

**Conference: What Has Happened to the Quality of Life in America and Other Advanced Industrialized Nations?**

*This conference was organized as part of a new Levy Institute research project aimed at developing quality of life indexes for the United States and other developed economies. It was coordinated by Senior Scholar Edward N. Wolff, who is directing the new research project. Brief summaries of the speaker's remarks and sessions are given below.*

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S Jay Levy, *Chairman*  
Dimitri B. Papadimitriou, *President*

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Editor: Lynndee Kemmet  
Text Editors: Katherine Harper

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## Conference: What Has Happened to the Quality of Life in America and Other Advanced Industrialized Nations

### **Speaker: Marc Miringoff**



Marc Miringoff, an assistant professor at the Graduate School of Social Service at Fordham University and director of the Fordham Institute for Innovation in Social Policy, stated that progress in the United States is currently measured by market indicators: popular media create the impression that if the GDP and stock market indexes are doing well, then so is the nation as a whole. Unfortunately, the general public and policymakers also appear to share this view to a considerable extent.

The central deficiency with market indicators is that they are based on a narrow view of the quality of human life. According to Miringoff, this view has to be challenged, which will require growing participation by academic intellectuals in the public realm. The development and popularization of quality of life indexes can offer the public an alternative way to view the quality of life; however, in order to get public attention and to be persuasive, such indexes must be simple and easily understood. Miringoff discussed how the work done by his research group over the past 15 years in creating indexes of social health has attempted to contribute to these goals.

Social health indexes are constructed by combining economic indicators, such as the unemployment rate, with social problem indicators, such as teen pregnancy or drug use. These have been effective, said Miringoff, in getting some policymakers and members of the general public to accept the idea that social indicators are important. However, the United States ranks the lowest among industrialized nations in its attention to social indicators. Unlike its counterparts, it does not publish yearly indicators of social well-being, although some states have recently begun doing so. Miringoff noted that it is a peculiarly American feature that efforts to develop such indicators and use them in assessing progress come from the local level. However, local-level indicators are limited in that they tend to focus on a narrow set of issues.

Academic researchers can fill this gap, said Miringoff, by developing more comprehensive indicators. It is important that this effort be done in consultation with advocacy groups and other organizations that have an interest in promoting an alternative way of measuring progress and well-being. Miringoff's research team is contributing to this task by implementing a research project that uses 16 indicators to construct an index

of social health for each U.S. state. These indexes are based on data going back to 1970 and will be updated annually.

Miringoff said that data on U.S. social problems are plentiful, but that there is no context, language, or mechanism to report the figures to the public in a meaningful way. Much of the data are in a form accessible only to researchers, who should be held responsible for making the information contained in the data comprehensible to the general public. In order to maintain public attention and policy pressures, such efforts must be updated and reported periodically, just as market indicators are. Quarterly reports would be the most desirable because the media are more likely to report a social indicator that is up or down from a previous quarter rather than from years past. According to Miringoff, the fact that during elections voters raise a variety of nonmarket issues with candidates suggests that there is a growing popular awareness that progress cannot be measured by the yardstick of markets alone.

### **Session 1. Consumption-Based Measures of Living Standards**

This session was chaired by Senior Scholar Edward N. Wolff, professor of economics, New York University, and research associate at the National Bureau of Economic Research. Participants were David Johnson, senior research economist, Bureau of Labor Statistics, and an adjunct faculty member at the Georgetown Public Policy Institute; Dean Baker, a macroeconomist and codirector of the Center for Economic and Policy Research; and Dimitri B. Papadimitriou, president of the Levy Institute and executive vice president and Jerome Levy Professor of Economics, Bard College.

Johnson said that people are concerned about changes in their levels of well-being over time and relative to others. These concerns can only be addressed by dealing with the issues involved in the concept of well-being and the measurement of standard of living. The most widely used measures in the United States, median family income, the poverty rate, and the Gini coefficient of income inequality all indicate marked improvement during the period 1959 to 1973, stagnation or deterioration thereafter, and some recovery since 1995. Some analysts have argued that these measures are misleading because they are based on how much people earn rather than how much they consume. Johnson pointed out that choices made regarding other measurement options also complicate the assessment of intertemporal and interpersonal changes in the standard of living: interpersonal comparisons have to take into account differences in family size and composition, while intertemporal comparisons must adjust family income or consumption expenditures for inflation. There are no generally accepted principles regarding how these adjustments are to be made and, as a result, assessments of living standards can vary substantially. Johnson presented a variety of estimates of living standards illustrating his arguments. A common feature of all measures is that they suggest an improvement since 1995.

Baker discussed issues related to the construction of the Consumer Price Index (CPI). In his assessment, the work done by the Boskin Commission was politically motivated by a desire to cut the budget deficit and its main conclusion, that the CPI overstates inflation by 1.1 percentage points annually, was not based on sound economic research. However, the debate around the commission's work raised several important issues whose implications go well beyond its specific recommendations. Baker argued that the commission's basic assumption that the CPI can serve as a cost of living index is flawed because it does not take into account changes in the physical and social infrastructure, or the provision of public goods and services (such as changed availability of clean drinking water, increased costs of commuting and pollution, and exposure to new diseases). Nor does it take into account relative consumption, that is, the changes in consumption standards brought about by changing notions of social status. These considerations suggest that the CPI can, at best, serve the narrow purpose of measuring price changes of consumption goods and services. Two main concerns raised by the Boskin Commission in this regard were substitution bias and quality change. Baker noted that the first problem could be important during times when prices of a narrowly defined group of goods change rapidly. With respect to quality change, the commission argued that the CPI was systematically recording quality improvements as price increases. Baker responded that several alleged quality improvements were not based on systematic empirical research and that the results of empirical research on quality change are, at best, mixed. Consequently, there is no strong evidence pointing to an inflationary bias in the CPI.





Discussant Papadimitriou commended both presenters for their insightful analyses. Papadimitriou stated that he does not favor consumption-based measures of living standards, which rely primarily on survey data of questionable quality and contain a significant number of imputed values (for example, value of home production). They also disregard how consumption expenditures are financed, although the source of finance is important for public policy. As an example, Papadimitriou cited the unprecedented level and burden of household debt in America today and its implications for macroeconomic policy—a topic he and other scholars at the Levy Institute have investigated. He concurred with Baker that the CPI cannot be used as a cost of living index. As a price index, one serious problem is that it includes an imputed rental value for owner-occupied housing. Because this imputed value has a weight of approximately 20 percent in the index, the CPI can potentially give wrong indications regarding the direction and magnitude of changes in the general price level.

