as they had in dollar reserves. The crisis is far from over. Many of the productive structures needed to "grow" the region out of the current crisis have either been sold off or collapsed into bankruptcy. Those firms still operating cannot get the credit to purchase the materials needed for production.

Todd said that in considering how to deal with the Asian crisis more attention should be paid to the effect the crisis—and proposed solutions—have on those who are not investors. Far too much attention has focused on bailing out the investors, most of whom should share the cost of the crisis rather than leaving ordinary citizens to pay the tab. Placing the burden on citizens risks social unrest because it is unfair and they know it. Others who will be affected are the producers in non-Asian nations who export to Asia and those who compete with Asian products. Asian nations can be expected to increase exports and cut imports as they seek to boost their economies. Using the IMF to funnel money to Asian nations might not be the fairest solution to the problem because it is likely that much of that money—which comes from the citizens of other nations—will end up not in the hands of hard-working citizens but in the hands of government officials or their associates.

Transcripts of the speakers' remarks and more complete summaries of the sessions are published in the conference proceedings. To order a copy, contact the Levy Institute at info@levy.org or call 845-758-7700 (202-887-8464 in Washington, D.C.). Note also that you may hear an audio webcast of the conference on our web site; go to the Webcast page in the What's New section.

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Editorial

Can We Grow Faster?

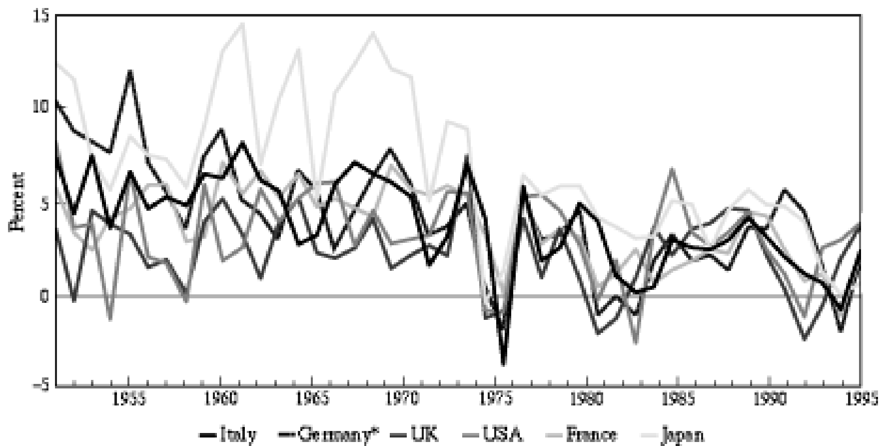
By Stephanie Bell, Cambridge University Visiting Scholar, and L. Randall Wray, Senior Scholar, The Jerome Levy Economics Institute

Many economists have come to believe that our economy's long-run trend, or potential, rate of growth of real gross domestic product (GDP) is in the 2.0 to 2.5 percent range. Some even go so far as to advocate setting a "speed limit" on short-run growth to keep it to a "sustainable" 2 percent; if the economy temporarily grows faster (say, at a 4 percent clip), they would impose tight monetary or fiscal policies or both to slow the economy to what they believe is the sustainable long-run trend rate of growth.

Generally, the belief that growth potential is in the 2.0 to 2.5 percent range follows from three methods of analysis. First, the average rate of growth since 1973 has been in that range, and it is believed to be prudent to extrapolate from recent experience. Second, it is supposed that a rough measure of potential growth can be found by taking two years that experience the *same* unemployment rate and calculating the average real rate of growth of GDP for the period between those years. Using the most recent such paired years, analysts found "potential" growth to be about 2 percent. Third, many economists have noted that the trend rate of growth can be attributed to the rate of growth of labor productivity plus the rate of growth of the labor force; given recent experience and projections, each of these should grow at about a 1.1 percent rate, so their sum gives the trend rate of growth of 2.2 percent. Through such analyses, then, one arrives at the conclusion that our long-run growth potential is probably something less than 2.5 percent. Short-run growth above that, it is often argued, is not sustainable; indeed, faster short-run growth will cause bottlenecks and inflation that endanger long-run growth.

Is the economy's growth rate really limited to 2.0 to 2.5 percent? To answer this question, let us examine the three methods of analysis on which this belief is based. Consider first the assumption that past rates of economic growth are a good guide to the future. Exhibit 1 shows inflation-adjusted (real) growth rates for a number of countries since 1951. Two things are readily apparent. First, all countries enjoyed real growth rates well in excess of the 2.5 percent speed limit for virtually all years prior to 1973. Second, while the growth rates varied to some degree previous to 1973, they rise and fall together after 1973. Clearly, something significant has happened in the post-1973 period. The initial shock can probably be attributed at least in part to the food and oil price shocks of 1973 to 1975, but the continuing universally slower and synchronized growth must be due to other factors as well. We believe that the abandonment of the Bretton Woods system, relaxation of capital controls, gradual abandonment of "Keynesian" fiscal policies, and experimentation with "monetarist" policies in most of these countries together played important roles in restraining growth.

Exhibit 1 Inflation-Adjusted Growth Rates, 1951–1995, Selected Countries



*Data after 1990 are for West Germany, not unified Germany.
Source: For 1951–1980, Angus Maddison, *Phases of Capitalist Development*, Oxford University Press, 1982; for 1981–1995, Council of Economic Advisers, *Economic Report of the President*, 1980–1995.