## Session 2. Material Indicators of Well-Being

This session was chaired by Ajit Zacharias, resident research associate at the Levy Institute. Participants were Christopher Jencks, Malcolm Wiener Professor of Social Policy, Kennedy School of Government, Harvard University; Edward N. Wolff; and Juliet Schor, senior lecturer on economics and women's studies at Harvard University and holder of a chair in the economics of leisure at Tilburg University, the Netherlands.



Between 1969 and 1989, the official poverty rate for American children increased from 14 percent to 20 percent, then fell to about 17 percent by 1999. In the debates surrounding the 1996 welfare reforms, those on the left used the official measures to support increased social spending, while those on the right argued that such spending fails to achieve poverty reduction. According to Jencks, both arguments relied mostly on official poverty measures that have three important flaws: children's households now include nonrelatives whose income is excluded from the official measure of family income; the official poverty threshold has risen faster than the true rate of inflation; and cash and noncash government benefits have been excluded from family income. When corrected for these flaws, it appears that child poverty fell during the 1970s, remained constant during the 1980s, and fell again in the 1990s. Jencks and Susan Mayer of the University of Chicago examined the robustness of this finding by considering direct measures of children's living conditions. Jencks presented evidence on changes in housing conditions, incidence of crime, ownership rates of automobiles, and access to telephones and medical care. The overall evidence suggests that children on the bottom rungs of the income distribution are now living in families whose material conditions have improved over time.



Wolff presented a variety of indicators that showed stagnation or sluggish growth in American living standards since 1973, as compared to the period 1947-1973. Median family income and, to a lesser extent, per capita disposable income have grown more slowly since 1973. The mean income of those in the bottom quintile of the distribution and the share of that quintile in total income have fallen, indicating a worsening of living standards for those at the bottom in both absolute and relative terms. Wolff argued that the main reason for stagnant median family income is the slowdown in labor earnings since 1973, as supported by a variety of estimates of labor income. Income inequality has also worsened, as indicated by the significant rise in the Gini coefficient, the share of income received by the richest 5 percent of families and the ratio of their average income to that of the poorest 20 percent. Wolff pointed out that the behavior of labor earnings and education trends since 1973 flatly contradicts the standard human capital explanations. While average years of schooling and the share of highly educated people in the adult population have risen, average labor earnings have stagnated; inequality in earnings has widened even though inequality in educational attainment (as measured by years of completed schooling) has fallen. Yet another anomaly is the behavior of real wages and labor productivity: while both tended to grow at the same rate until 1973, there has been a sharp divergence since then, with real wages growing at a significantly lower rate than labor productivity. This has contributed to a rise in profitability and an increase in the share of profits in national income. Evidence also shows a shift in wealth distribution favoring the wealthiest, stagnation in median household wealth and home ownership rates for those with an average amount of wealth, and a growing burden of household debt. Wolff concluded that the last 25 years or so has seen a stagnation of earnings, income, wealth, and consumption

expenditures for the average American, as well as rising poverty and inequality.

Discussant Schor stated that she found the evidence presented by Jencks unconvincing, as the material indicators considered included only goods and services provided via the markets and ignored nonmarket aspects of well-being such as environmental quality. Neglect of intrahousehold distribution of resources and relative poverty further weakens the argument that material conditions have improved for those at the bottom. Schor concurred with the conclusions of Wolff's paper: the damaging evidence presented regarding the human capital explanation of wages highlights the need for an alternative theory of distribution that emphasizes political and institutional factors. Reempowering labor is necessary to improve the living standards for average and less fortunate Americans, but such efforts must focus on a broad view of the quality of life and the possible divergence between income and well-being.



### **Session 3. Time and Well-Being**

This session was chaired by Ben-Chieh Liu, distinguished professor of business and management at Chicago State University and dean and Fulbright Professor of International Business at the College of Business, Chung-Yuan Christian University, Taiwan. Participants were Jared Bernstein, a labor economist with the Economic Policy Institute; Maria S. Floro, an associate professor at American University; Thomas L. Hungerford, senior economist in the Social Security Administration's Office of Policy and adjunct associate professor of economics at American University; and Stephen Rose, senior economist at the Educational Testing Service.

Bernstein discussed the increase in family hours of work during the 1980s and 1990s. The increase in hours worked was especially sharp for families with median income. The main force behind the increase was the increasing number of hours worked by wives; Bernstein found that, surprisingly, the rate of growth in hours worked by wives with higher-income husbands was much greater than the corresponding increase for those with lower-income husbands. This suggests that stagnant incomes for the middle- and lower-income groups may not completely explain the growth in wives' hours of work. A decomposition showed that 50 percent of the increase was due to rising labor force participation by wives, while growth in the number of weeks worked and weekly hours accounted for the rest. Bernstein also pointed out that the income inequality among families would have been higher in the absence of increased hours of work by wives. Regression analysis of factors determining the hours worked by wives in various income groups showed that the labor supplied by wives is becoming increasingly inelastic with respect to their own and their husbands' incomes. These estimates, Bernstein argued, suggest the inadequacy of the standard labor/leisure tradeoff approach to labor supply and point to the need for considering cultural and demographic factors.

Floro and Hungerford presented their analysis of time-use data from Australia by pointing out that how people spend their time is an important determinant of their well-being. The data were for 1992 and pertained to adults between the ages of 25 and 64. According to the researchers, one advantage of these data is that they permit an investigation of the intensity of time use, that is, the simultaneous performance of multiple activities (such as mending clothes while waiting for the pot roast to cook). Ignoring this dimension poses methodological problems in allocating time between activities and creates a systematic bias in the reporting of unpaid work. Floro and Hungerford addressed these issues by classifying overlapping activities into adverse (for example, cooking and cleaning at the same time) and beneficial (for example, listening to music and reading) types. They also examined the extent and duration of such overlapping activities, and the incidence of such activities among individuals according to their gender, income, and family type (for example, single versus married). Results show that the incidence and duration of adverse overlapping activities were greatest for women, particularly those who were relatively poor, had children, and did not work full time. The authors concluded that time intensity can have a significant impact on women's health and child development.