The second method of analysis leads to the conclusion that potential growth is 1.9 percent because that is the average rate of growth achieved between the pair of years 1990/1995. Table 1 lists the average rate of growth between each pair of years having the same unemployment rate since 1973. Rather coincidentally, the recent pair of years, 1990/1995, had the *lowest* average rate of growth. The pairs 1980/1985 and 1974/1990 experienced growth of 2.9 percent. Four of the seven pairs had average growth rates of 2.5 percent or higher—in other words, above the compounded growth rate *for the whole period* (perhaps indicating the economy has chronically operated below "potential"). Exhibit 2 shows the average rate of growth between every post-1959 pair of years that achieved the same unemployment rate. Observe that at a constant unemployment rate of about 5.6 percent, the average rate of growth has varied from less than 2.0 percent to as high as 4.3 percent. We doubt this sort of exercise tells us much at all about growth potential.

Table 1 Average Rate of Growth for Period between Two Years with Same Unemployment Rate

Years	Unemployment Rate	Trend Rate of Growth
1974/1990	5.6	2.9
1974/1995	5.6	2.6
1978/1994	6.1	2.4
1980/1985	7.2	2.9
1984/1992	7.5	2.4
1990/1995	5.6	1.9
1991/1993	6.9	2.5

We can examine the historical record in greater detail to see whether the past 24 years might be an unfortunate aberration. Even Milton Friedman, certainly no wide-eyed Pollyanna, notes that average growth of real output has been 3.25 percent per year over the past 125 years. If two

slow-growth periods (the decade of the 1930s and the past quarter century) are eliminated, growth has averaged more than 3.8 percent per year. Friedman also notes that those 90 high-growth years included periods of mild deflation, mild inflation, substantial inflation, and relatively stable prices. It is simply a misreading of history to assert that growth in excess of 2.5 percent must be associated with inflation.

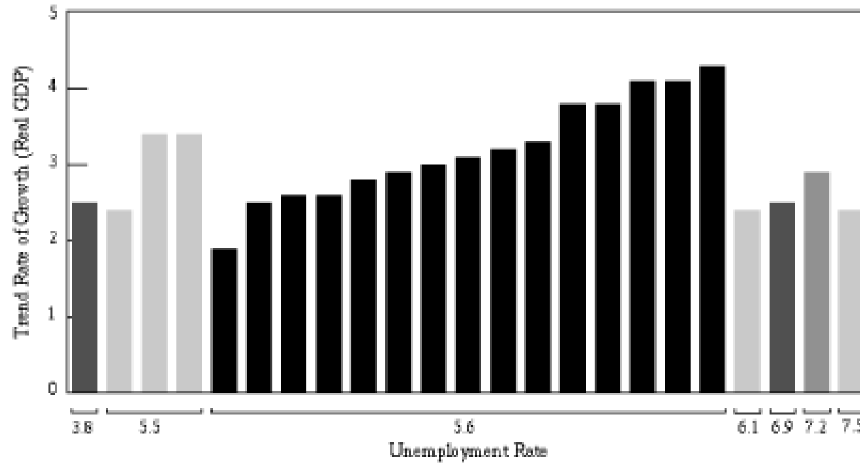


Exhibit 2 Implied Speed Limits, 1959–1996: Average Rate of Growth between Pairs of Years with Same Unemployment Rate, for Each Such Pair after 1959

Note that at each unemployment rate, a wide range of trend rates of growth appear.
Source: Haver Analytics, U.S. Economic Statistics, data from U.S. Department of Commerce.

The Asian meltdown gives further cause for doubting that inflation lurks around the corner. In November 1997 the price of goods imported from the troubled Asian "tigers" (South Korea, Taiwan, Hong Kong, and Singapore) fell by 1.2 percent; these goods account for 11 percent of all U.S. imports. This is not an isolated event. Excluding petroleum prices, import prices as a whole fell by 2.3 percent in the 12 months preceding November, and note that this decline occurred before the collapse of Asian currencies, which will generate further price decreases. These events confirm the obvious: the world "suffers" from excess manufacturing capacity in conjunction with depressed demand, which not only limits price increases but also limits growth of output and, identically, growth of labor productivity and labor hours.

Finally, in examining the third analysis, we see that much of the pessimism about future economic growth follows from the abysmal growth of labor productivity since 1973. Economists make great sport of manipulating the identity that shows that the rate of growth of real output equals the rate of growth of labor productivity plus the rate of growth of the labor force. We think it more sensible to note that the rate of growth of labor productivity is *defined as* the rate of growth of real output less the rate of growth of the number of hours worked. Both of these right-hand variables will then be related to the demand for output. If growth of demand had only been higher since 1973, we believe, both the amount produced and the number of hours worked would have grown. So long as the amount produced grew more quickly than the number of hours worked, labor productivity would, by definition, have grown. If labor markets

truly were tight over the entire period since 1973 (and this is an unjustified heroic assumption), faster growth of output would have generated greater productivity growth. While it is impossible to test this hypothesis, surely only economists who live in never-never land believe that workers are so fully occupied every minute of every working day that it would be impossible to squeeze another percentage point of output from them.

Does it really matter how one answers the question "Can we grow faster?"? Not really. As Professor Alan Blinder rightly emphasizes, "our economy's long-run growth trend, be it 2.1 percent, 2.3 percent, or 2.5 percent per year, is not a constant of nature. It can be enhanced by intelligent economic policies and damaged by foolish ones" (*The American Prospect,* September-October 1997). Given all the unknowns about future growth of productivity, the population, and the employable portion of the population, it would be foolish to give much weight to the prognostication of any soothsayer. While a higher rate of growth is not the only way to improve the standard of living of the average American, most would agree that it would be better to have a higher growth potential than the 2.0 to 2.5 percent that many economists believe to be possible. Indeed, many economists agree that policy could promote higher potential growth.

This brings us to what we believe is the more important question: "Should policy attempt to impose a speed limit on the economy?" Here we think the most prudent response is a resounding "No!" Regardless of what one might believe about long-run potential growth, there is, so far as we understand it, no good case for limiting short-run growth to 2.5 percent. If we had tried to do so in the past, we would have forgone all the cyclical peaks since 1973 (implying over a trillion dollars of lost real output) in the hope that this would also eliminate the cyclical troughs. There is no compelling theory, and even less real-world evidence, to suggest that elimination of business cycle peaks generates constant growth at potential. We note that the low average real growth since 1973 has not reduced the frequency or severity of recessions. Indeed, the evidence is precisely to the contrary: recessions are more frequent, longer, and deeper than those experienced in the early postwar period.

No matter what one believes about long-run growth, one's position provides no guidance for short-run policy. The prudent long-run policy is to support efforts to increase potential growth. These might include institutional changes to promote labor force participation (such as day care), public infrastructure development, public support of research and development, higher minimum wages and support for labor unions (to induce firms to increase productivity), and greater spending on education and training. Given recent events in Asia, it should be clearer than ever before that low global demand is currently a major barrier, if not *the* major barrier, to faster growth. In that context, it is sheer folly to impose fiscal austerity on Asia, on the soon-to-become European Monetary Union countries, and on the United States. Thus, the prudent short-run policy is to "push the limit"—to grow at rates above 2.5 percent when that is possible in order to raise the long-run average.

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New Working Papers

Employment Policy, Community Development, and the Underclass

Dimitri B. Papadimitriou
Working Paper No. 220

Despite the strong economy, the number of people living in poverty, especially in urban areas, has been rising. Inner-city neighborhoods that were vibrant places in the 1960s have fallen into decline as employers have moved to the suburbs and the middle class has followed. Those left behind—the least skilled and least educated—face overwhelming obstacles in their struggle to rise out of poverty.

How to lift inner-city residents out of poverty is a problem pondered by many researchers and policymakers. Some argue that an expanding economy will eventually pull even the least skilled out of poverty, but Executive Director Dimitri B. Papadimitriou points out that despite several years of strong economic growth and job expansion, many Americans are still living in poverty. The strong economy has provided some Americans with a higher income, but it has had little impact on the American "underclass"—residents of areas, mostly inner cities, with concentrated poverty, joblessness, violence, and no community-supporting institutions. The underclass has seen neither increased job opportunities nor increasing wages.

Research from the United States and other developed nations indicates that lifting inner-city residents out of poverty requires proactive government policies that target the poor—policies that aim to create jobs and programs that prepare people for work, provide work incentives, provide income support, and promote early childhood development. Also needed, Papadimitriou argues, is a program that creates and supports community development banks. Such banks are essential for the revitalization of those neighborhoods that are not served by commercial banks and therefore lack access to the credit needed by small businesses and residents. Papadimitriou points out that the adoption of such policies targeting the poor will require reversal of the current trend toward reducing spending on social programs; in order for such policies to be successful more government support is needed, not less.

Policy Innovation as a Discovery Procedure: Exploring the Tacit Fringes of the Policy Formulation Process

Mathew Forstater
Working Paper No. 221

The immediate demands of pressing economic challenges often prevent researchers from focusing on the policy process itself. This is unfortunate, asserts Visiting Scholar Mathew Forstater, because the process by which policy is developed is often as important as the policy itself. An exception among researchers is Adolph Lowe. His "instrumental analysis" is an overlooked and underexamined alternative methodological approach to economic theory and policy development.

Lowe proposed that rather than taking initial conditions as given and then using theory to predict outcomes from those conditions, planners and policymakers envision a desired outcome and then seek the means by which that outcome can be achieved. They begin from where they want to go and work backward; the next step is to put the "discovered" means into practice to reach the desired outcome.

Lowe's instrumentalism is not new. Earlier theorists, such as Charles Sanders Peirce, George Polya, and Michael Polanyi, expressed similar ideas. But Lowe made an important contribution in emphasizing the application of this mode of thought and in recognizing its importance as a methodology for successful planning and policy formulation.

Money and Taxes: The Chartalist Approach

L. Randall Wray
Working Paper No. 222

Money is often thought of as something that is used to facilitate exchange, with its value determined by the value of some precious metal that it represents. In a fiat money system, the value of money is determined by the quantity of goods it can purchase. The quantity of goods is, in turn, a function of the rate of inflation, which is presumed to be under the control of a central bank. It is because money is viewed this way that many researchers and policymakers believe that government deficit spending will raise interest rates and crowd out private spending. The government taxes the public to finance spending, and when taxation does not raise enough revenue, the government must borrow from the public, thus reducing the amount of money available for private investment. Rather than borrow, the government could print money, but this tends to lead to inflation. What we have, then, is monetary policy controlling the supply of money and fiscal policy dealing with spending, taxing, and borrowing.

The chartalist approach provides another way to view money. Money is seen as a creation of the state; that is, money is defined as whatever the state agrees to accept in payment of taxes. The government supplies money to its taxpayers by spending. The value of money is determined not by the value of a metal or by the quantity of goods that money can buy, but by how much the government will pay for goods and services.