Commenting on Bernstein's analysis, discussant Rose indicated that working increased hours is a double-edged sword. Most salaried employment involves 40 hours per week, and career advancement and higher-level jobs demand longer hours. At the same time, increased hours of work means less leisure and less time for oneself and one's family. Rose argued that those who favor a higher degree of labor force

participation by women and more female representation in higher-level jobs will have to also accept the fact that such tendencies will have implications on the time women spend with their families. While commending Floro and Hungerford for their innovative analysis, he found the exclusive focus on overlapping activities limited and that it prevented the full exploitation of the level of detail available in the data. Another drawback was that the study was based on data for a single year, which makes it difficult to assess trends over time.

#### **Session 4. Wealth and the Standard of Living**

This session was chaired by Larry Beeferman, director of the Asset Development Institute at the Center on Hunger and Poverty, Heller Graduate School, Brandeis University. Participants were Seymour Spilerman, Julian C. Levi Professor of Sociology and director of the Center for the Study of Wealth and Inequality, Columbia University; Robert A. Margo, senior scholar, Levy Institute, visiting professor of economics at Bard College, professor of economics at Vanderbilt University, and research associate at the National Bureau of Economic Research; and Thesia I. Garner, research economist in the Division of Price and Index Number Research at the Bureau of Labor Statistics.

Spilerman said that household wealth, especially parental wealth, has a significant impact on living standards in Israel. A variety of factors put young couples in a situation where most have no alternative but to purchase a home early in their marriage. Yet, compared to a typical income, home prices are extremely high and given the absence of adequate government subsidies and high down payment requirements, young couples have to rely on parental help to acquire a home. Spilerman used data from the 1994-1995 Survey of Families in Israel and a variety of measures-home ownership, car ownership, ownership of a number of consumer durables (such as video recorders and dishwashers), frequency of paid household help, ability to save from income, and subjective perception of living standards-to assess the importance of parental wealth and parental assistance in determining the living standards of young couples. Regression analysis showed that both factors were very significant, even after controlling for household income. Spilerman also found that parental wealth and parental assistance have a substantial influence in shaping the disparity in living standards between Jews of European and Arab origins. This suggests that the current emphasis of Israeli policy on improving educational attainment may not be sufficient because it will, at best, have an impact on current income, but not on parental wealth.



Margo discussed trends in the black-white gap in home ownership in the United States over the last century. According to him, this gap has important implications for living standards because wealth disparity between the races is much larger than income disparity and because owner-occupied housing is the most important component of wealth for an average family. Estimates show that the ratio of black to white ownership rose from about 45 percent in 1900 to 67 percent in 1980 (with most of the increases occurring after 1940) and then declined slightly to 65 percent in 1990. Strikingly, the ownership rate for blacks in 1990 was actually lower than it was for whites in 1900, indicating a large and persistent ownership gap between races. Several analysts have suggested that growing up in owner-occupied housing confers some positive effects on children. The proportion of children under age 10 living in owner-occupied housing has increased for both races over

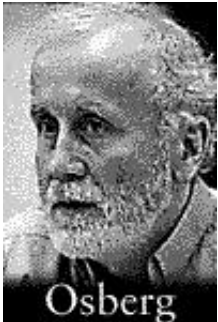
time, but much more slowly for blacks; as a result, the racial gap in the likelihood of children living in owner-occupied housing has widened over the last century, indicating that there is tremendous room for racial convergence. In an arithmetical sense, the growing gap stems from a combination of lower ownership rates for female-headed households and the increasing proportion of black children living in such households. The slow decline in the racial gap in ownership prior to the 1940s was due to the virtual unavailability of conventional mortgage financing to blacks. Civil rights movement and associated legislation help explain, at least in part, why there was a quickening in the closing of the gap in the 1960s and 1970s. However, the stagnation in the gap during the 1980s suggests that broad-based growth in real incomes is also crucially important.

Discussant Garner stated that both studies emphasized asset ownership, history, and cultural factors as important determinants of well-being. She commended the researchers for taking into account legislation, tax structure, and the development of financial markets. With respect to Spilerman's findings, she pointed out that it may be worthwhile to examine whether discrimination could explain some of the gap between Jews of European and Arab origins. Missing observations and small sample size may have biased some of the

findings. According to Garner, Margo's findings are interesting, but it is hard to infer causality from the decomposition analysis and type of regression analysis conducted, in part because some of the causal relationships suggested are longitudinal while the data used are not. The solution to this problem might be to use a longitudinal database such as the Panel Study of Income Dynamics.

### **Session 5. Cross-Country Comparisons in Well-Being**

This session was chaired by Conchita D'Ambrosio, assistant professor at Università Bocconi, Milan. Participants were Lars Osberg, McCulloch Professor of Economics, Dalhousie University; Timothy M. Smeeding, Maxwell Professor of Public Policy, professor of economics and public administration, and director of the Maxwell Center for Policy Research at Syracuse University; and Stein Ringen, professor of sociology and social policy, Oxford University.



Osberg presented his estimates of economic well-being for Canada and the United States. Conventional indicators have shown significant improvement in recent years; however, they exclude factors important to economic well-being, such as costs of environmental degradation and income inequality. Osberg suggested that an index of economic well-being can be constructed as the weighted sum of current consumption, total wealth (all tangible and intangible assets, including natural resources), distribution of income, and economic security. Value judgments are inevitable in the determination of weights—for example, the standard use of current consumption alone as an indicator of well-being involves assigning weights equal to zero for the other three components. Evidence suggests that the index is very sensitive to the choice of weights. Worsening distribution of income and increasing economic insecurity made the index rise much more slowly than the per capita GDP in both countries. Osberg suggested that the cutbacks in social spending implemented recently will have a detrimental effect on the economic well-being of the vast majority of people.