Senior Scholar L. Randall Wray argues that under the chartalist view the roles of monetary and fiscal policy are reversed. Because people must pay taxes with that which the state has defined as money, there is a demand for that money. Since the government supplies that money to the public through spending, it is fiscal policy that determines the supply of money. Because people will normally want to keep some of the money, rather than returning it all to the government in taxes, the government must spend more than it takes back in taxes. Deficit spending is therefore the norm. The government does not need to sell bonds to borrow money. It uses bonds as a way to provide the public with interest-bearing alternatives to non-interest-bearing government money. Thus, monetary policy is used to maintain positive interest rates through bond sales. Wray points out that if the chartalist view of money is correct, governments would necessarily have to pursue monetary and fiscal policies that are different from those pursued under a fiat view of money.

The Kaleckian Analysis and the New Millennium

Malcolm Sawyer
Working Paper No. 223

Economist Michal Kalecki died in 1970 when economic globalization was just beginning. The capitalist economies that he analyzed have undergone fundamental changes since his death, but this does not mean that Kalecki's work is no longer of value, according to Visiting Scholar Malcolm Sawyer. It is possible to adapt Kalecki's analysis to the new world economy.

Sawyer considers the relevancy of Kalecki's work on industrialized capitalism to the modern global economy. He focuses on three broad areas—the globalization of productive activity, the globalization of financial markets, and the changing position of workers in relation to capital. These are the areas in which Sawyer sees the greatest change since Kalecki's death and they are, therefore, the areas in which Kalecki's work most needs modification to fit the new world economy. Sawyer argues that while Kalecki did not specifically address issues of globalization, such as the rise of transnational corporations, he did address related issues, such as degrees of monopoly power, that can be helpful in understanding the workings of a global economy.

Sawyer sees much value in Kalecki's analysis. It is often interpreted to relate only to a single national economy, but Kalecki's principle of effective demand can be applied as well at regional and international levels. Many political regions, such as the European Union, are similar to

closed, national economies, and Kalecki's analysis at the national level is transferable to regional economies. What has changed most in the past 30 years is the impact that national governments can have on the domestic level of aggregate demand and the degree to which the international financial system supports high levels of aggregate demand around the world.

The Diagnostic Imaging Equipment Industry: What Prognosis for Good Jobs?

Chris Tilly, with Michael Handel
Working Paper No. 224

As manufacturing industries shift production from developed to developing nations, a number of economists and policymakers in developed nations are promoting the establishment and expansion of high-technology industries. It is argued that developed nations, such as the United States, are in a better position to compete globally in the high-technology sector because their populations are better educated and more skilled. Moreover, the development of a high-technology sector would allow jobs lost in the low-skill manufacturing sector to be replaced with higher-skilled, better-paying technology jobs.

In a test of this theory Chris Tilly and Michael Handel, both with the Center for Industrial Competitiveness at the University of Massachusetts Lowell, examine one such high-technology industry—the diagnostic imaging equipment industry. This 100-year-old industry has long been dominated by American firms, but in the past two decades they have lost market shares to Japanese and European manufacturers.

In recent years the market for diagnostic imaging equipment has been shifting from the developed world to the developing, and Tilly and Handel predict most market growth will be in Asia, Latin America, and eastern Europe. Based on their preliminary research, the authors argue that some corporate strategies of U.S. manufacturers in the past two decades might make it difficult for them to compete in this internationalized market. For example, in an effort to be more efficient, U.S. firms have downsized and outsourced production, which, according to some managers interviewed for the research project, has decreased employee loyalty, increased employee turnover, and reduced the capacity for organizational learning. American firms have also sought to integrate physicians, hospitals, and government agencies into the organizational structure, while Japanese firms have focused on integrating suppliers, engineers, and production workers. Tilly and Handel say it is too soon to assess the impact of these organizational changes on American firms' success. They suggest that future research focus on the connections between organizational change, competitiveness, and the creation of jobs in high-technology industries.

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The Development and Reform of the Modern International Financial System

L. Randall Wray
Working Paper No. 225

Recent Asian financial crises have demonstrated that the international financial system is not and has not been running smoothly. Central banks must frequently intervene to reduce currency fluctuations and problems such as current account deficits and surpluses, unbalanced trade, and unequal access to credit remain unsolved. Senior Scholar L. Randall Wray argues that the system is in need of reform.

For decades economists have sought ways to reform the system. John Maynard Keynes proposed the creation of an International Clearing Union (ICU) that would be based on a unit of account called the *bancor*. The bancor would be fixed in value relative to gold, and the currencies of all countries participating in the ICU would be fixed in value relative to the bancor. Countries could buy bancor balances from the ICU using gold, but bancors could not be redeemed for gold. In this way, bancor reserves could never leave the system, and any possibility of a run on bancors is eliminated.

Wray argues that reform of the system along the lines suggested by Keynes—fixed exchange rates, creation of some sort of ICU, and creation of an international central bank—would be effective in solving many of the current problems. Wray disagrees with Keynes, however, with regard to why such reforms would be effective. According to Wray, Keynes's theoretical justification for the reforms is weak because he continued to view money primarily as a medium of exchange. Wray builds a theoretical justification for Keynes's proposals based on a view of money as a unit of account.