Comparisons of average real incomes across countries can be misleading because of international differences in the pattern of income distribution. According to Smeeding, additional insights can be obtained by examining the real incomes of those at the same point of within-country distribution as well as measures of within-country income inequality. Smeeding provided estimates of distribution of disposable real personal income in 21 OECD countries, with income expressed in a common currency—purchasing power parity-adjusted dollars. The estimates show that the gap between the richest and the poorest 10 percent of the population is highest in the United States and lowest in Sweden. Further, the poorest 10 percent of U.S. residents have a lower average income than their counterparts in all but two countries, while the richest 10 percent in the United States have a higher average income than their counterparts elsewhere. Smeeding argued that it is also important to consider the real income of children (computed using an equivalence scale) because it sheds light on how opportunities differ for children in low-income groups as compared to those in middle- and high-income groups. Only in the United Kingdom, the estimates showed, was the gap in opportunity greater than that in the United States. More importantly, it emerged that the poorest 10 percent of U.S. children are poorer in absolute terms than their counterparts in all but two countries. Smeeding concluded that his findings suggest that while the United States has a higher level of average income than other countries in the group, low-income adults and low-income children are worse off in the United States than in most other countries.

Ringen, as discussant, argued that the index of economic well-being proposed by Osberg is too complicated to be useful in public policy debates. He pointed out that if the aim of proposing the index is to motivate political change supporting the social safety net, then it may be more useful to separately highlight the two index components most relevant to this issue—inequality and economic insecurity. Value judgments involved in aggregating different components can also be avoided by following such a procedure. Ringen stated that Smeeding's application of purchasing power parity exchange rates to microdata in order to conduct international comparisons was an important methodological innovation. The finding that poor children in the United States and United Kingdom are worse off than those in most other countries has serious implications for public policy and provides a sad commentary on the political systems of those countries.



## Session 6. Indicators of Worker Well-Being

This session was chaired by Maria S. Floro. Participants were Robert Buchele, professor of economics, Smith College; Jens Christiansen, associate professor of economics, Mount Holyoke College; Michael J. Handel, research associate, Levy Institute, and assistant professor of sociology, University of Wisconsin, Madison; and Conchita D'Ambrosio.

Several analysts have pointed to the importance of worker rights and labor strength for the well-being of workers and macroeconomic performance. Buchele and Christiansen have constructed an index of relative worker strength for advanced capitalist economies, using indicators that can be broadly grouped into three categories that reflect important aspects of labor strength: employment protection (e.g., ease of dismissing workers), representational strength (e.g., union density), and social protection (e.g., unemployment benefits). Factor analysis was used to combine the different indicators into a single index. Comparison of the value of the index across countries shows that the United States ranks at the bottom and Sweden the top in labor strength. Buchele and Christiansen also considered the relationship between their index of labor strength and other economic and social indicators, using correlation analysis. They found a positive but insignificant relation with per capita GDP growth (a result of the index being correlated positively with labor productivity growth and negatively with employment growth), a strong positive relation with real wages and mandated vacation time, and a strong negative correlation with income inequality.



In recent years, two views have emerged with respect to the quality of jobs. One holds that shortened job tenure, stagnant wages, and "flexible" labor markets have eroded job quality, the other that innovative work practices (e.g., teamwork) and technological improvements have enhanced it. Handel evaluated the two views by analyzing data from the General Social Surveys for 1989 and 1999. Summary statistics constructed from responses to questions pertaining to several dimensions of job quality (such as material rewards and quality of interpersonal workplace relations) were reported. Regression models that tested the significance of changes over time were estimated using dummy variables for years and controlling for worker characteristics such as age, gender, occupation, and race. Overall, most of the results suggest that there has been no marked change in perceived job quality. While these findings do not give credence to either view, Handel cautioned that subjective and objective measures of job quality can diverge, and there may be biases in the survey data.

Discussant D'Ambrosio stated that the analysis by Buchele and Christiansen sheds important light on the rolling back of the welfare state. However, she noted, their finding that higher labor strength is positively correlated with desirable social and economic outcomes does not necessarily imply causation. In fact, it may be that better social and economic outcomes lead to greater labor strength. Furthermore, it is important to consider how actual enforcement of workers' rights varies with economic conditions. The index used is a composite of individual indexes and D'Ambrosio wondered whether the possible correlation among them was properly accounted for in its construction. With respect to Handel's presentation, she noted that the sample used in his study was too small. The estimation methods could also be improved by constructing an index of job quality and analyzing the relative importance of different components.

## Session 7. Quality of Life Indicators

This session was chaired by Marque Miringoff, professor of sociology, Vassar College. Participants were Daphne Greenwood, professor of economics and director of the Center for Colorado Policy Studies, University of Colorado, Colorado Springs; Richard H. Steckel, professor of economics and of anthropology, The Ohio State University; and Amy Caiazza, study director at the Institute for Women's Policy Research.



Greenwood discussed quality of life indicators that have been developed in some localities in the United States. One type supplements standard measures of current economic well-being with a number of social indicators (such as the crime rate); another also takes into account measures of sustainability (primarily imputed costs of depletion of natural resources and environmental degradation). Greenwood argued that local-level indicators are useful because the quality of environment and neighborhoods, as well as access to cultural and natural resources, may be uniform across the locality. In addition, some policy changes that affect the overall quality of life (such as school board or zoning decisions) are made locally; good scores on such indicators can help in attracting residents and businesses to



**Greenwood** the area. Efforts to develop quality of life indicators are driven by increasing costs of economic growth and a growing awareness that well-being requires more than just sufficient income. However, she noted, there are also problems associated with local-level indicators, such as incomparability over time and across localities. In spite of such difficulties, some of the changes in local quality of life indicators mirror similar changes occurring at the national level.

Steckel said that children's average heights can serve as a reasonably good predictor of quality of life. Under normal conditions, most growth takes place during infancy and the early teenage years, but lack of proper diet, disease, or excessive physical exertion can interrupt this pattern and reduce the growth rate. Steckel presented evidence showing that the average height of 12-year-old boys increases with a country's per capita GDP, but at a diminishing rate. The relationship suggests that reductions in income inequality will have beneficial effects on the heights of poor children and almost no negative effects on those of rich children. There is also a positive correlation between life expectancy and height, indicating that greater height is associated with overall physical well-being. Steckel emphasized the importance of feedback relations: adverse social and economic conditions lead to inadequate nutrition and therefore a lower average height. In turn, a smaller stature can have negative effects on physical health and labor productivity, which can contribute to the maintenance of adverse social and economic conditions. Recent trends in average heights show that there has been a slowdown in the United States, while several European nations have surged ahead. Steckel attributed the U.S. slowdown to increased incidence of drug use and numbers of people lacking health insurance.