The Political Economy of Corporate Governance in Germany

Mary O'Sullivan
Working Paper No. 226

Germany's current high rate of unemployment seems to indicate that German corporations are losing ground in the global economy. In an effort to stem this slide, policymakers, corporate managers, and researchers have begun searching for its cause. Comments by corporate managers in recent years indicate that they believe much of the problem lies with the high cost of production in Germany, which they attribute mostly to the high cost of labor. Many also believe that Germany's expensive pension and welfare systems add to the labor costs faced by corporations.

Mary O'Sullivan, of the Center for Industrial Competitiveness at the University of Massachusetts Lowell and INSEAD, challenges this view, claiming that it is not labor cost that is weakening the competitiveness of German firms but their system of corporate governance. O'Sullivan argues that unlike many of their Japanese competitors, German corporations have failed to invest in the organizational learning that leads to innovation. It is innovation that allows corporations to improve the quality of products while reducing production costs, thereby becoming more competitive.

Instead, German corporate governance has been moving in the same direction as American corporate governance in its shift toward emphasizing providing returns to those who feel they have a claim on the corporation. Shareholders want a return on their investment and corporate executives want to be rewarded with stock options when their corporations are financially successful. German labor and finance are also in a position to demand that corporations allow them to extract returns from industrial enterprises.

O'Sullivan warns that this trend in corporate governance threatens the future of German firms. Corporate Germany faces the danger of dissipating into a stakeholder economy in which various groups seek to live off past corporate profits rather than working together to invest in future success.

The Japanese Financial Crisis, Corporate Governance, and Sustainable Prosperity

William Lazonick
Working Paper No. 227

The possibility of recession stemming from the current Japanese financial crisis has led many economists to question the strength of the Japanese economy in general and Japanese corporations in particular. During the 1970s and 1980s Japanese corporations were considered models that businesses in other nations ought to emulate. But today, Japanese corporations appear weak, while their American counterparts—having followed a policy of downsizing—appear strong. Many policymakers and corporate executives now view the American corporation as the model to be followed to achieve success. William Lazonick, of the Center for Industrial Competitiveness at the University of Massachusetts Lowell and INSEAD, challenges this view.

Lazonick argues that despite the current slump in the Japanese economy, Japanese corporations are fundamentally strong and are in a better position than American corporations to generate sustainable prosperity—the spreading of the benefits of economic growth to more and more people over a prolonged period of time. Japanese corporations remain committed to a policy of promoting lifetime employment rather than a policy of extracting financial returns from the

corporation, as is often the case in American corporations controlled by shareholders.

Unlike the stock of American corporations, which is often owned by diverse groups of investors, much of the stock of Japanese corporations is owned by other corporations in a system known as cross-shareholding. This system has made it possible for corporate executives to govern without interference from outside stockholders whose main interest is extracting financial resources from the corporation. Lazonick argues that although this stockholder system is undergoing change as new laws and regulations open the door to more investors, the system is still fundamentally intact. Corporate decision making is largely retained by corporate executives, most of whom accept the view that success is measured by a corporation's ability to keep its regular labor force employed. As a result, Japanese corporations continue to allocate resources in ways that aim to strengthen the corporation as a whole and boost the productivity of labor.

Education's Hispanic Challenge

Georges Vernez
Working Paper No. 228

By 2005 people who identify themselves as Hispanic are expected to constitute the largest ethnic minority in the United States. This predicted growth in the Hispanic population is a result of two main factors: the continued influx, which began about 30 years ago, of immigrants from Mexico and Central and South America and the high fertility rate of these immigrants. This demographic change poses a challenge to the American educational system. Schools, colleges, and universities must find ways not only to accommodate this growing population of Hispanic students, but also to upgrade the educational level of those students who lag behind.

Georges Vernez, of the RAND Corporation, is trying to determine how the educational system can provide the Hispanic children of today and tomorrow with the skills they will need in the changing American economy. In tracing the educational path of Hispanic children, Vernez finds that they are underrepresented in preschools and that often by age 13 they are behind other students in reading, math, and science. This lag carries over into high school with the result that Hispanic students are less likely to prepare to enter college. Vernez points out there is variation among groups within the population categorized as Hispanic, and not all Hispanic children follow this path. For example, Hispanics of Cuban origin have a much higher college completion rate than Mexican and Puerto Rican Hispanics. Educational attainment is also greatly affected by two family characteristics—the educational level and the socioeconomic position of the parents.

Hispanics are concentrated in four key states—California, Texas, Florida, and New York—and in a few districts within these states. These districts are already under fiscal stress and cannot be expected to meet the financial challenge arising from the demographic change.While reversing

the trend toward reducing investment in education is a first step toward greater educational achievement, it is not the only solution. Vernez states that factors associated with the low educational performance of Hispanic children fall into four main categories—school factors, such as underfinancing of schools; parental factors, such as the educational and economic level of parents; cultural factors, such as the value that ethnic groups place on education; and structural-institutional factors, such as the strength of the labor market. More research is needed to determine which of these factors plays the greatest role and how to overcome barriers to educational achievement that result from them.

E Pluribus Unum: Bilingualism and Language Loss in the Second Generation

Alejandro Portes and Lingxin Hao
Working Paper No. 229

The globalization of the world economy has increased the demand for people who speak more than one language. And yet, even as this demand for multilingualism increases, the children of immigrants are losing their bilingualism. While native English-speaking Americans spend years trying to gain fluency in a second language, the children of non-English-speaking immigrants are giving up this ability by giving up their mother tongue in favor of English. Alejandro Portes, professor of sociology and public affairs at Princeton University and Emilio Bacardi Moreau Visiting Professor at the University of Miami, and Lingxin Hao, of The Johns Hopkins University, argue the real danger in the United States is not that English will lose its position as the dominant language, but that bilingualism among the children of immigrants will be rapidly lost. Research has shown that immigrants to the United States tend to lose their native language by the third generation.

In the early part of the 1900s bilingualism was viewed as an impediment to education and the children of immigrants were encouraged to focus on English only. This view has persisted, but Portes and Hao note that recent research indicates that bilingualism does not impede learning in children. It is actually a great benefit that promotes intellectual development, and this benefit is being lost.

Portes and Hao conducted a survey of children of immigrants in the Miami and San Diego areas to assess the state of bilingualism among the second generation. The two researchers found that English is the preferred language of today's second generation and knowledge of it is universal. They also found that there has been a rapid loss of fluency in parental languages among all ethnic groups, but the level of bilingualism varies across nationalities. Latin Americans are most likely to retain the parental language while Asians are least likely to. The forces at work to support preservation of the parental language are family and peers in the ethnic community. Schools, on the other hand, work to promote monolingualism in English.

The Romance of Assimilation: Studying the Demographic Outcomes of Ethnic Intermarriage in American History

Joel Perlmann
Working Paper No. 230

Assimilation is an important topic in the field of immigration research, especially in light of the fact that many of today's immigrants come from nations with languages and cultures very different from those of America's early European immigrants. This demographic change leads many to ask whether these more recent immigrants will change American culture or be changed by it (via assimilation). Although much immigration research mentions intermarriage of ethnic groups, little focuses on intermarriage and its role in the assimilation and blending of ethnic groups.

Senior Scholar Joel Perlmann seeks to fill this gap because he believes that studying intermarriage will give scholars a better understanding of the process of assimilation and some guidance in predicting the composition of American society in the near future. Perlmann attempts to learn about the pace of intermarriage by studying Italian immigrants from around 1870 through two generations of their descendants.

This type of research has proved difficult in the past because census data do not identify respondents as third generation. Perlmann overcomes this obstacle by using the Public Use Microdata Sample gathered by the University of Minnesota. The sample identifies members of the third generation by first examining census data to find people who report that they were born in the United States but their parents were born abroad; the children of these second-generation Americans are then identified as the third generation.

Perlmann finds that intermarriage is widespread and also occurs early in the assimilation process. It is already happening by the second generation and becomes common by the third. This widespread intermarriage will affect the ethnic makeup of American society in the near future. Rather than a society fragmented by various ethnic groups, the future American society is more likely to be one of blended ethnic groups.

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Levy Institute News

Participants in *Debates-Debates*

Several Levy Institute board members participated in recent segments of the national television program *Debates-Debates*. **Eugene H. Rotberg** and **James Tobin**, members of the Levy Institute Board of Advisors, took part in the segment "Is currency speculation in the public good?" Rotberg and Tobin argued that it is not. Supporting their position was Tom Palley, assistant director of public policy for the AFL-CIO. Arguing that currency speculation is not dangerous were Roger Kubarych, chief investment officer at Kaufman & Kubarych Advisors, LLC; Len Santow, managing director at Griggs & Santow, Inc.; and Peter Thiel, research fellow at the Independent Institute.

Rotberg also participated in the debate on "Is inflation dead?" In arguing that it is, he was joined by Larry Chimerine, senior fellow at the Economic Strategy Institute, and Susan Dentzer, contributing editor at *U.S. News & World Report*. Arguing that inflation is not dead were Peter Thiel; Stephen Moore, director of fiscal policy studies at the Cato Institute; and Lakshman Acuthan, managing director at the Economic Cycle Research Institute.

Paula Stern, also a member of the Levy Institute Board of Advisors and president of the Stern Group, participated in two segments. In the debate on "Should the IMF bail out Asia?" Stern; Robert Kuttner, editor of *The American Prospect*; and Chi Schive, vice chairman of the Council for Economic Planning and Development, Republic of China, argued in favor of the IMF bailout. Arguing against it were Peter Thiel; William Niskanen, chairman of the Cato Institute; and John Makin, resident scholar and director of fiscal policy studies at the American Enterprise Institute. To the question "Is the Asian Financial Crisis a Threat to the U.S.?" Stern joined with Kuttner and Makin to answer yes. Answering no were Schive, Thiel, and Jagdish Bhagwati, professor of economics and political science at Columbia University.

Policy Advisor **Ned Regan,** also a member of the Board of Advisors, participated in the segment "Should a Federal Budget Surplus Finance a Tax Cut?" Arguing yes were Regan; Jim Miller, counselor for Citizens for a Sound Economy; and James Glassman, holder of the DeWitt Wallace-Reader's Digest Chair in Communications in a Free Society at the American Enterprise Institute. Arguing no were Robert Kuttner, Susan Dentzer, and Robert Eisner, professor of economics emeritus at Northwestern University.

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Lectures

John Smithin: Money and National Sovereignty in the Global Economy

The proposed European Monetary Union has raised concerns about how such a union might affect the sovereignty of European nations and policy making within nations. John Smithin, of the Department of Economics and the Schulich School of Business at York University in Toronto, offered an answer at a March 3 lecture at the Levy Institute. He concludes that monetary union will reduce the independence of nation-states in such areas as environmental, labor, and social policy as well as in monetary policy.