Discussant Caiazza commended both presenters for drawing attention to the need to take into account nonmarket determinants of well-being. According to her, quality of life indicators must incorporate such determinants and be easy to interpret and accessible to advocacy groups and policymakers, interaction with whom must be an integral part of constructing indicators for achieving the goals of simplicity and accessibility. Caiazza suggested that Greenwood's arguments could be broadened by analyzing the local-level social and political processes that led to the construction of indicators. With regard to Steckel's presentation, she suggested that increasing environmental degradation and human exposure to toxic substances might have also contributed to the recent slowdown in the average heights of Americans. Caiazza also stated that the analysis can be extended and made more comprehensive by considering the influences of gender.

## Conference:

### After the Bell: Education Solutions outside the School

*As a part of its continuing engagement with pressing public policy issues, the Levy Institute sponsored a conference on educational policy and the determinants of educational attainment. The conference was organized by Dalton Conley, associate professor of sociology and director of the Center for Advanced Social Science Research, New York University. Brief summaries of the speaker's remarks and the sessions are given here.*

#### Speaker: Leon Botstein



Leon Botstein, president of Bard College, emphasized the value of after-school programs. Such programs are often run by individuals who are not teachers and focus on subjects not given much attention in the formal classroom, such as music and the arts. This gives students the opportunity to interact with adults other than their teachers and to learn in an environment that does not feel like school. Most after-school programs do not emphasize grades, tests, or competition; instead, they provide a more peer-supportive environment.

Botstein opposes the idea of extending the school year because research indicates that more school hours do not improve learning. Instead, he said, summer should be used for programs that motivate participants to learn through demonstration of the usefulness and joy of learning in everyday life. However, part of students' motivation must come from external forces, such as their peers.

Botstein argued that summer programs can be developed without the deficiencies found in formal schools, such as grouping of students by age and the use of achievement tests. Children can learn much from those of other ages, but the formal educational structure does not allow mixing of groups, and in this era of small families, many children have little contact with their older or younger peers. Botstein said that children should be allowed to do what they are capable of doing and not be limited by age.

Moreover, achievement tests do not measure true achievement, but rather the speed of learning. As a result, schools reward those who learn quickly and do not reward those who must work harder to achieve the same results. In addition, much of what is tested is quickly lost because students do not use it in the real world. Botstein said that it is particularly important to find ways to help adolescents sustain what they learn in school, which can best be done by linking learning to life. By nature, children have a wonderment about things and ask many questions. However, the current school structure suppresses their curiosity.

Current popular culture seems to praise ignorance and defines success as "having achieved fame and wealth." It does not consider an educated, middle-class individual as having achieved success. Botstein said that one of the greatest dangers of popular culture is that it no longer views science and the pursuit of knowledge as exciting and rewarding. He suggested that this may have contributed to the decline in American students' interest in studying science. Another negative impact of popular culture today is that teachers are often not portrayed as respected and prominent members of the community.

According to Botstein, schools will never function well if the general culture does not express an excitement and joy about learning. This is a leadership failure—we do not provide a culture that makes children see the value of what they are learning. Botstein said that he believes young adults do value education and know it can help them achieve their goals. The key is for the educational system to address what they want to achieve. At present, this can best be done through after-school and summer programs that can instill a motivation to learn.

### **Session 1. Family Background: Nature or Nurture?**

This session was chaired by Giorgio Topa, assistant professor of economics at New York University. Participants were Jere Behrman, William R. Kenan Jr. Professor of Economics and director of the Population Studies Center, University of Pennsylvania; Miriam R. Linver, research scientist at the Center for Children and Families at Teachers College, Columbia University; Jeanne Brooks-Gunn, Virginia and Leonard Marx Professor of Child and Parent Development and Education at Teachers College, Columbia University; and J. Lawrence Aber, director of the National Center for Children in Poverty and professor of public health at the Joseph L. Mailman School of Public Health, Columbia University.

Behrman said that while a substantial body of existing literature indicates the importance of family background for education, these studies are problematic because of measurement errors, lack of causal explanations, inadequate consideration of context, and vague policy relevance. A coherent framework of analysis is needed for investigating the determination of household behaviors related to child education and proposing policy recommendations. In modeling household behavior, it is appropriate to see the problem as one in which the household is trying to maximize its welfare subject to a number of constraints: the amounts of various household resources, market prices, social norms, and political context. The provision of education by schools can be thought of in terms of a production function that has as its "inputs" factors that influence educational outcomes (e.g., the time that children spend in school, their health and nutrition). Estimates of such a production function can, in principle, yield information about the relative importance of each input. Another type of relation often estimated in the literature also includes the constraints facing the household. Behrman noted that such estimates are prone to omitted variable bias. In terms of policy recommendations, it is important for the tradeoff between efficiency and equity to be explicitly addressed; however, these considerations are missing in most studies.

Linver and Brooks-Gunn presented research that examined the specific pathways by which income operates to influence school performance among children, based on three large datasets: the Infant Health and Development Project, the Child Development Supplement of the Panel Study of Income Dynamics, and the Child Supplement of the National Longitudinal Survey of Youth. They found that maternal education and family income influenced children's cognitive development from early childhood. Two explanations were

offered for this: first, that parents who are economically secure and better educated offer relatively more stimulation at home for their children; second, that low income leads to anxiety and stress, ultimately affecting parental behavior. Linver and Brooks-Gunn also examined the relative merits of two types of intervention aimed at ameliorating the effects of parents' poor income and low education. Their analysis suggests that interventions that involve home visits aimed at parental education lead to an almost immediate improvement in the children's family environment. Center-based interventions result in increased scores on standardized IQ tests. Thus, well-designed and flexible intervention programs are required.

Aber, as discussant, stated that these studies represent two different aspects of the notion that intervening variables moderate the effect of income on student achievement. Behrman explicated this view with a discussion of macro policy issues while Linver and Brooks-Gunn focused on micro policy. A limitation of Behrman's approach is that it considers only the level of income while the direction of change in income and the predictability of income are also important for educational outcomes. While controlling for external influences is important, it is also important to recognize the context in which children's behavior is studied. (For example, research has shown that some problem behaviors have a survival value in dangerous situations.) Aber argued that the main problem with Linver and Brooks-Gunn's analysis is that it does not control sufficiently for socioeconomic status. He also suggested that it would be useful to separate the effects of the two potential influences on parental behavior-human capital endowments and parental stress-in terms of their effects on children's educational achievement.

### **Session 2. Family Background, Part II: Intergenerational Capital**

This session was chaired by Ingrid Ellen, assistant professor of public policy and urban planning, Robert F. Wagner Graduate School of Public Service, New York University. Participants were Mary Pattillo-McCoy, associate professor of sociology and African American studies and faculty fellow at the Institute for Policy Research, Northwestern University; Brian Powell, professor and director of graduate studies in the department of sociology, Indiana University; and Eric Hanushek, Paul and Jean Hanna Senior Fellow on Education Policy at the Hoover Institution, Stanford University.



Pattillo-McCoy discussed the reasons for the black-white test score gap. Previous studies had demonstrated that even after socioeconomic status was controlled for, the effect of race on standardized test scores remained significant. She investigated the test score gap between middle class whites and blacks to investigate the hypothesis that one determinant was the "lateness" of blacks' entry into the middle class. She argued that children's test scores can be conceived of as driven by a three-generational process in which grandparents' characteristics, such as education and involvement with offspring, have a direct as well as an indirect (via shaping the characteristics of parents) impact.

Longitudinal data for the study were collected in a suburb of Washington, D.C. Statistical analysis of the data demonstrates that for both races, the effect of grandparents' educational attainment on test scores disappears once parents' educational attainment is taken into account; however, for black children, a high degree of interaction with poorly educated grandparents has a negative impact. Pattillo-McCoy cautioned that this finding should not be interpreted as suggesting that poorly educated black grandparents have an undesirable effect on their grandchildren, because the result may merely be indicative of the long-lasting effects of the racial oppression the older people endured. Moreover, grandparents' involvement has positive effects on other aspects of children's well-being, such as self-esteem and mental health.

Parental age has often been ignored when investigating the impact of intergenerational transfers of resources. According to Powell, this variable could positively affect children in terms of resource availability: older parents are better off financially, emotionally and intellectually more mature, and more prepared for parenthood, resulting in greater investment in cultural capital. On the other hand, older parents could negatively affect their offspring because of the greater possibility of functional impairment, larger generational gap, and imminent retirement from working life. Powell examined these alternative hypotheses mainly using data derived from the National Education Longitudinal Study of 1988. The approach was to examine the effect of maternal age at the time of childbirth, after controlling for a set of factors (such as income and race) on a variety of indicators grouped into three types of investment in children: cultural (e.g., visits to museums), economic (e.g., saving for education), and social (e.g., PTA membership). Powell found that for almost all of the resources investigated, there was a positive relationship between maternal age

and resource allocation. A similar result emerged from models that also included paternal age. Although the impact of parental age is not as important as those of parental income or education, its significance suggests that research on educational disparities is likely to benefit by paying careful attention to this factor.

Discussant Hanushek commended the speakers for raising important issues. However, he argued that Pattillo-McCoy's findings may be based on a sample that suffers from severe selection-bias because blacks with less education had lower response rates. There are also other measurement issues such as scaling of grandparents' involvement. The study's most important limitation is that it does not take into account school quality in explaining the test score gap. School quality matters because, although the gap in educational attainment between blacks and whites in the age group 25-29 has shrunk steadily, suggesting that the parental gap in education has been falling over time, the test score gap between children has not diminished. With regard to Powell's study, Hanushek commented that for a full understanding of the issues, the effects of father's age and family structure need to be considered more comprehensively. He also pointed out a number of problems with the data used, such as identifying only those who plan to send their children to college as performing economic investment in children. More importantly, the investment variables considered by Powell are mostly in terms of attitudes, plans, and activities; a discussion of how these relate to actual outcomes, such as children's academic achievement, is lacking.

### **Session 3. Summer Learning**

This session was chaired by Robert Kaestner, professor in the School of Public Affairs of Baruch College, City University of New York, and research associate of the National Bureau of Economic Research. Participants were Doris Entwisle, professor emerita of sociology, The Johns Hopkins University; Barbara Heyns, professor of sociology, New York University; and Michael J. Handel, assistant professor of sociology, University of Wisconsin, Madison, and research associate at the Levy Economics Institute.



Entwisle discussed the efficacy of summer school programs in increasing cognitive gains in disadvantaged children. She presented evidence from a study that indicates that the relationship between summer activities and school performance may be more complex. The participants in the study were 790 children in eight integrated, six predominantly white, and six predominantly black schools. Some parents (3 percent of the sample) were also randomly selected for participation. The children were tracked through the first five years of school. All students in the Baltimore school district are administered the California Achievement Tests (CAT) twice a year, in October and June. Changes in the performance of each child in the study over the summer (October score minus the previous June score) and over the school year (June score minus the October score of the previous year) were computed. Statistical analysis revealed that all children gained an equal amount on the CAT over the school year; however, children with lower socioeconomic status (SES) lost ground over the summer. Parental expectations seemed to be a significant factor in determining children's performance on the October test in the high SES group but not the low SES group. Entwisle suggested that this might be because poor parents entertain unrealistic expectations for the performance of their children, who in turn are not able to fulfill them. The children feel "punished" when they disappoint their parents and this triggers a cycle of underachievement.

Heyns offered a critical overview of the state of current research on summer learning. Several studies indicate that 80 percent of the difference in children's academic achievement can be attributed to summer gains. Policymakers have indicated an interest in summer learning in order to reduce differences in learning across social groups, help children retain and practice their learning skills, ascertain the appropriate use of school resources, and increase the effectiveness and flexibility of learning. Summer school has often been ineffective in addressing learning disparities across social groups because better-off parents take more advantage of it. Further, some recent research on the effectiveness of summer school indicated mixed findings. According to Heyns, such programs vary widely in content, with some targeting certain areas of academic performance and others offering varied classes aimed at all-around development. Thus, even though policymakers have hastened to increase funding for summer programs, it is not clear which aspects of these programs are beneficial to students.