Smithin argues that nations need control over monetary policy in order to maintain control in other policy-making areas, such as taxation and social support. Placing monetary policy in the hands of an international body will reduce democratic accountability and take away the power of nations to determine their own policies. International administrative bodies, such as the one proposed for the European Monetary Union, have shown a tendency to favor deflationary policies, which are not always best for every individual nation. Smithin argues that nation-states can have different tax levels, labor laws, and social programs only when they also have independent control over their monetary policies.

Michael Hudson: From Hammarapi to Leviticus: Who Shall Collect the Land's Rent—the Palace or the Creditors?

Ancient rulers were quick to recognize the problems that can occur when citizens become overburdened with debt. In states where citizenship depended on land ownership, debt could result in a "citizen-less" society as people lost their land to creditors. This not only left a ruler without citizens for his army, but it also left rulers facing challenges from rich creditors who held the public's debt. How rulers overcame this problem was the topic of a March 6 lecture by Michael Hudson, Levy Institute research associate and visiting scholar at New York University.

Rulers, such as Hammarapi, solved the debt problem by regularly canceling the debts that citizens owed to their creditors. In many ancient systems, taxes were collected by local tax collectors (many of whom were regional governors), who then forwarded the tax revenue to the ruler. But when citizens could not pay, the tax collectors held their assets and became their creditors. The ruler was left with nothing because no tax money was forwarded from tax collectors. Canceling debt was a common method used by rulers to avoid going broke. It also cut the power of local tax collectors and returned assets, such as land, to the citizens, which made it possible for them to again pay taxes. Not all debts were canceled; commercial and private debts were not. Hudson pointed out that debt cancellation has been used more recently; for example, the cancellation of debts in Germany after World War II contributed to the country's economic revival.

Robert Margo: The Emergence of a National Labor Market in the United States

Most scholars who study the creation of a national labor market in the United States start with the period after the Civil War. Robert Margo, visiting professor of economics at Harvard

University and professor of economics at Vanderbilt University, argues that in order to understand the creation of a national labor market, researchers must begin their study much earlier because the process was already underway. What keeps most scholars from focusing on the pre-Civil War period is the lack of data. In an April 9 lecture at the Levy Institute Margo discussed this lack and how to overcome it.

Margo has spent the past 17 years building a data set that provides information on wage rates in various regions of the United States before the Civil War. A primary source of the data is the Reports of Persons and Articles Hired, payroll data on civilians hired by the military to work at military installations throughout the United States in the 1800s. Other data come from the Census of Social Statistics, which was collected by the federal government in 1850 and 1860. While there is still much research to be done using the data set, Margo said preliminary research using the data set is helping to explain the creation of a national labor market. His research and findings will be presented in *Wages and Labor Markets before the Civil War*, to be published by the University of Chicago Press.

Nancy L. Green: Fashion, Immigration, and the Economics of Ready-to-Wear

The manufacture of clothing tends to be an industry of immigrant laborers in New York and in other cities. The role of immigrants in the garment industry was the topic of an April 17 lecture by Nancy L. Green, professor of history at the ...cole des Hautes ...tudes en Sciences Sociales.

The garment industry is one of seasonal production where the need for workers rises and falls with demand. Clothing manufacturers, therefore, prefer to farm out production to subcontractors who hire workers to cut and sew the clothing. The tools needed for cutting and sewing are minimal and inexpensive and laborers can do the work at home, eliminating the need for the subcontractor to rent or own work space. The low start-up cost makes it easy for immigrant entrepreneurs to set up business as a subcontractor. The subcontractor then draws workers from his or her ethnic group, many of whom are new immigrants and who are more comfortable working for someone who shares their language and culture. Eventually these immigrants move into other industries and are replaced by the newest wave of immigrants, who will work for lower wages.

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Workshop on Monetary Theory and Policy

The Levy Institute organized a one-day workshop on monetary theory and policy. The workshop, held on February 25, was divided into two sessions. The first was on monetary theory and the history of thought and featured three papers: "Money and Taxes: The Chartalist Approach" (Levy Institute Working Paper No. 222) by **L. Randall Wray**, senior scholar at the Levy Institute; "The Fiscal Basis of the Monetary System" by **Edward Nell**, New School

University; and "Monetary Macroeconomics before the General Theory: The Circuit Theory of Money in Wicksell, Schumpeter, and Keynes" by **Riccardo Bellofiore**, University of Bergamo. The second session, on monetary policy and applications, also featured three papers: "The Employer of Last Resort in a Circuitist Framework" by **Alain Parguez**, University of Besancon and ISMEA; "Monetary Economy of Production: Applications of a Matrix Model to Input-Output Tables for the Calculus of the Transferred Profits" by **Bernard Vallageas**, Universitè Paris-Sud; and "Financial Instability: The Asian Crisis" (Levy Institute Working Paper, forthcoming) by **Jan Kregel**, visiting senior scholar at the Levy Institute.

Congressional Briefing on the Asian Crisis

Distinguished Scholar **Wynne Godley** and Visiting Senior Scholar **Jan A. Kregel** met with members of Congress and their staffs on March 11 to discuss the Asian financial crisis, the current debate on the U.S. quota to the International Monetary Fund, and the implications for the United States of the current Asian situation. In their presentation, "Levy Bulletin on the Real Effects of the Asian Crisis," they urged Congress to commit funds to the IMF to help with the recovery in Asia. This would be a first step in helping these nations recover, but, Godley and Kregel noted, their research also indicates that recovery cannot occur in Asia unless nations in the developed world continue with their current economic expansion. Policy in the United States, Europe, and Japan must seek to sustain demand in order to absorb Asian exports. They warned that the crisis could expand to other regions, such as South America, eastern Europe, and Japan and that its eventual impact on the economic performance of the United States could be substantial.