Handel, as discussant, offered an alternative explanation for Entwisle's finding that high parental

expectations affected children's performance among high SES but not low SES families. He suggested that low SES parents, regardless of their expectations, may be less engaged with their children or less aware of activities that could lead to better test performance. In other words, high expectations may not mean the same thing in low- and high-social class samples. Handel suggested that perhaps the best and cheapest way to deal with the "summer effect" is to encourage parents to engage their children intellectually during the summer and help them in that process. With respect to Heyns' presentation, he argued that its central message was ambiguous. While some studies show that summer learning may be the crucial determinant of differential academic achievement, others indicate that it plays a much less important role. Handel professed confusion at such a mix of results.

#### **Session 4. Structured Activity outside School**

This session was chaired by Sanders Korenman, professor in the School of Public Affairs of Baruch College, City University of New York, and research associate of the National Bureau of Economic Research. Korenman was also the discussant. Other participants were Reginald Clark, an author, researcher, teacher, and program developer who leads the multiracial consulting group of Clark and Associates; Alexis R. Harris, doctoral candidate at the University of California, Los Angeles; Walter Allen, professor of sociology at the University of California, Los Angeles; and Jean Yeung, research scientist at the Center for Advanced Social Science Research and adjunct associate professor in the Department of Sociology, New York University.

Clark, Harris, and Allen argued that well-organized after-school programs can lead to better academic and personal outcomes for black children. Their conclusion is based on a study of 266 black elementary- and secondary-school boys before, during, and after different programs. Effectiveness was judged in terms of several areas of individual development-physical, sexual, intrapersonal (motivation and goal-setting abilities), spiritual, emotional, ethical, cognitive, and social (interpersonal skills). Specific attributes of programs that encouraged growth in one or more areas were considered successful. Results from the study indicate that after-school programs generally enhance children's intellectual development. A low child-staff ratio, larger center size, and a variety of flexible curriculum activities lead to academic success, more positive perceptions about the program by children and parents, and better familial relationships. These effects are especially strong for economically disadvantaged early adolescents who live in public housing. Children in after-school programs have higher self-confidence, are less socially isolated, and demonstrate a lower level of behavioral problems.



Recent research has indicated that paternal involvement in child rearing has positive effects on children's behavioral and cognitive development. Yeung discussed fathers' interactions with their children in two-parent households and the impact of paternal involvement on various aspects of children's lives. The data used for the study were derived from the Child Development Supplement of the Panel Study of Income Dynamics. The data show that time spent by fathers with their children varied from as little as 12 minutes to nine hours a week. On average, fathers spent more time with their children on weekends (6.3 hours) than on weekdays (2.5 hours). Most of this time was spent playing, with caregiving being the second most popular activity. The least amount of time was spent on

household activities and teaching. Fathers spent proportionately less time on all activities except play than mothers, but the difference between them decreased on the weekends. Yeung also conducted regression analysis to assess the importance of various factors on the time spent by fathers with their children. The findings suggest that father's income and length of the working day had a negative effect on time spent on the weekdays. Surprisingly, over the weekend, father's income had no effect; however, both father's education and mother's education had a positive effect. Yeung argued that her research indicates that while paternal involvement in child rearing has increased in recent years, in most two-parent families, the bulk of the responsibility falls on the mothers.

As discussant, Korenman commended the analysis presented by Clark, Harris, and Allen for making a valuable contribution to the understanding of the development processes of African American boys. However, he stated that from the perspective of public policy it is important to know whether the positive aspects of the programs they identified may apply equally well for nonblacks. He also felt that an ideal program that combines the best practices of different programs will not necessarily work, because it

ignores the context of and dynamic interplay between different program components. He also cautioned that correlation does not imply causation. Korenman stated that he found Yeung's presentation very interesting because it highlights the shifts in familial roles in recent years. He thought it striking that even with some mothers perhaps not working full time, the time that fathers spent with children was not substantially less than that spent by mothers. The employment status of the mother should thus be included in the full model and the impact of this interaction on children's development studied.

### **Session 5. Work and Academic Progress . . . Academic Progress and Work**

This session was chaired by Edward N. Wolff, professor of economics, New York University, research associate at the National Bureau of Economic Research, and senior scholar, Levy Institute. Participants were Richard Arum, associate professor of sociology and educational sociology, New York University; Rob Warren, assistant professor of sociology, University of Washington; Emily Forrest of the University of Washington; and Christopher Jencks, Malcolm Wiener Professor of Social Policy at the Kennedy School of Government, Harvard University.

According to Arum, examining the school-business nexus can shed light on why vocational education works in some cases and not in others. He examined the prevalence of school-assisted job placement programs in the United States and their effectiveness in facilitating school-to-work transitions and shaping early labor market outcomes. The data used show that school-assisted job placements are rare but more common for women than for men, especially when the women are exposed to high levels of vocational course work in high school. School placement also tends to place women in clerical jobs, while this does not hold for men. Regression analysis showed that for women, getting their first job via school placement reduced the percentage of time unemployed in the two years immediately following high school and increased annual earnings. No such effects were observed for men. Arum speculated that the gender difference was due to the fact that differences in occupational skills tend to be related to sex segregation of occupations. Blue-collar occupations-the dominant category taken by male high school graduates and dropouts-are often learned on the job and schools have less information about them. Another factor might be related to the differences in job search method: while men tend to network with others engaged in blue-collar jobs, women have relatively fewer contacts who can help them find jobs.

Warren and Forrest discussed trends in the employment situation of high school students. Rates of employment for adolescents increased from 1940 to 1980 but have remained flat since then. Gender differences in employment rates narrowed during this period and have since disappeared. Employment rates for black adolescents have remained flat over the years and risen for white adolescents. Regression analysis indicated no significant relationship between socioeconomic status and employment rates, though poorer youth worked more hours per week. Considering only employed teens, sophomore and senior girls and black seniors of both sexes tend to work a greater number of hours per week relative to white boys. Thus the population of intensively employed (15 or more hours per week) students has become more diverse over time. Trends also indicate that the effect of sophomore year employment on the high school dropout rate has changed, with more adolescents who work intensively for pay staying in school in recent years. Warren and Forrest stated that they plan to extend their study by examining the kinds of jobs students perform, stratification of jobs by sex and race, and post-high school outcomes.