For a summary of the presentation by Godley and Kregel, including charts, see "Levy Bulletin on the Real Effects of the Asian Crisis."

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Ned Regan Joins *Directorship* as a Contributing Editor

Ned Regan, Levy Institute policy advisor and member of the Board of Advisors, has become a contributing editor with *Directorship*, a monthly publication of Directorship Inc. that focuses on corporate governance issues. His first editorial appears in the March 1998 issue and is titled "Board Governance and Corporate Performance: Assessing the Connection." In it Regan addresses the effect that corporate owners can have on corporate performance. He argues that corporations have become more successful as the stockholder-owners have gained more influence because the owners have demanded improvements in governance and performance. Regan is former comptroller of New York State, chairman of the Municipal Assistance Corporation for New York City, and a member of the Financial Accounting Foundation. He is a director of several corporations and frequently writes about corporate governance and financial

issues.

Publications and Presentations by Levy Institute Scholars

Executive Director **Dimitri B. Papadimitriou** published "Employment Policy, Community Development, and the Underclass" (a version of Working Paper No. 220), in *Improving the Global Economy: Keynesianism and the Growth in Output and Employment,* edited by Paul Davidson and Jan A. Kregel (Elgar, 1997). "The Economic Contributions of Hyman Minsky: Varieties of Capitalism and Institutional Reform" (Working Paper No. 217) by Senior Scholar **L. Randall Wray** and Papadimitriou will be published in a forthcoming issue of the *Review of Political Economy*.

L. Randall Wray is also the author of "The Development and Reform of the Modern International Financial System," in *Post Keynesian Foundations in the Analysis of International Economics*, edited by Johan Deprez and John Harvey; "The Political Economy of the Current U.S. Financial Crisis," in an as yet untitled book edited by Philip Arestis and Malcolm Sawyer; "Money, Credit, and Finance" and, with Johan Deprez, "Monetary Theory of Production," in the *Encyclopedia of Political Economy,* edited by Philip O'Hara. Wray participated in two sessions, "Roundtable on Hyman Minsky" and "Roundtable on Government as Employer of Last Resort," at the Eastern Economic Association meeting in New York in February.

Senior Scholar **Joel Perlmann** recently contributed "Russian-Jewish Literacy in 1897: A Reanalysis of Russian Census and United States Immigration Data" to *Papers in Jewish Demography 1993: In Memory of U. O. Schemlz*, 1997. Perlmann will present papers on intermarriage and multiraciality at the European Social Science History Association and the Eastern Sociological Society and will be commenting at a meeting on second-generation transnationalism at the David Rockefeller Center for Latin American Studies of Harvard University. He presented "Intermarriage and Assimilation: The Long View of American Ethnicity and Race" at the annual meeting of the Eastern Sociological Society in March in Philadelphia.

Distinguished Scholar **Wynne Godley** gave a lecture entitled "The Real Effects of the Asian Crisis" at the New School University in February.

At the 1998 Eastern Economic Association meeting in New York in February, **Mathew Forstater** presented a paper entitled "Structure, Behavior, and Motivation"; chaired two sessions, "Roundtable on Full Employment" and "Economics and Virtue"; and was a discussant in the session "Traverse." Forstater's "Flexible Full Employment: Structural Implications of Discretionary Public Sector Employment" will appear in a forthcoming issue of the *Journal of Economic Issues* and "Working Backwards: Instrumental Analysis as a Policy Discovery Procedure" will appear in the *Review of Political Economy*.

Cambridge University Visiting Scholar **Stephanie Bell** was a discussant at the Western Social Science Association annual conference in Denver in April. She will be presenting "Appropriate Monetary Policy for Full Employment" at the annual Post-Keynesian conference in Knoxville, Tennessee, in June.

Research Associate **Karl Widerquist** presented "An Efficiency Argument for the Guaranteed Income" and "A Voting Paradox and the Budget Deficit" and was a discussant at the February Eastern Economic Association meeting in New York.

Assistant Director/Washington Liaison **Sanjay Mongia** reviewed Peter Kwong's *Forbidden Workers: Illegal Chinese Immigrants and American Labor* for *Immigration Review* (Spring 1998). The review, "Missing the Boat," is reprinted on our web site.

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First Issue of New Series

The Levy Institute announces the publication of a new series—Policy Notes. Designed to supplement and complement our more scholastic working papers and our longer Public Policy Briefs, the Policy Notes series will in effect be an ongoing (and online) journal, allowing us to issue articles as they are written and in response to events as they arise. The notes will expand our ability to present up-to-date research findings and timely policy statements by Levy Institute research scholars and other contributors on a wide range of topics.

In the first note Research Associate Thomas Karier, of Eastern Washington University, addresses the question, Are the effects of college-level education on income and financial independence positive enough to make it worthwhile for states to extend support to qualified welfare recipients to enable them to pursue such education?

Welfare Graduates: College and Financial Independence, 1998/1

Upcoming Events

Friday, June 12, Conference on Employment Policy and Labor Markets, "Is There a Shortage of Technology Workers?"

A second employment conference is planned for September. Both conferences will be held at Blithewood, home of the Levy Institute on the Bard College campus in Annandale-on-Hudson,

New York. Program and registration information for the conferences will be posted on the Levy Institute web site (www.levy.org) as it becomes available, or you may contact the Institute by phone at 845-758-7700, fax at 845-758-1149, or e-mail at info@levy.org.

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