Jencks, as discussant, stated that the regression results presented by Arum suggested only a marginal effect for vocational course work on the labor market outcomes for girls. One way to explain this finding would be to argue that high school vocational courses have no real bearing on future employability because if they did matter, everyone would be taking them. Schools also may be effectively functioning as identification mechanisms, recommending their best students to local businesses, and thus students employed via school-assisted placement have higher incomes and spend less time unemployed. In his comments on the study by Warren and Forrest, Jencks stated that the lack of any relationship between SES and student work may be due to the fact that most jobs available to high schoolers are located in high SES neighborhoods. This could also explain why children from lower SES backgrounds work longer hours: they commute to high SES neighborhoods to work and the effort is worthwhile only if they put in extra time. Jencks expressed surprise at the finding that there was little relationship in recent years between working and dropping out of school. One explanation for this, he speculated, is that today these jobs offer no advancements and hence students view schooling as more important. Jencks ended by suggesting that researchers need to focus on which of these children's activities are being replaced by paid work.

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## New Working Papers

On the "Burden" of German Unification: The Economic Consequences of Messrs. Waigel and Tietmeyer  
[Jörg Bibow](#)  
[Working Paper No. 328](#)

Western Germany's poor economic performance since 1992 has been widely attributed to economic problems originating in the East. It has been argued that its powerful economy was brought down by its unification with East Germany, which resulted in a drastic deterioration of public finances throughout the 1990s, a sharply rising tax burden, stagnating public consumption and falling public investment, protracted budget deficits, and a steep increase in public indebtedness. In this working paper, Visiting Scholar Jörg Bibow investigates the causes of western Germany's poor economic performance and concludes that the unsound macroeconomic policies pursued under the leadership of Finance Minister Theo Waigel and Bundesbank President Hans Tietmeyer were the real cause for the nation's economic decline.

Bibow's analysis highlights the role of ill-timed, overly ambitious fiscal consolidation in conjunction with tight monetary policies of an exceptional length and degree. As the government absorbed the costs of unification, the budget deficit rose from zero in 1989 to 3 percent of GDP by 1991. Initially, this expansionary stimulus was beneficial in that it helped Germany deal with the effects of a global recession. The situation changed between 1992 and 1995 when the Bundesbank pushed for a more restrictive fiscal policy and pursued interest rate cuts in contrast to monetary strategies pursued by the Federal Reserve and the Bank of England. Bibow argues that Germany's dismal economic record of the 1990s was not a direct result of unification. Rather, he says, it was due to this unsound policy conducted under the Bundesbank's dictate in response to unification.

Reporting of Two or More Races in the 1999 American Community Survey  
Jorge H. del Pinal, Leah M. Taguba, Arthur R. Cresce, and Ann Morning  
[Working Paper No. 329](#)

The federal government mandates the collection of race data in the decennial census. However, until recently, individuals could classify themselves as belonging to only one race. This changed with the 2000 Census, which allowed respondents to select more than one racial category; in addition, it changed the terminology of some categories and created others. These changes have raised several issues, ranging from civil rights legislation to the determination of health status by race. In this working paper, Jorge H. del Pinal, Leah M. Taguba, and Arthur R. Cresce of the U.S. Census Bureau and Ann Morning of Princeton University analyze the data from the 1999 American Community Survey (ACS), which was conducted by the Census Bureau in 36 counties across the country and also allowed individuals to list more than one race.

The authors used the ACS data to predict the reactions to and results of race reporting in the 2000 Census. In particular, they examined the distribution of the population by race and by Hispanic or Latino origin, as well as the reporting of multiple races, the number and frequency of race combinations, and the extent to which the race and Hispanic/Latino questions were not answered. Among their findings: that 9 out of every 10 people reporting multiple races listed only two and most of the balance reported three. Hispanics were more likely than other groups to report more than one race, with one of the choices being "some other race." Removing those who checked "some other race" and another category substantially reduced the percentage of multiple-race responses. American Indian and white, Asian and white, black and white, and American Indian and black were found to be the most common double-race combinations. The authors dispute arguments that allowing individuals to report more than one race would be too confusing.

## Is Wealth Becoming More Polarized in the United States?

Conchita D'Ambrosio and [Edward N. Wolff](#)

Working Paper No. 330

Several studies have documented the sharp rise in the inequality of wealth and income in the United States during the 1980s and 1990s. In this working paper, Conchita D'Ambrosio of Università Bocconi and Senior Scholar Edward N. Wolff examine another dimension of the distribution of wealth, defined as polarization. This concept differs fundamentally from that of inequality and refers to the formation of clusters (a sizeable number of individuals or households) around certain levels of wealth. D'Ambrosio and Wolff develop methods to gauge the extent of polarization between groups of households classified according to different household characteristics, track changes in the extent of polarization over time, and assess the effects of polarization on the overall pattern of distribution of wealth.

The authors use data on the distribution of wealth in the United States between 1983 and 1998. They found that polarization between homeowners and tenants and among different educational groups continuously increased during this period, while polarization by income class continuously decreased. By contrast, polarization by racial group increased from 1983 to 1989 and then declined from 1989 to 1998. Polarization by age group followed the opposite pattern. They also found that most of the observed variation in the overall wealth density during the period under study can be attributed to changes in within-group wealth densities rather than in household characteristics.

## Skills, Computerization, and Earnings in the Postwar U.S. Economy

[Edward N. Wolff](#)

[Working Paper No. 331](#)

The U.S. economy has undergone major structural changes since World War II, among them, a shift from goods-producing industries to services, a rapid increase in the introduction of information-based technologies, substantial adjustments in firms' operations and organizational structures, and increasing competition from imports with a resulting greater focus on exports. In this working paper, Senior Scholar Edward N. Wolff considers how these structural changes have affected wage movements in the American economy and confronts a seeming paradox-that, although the labor force's skill levels and educational attainment continued to rise after 1973, real wages fell.

One of the basic tenets of human capital theory is that increased schooling will cause, or at least be associated with, rising wages. Based on his research, Wolff argues that there is no evidence to support this view. His analysis found that the growth of skills or educational attainment had no statistically significant effect on earnings growth. On the other hand, he did find earnings growth to be positively related to overall productivity growth and equipment investment. Computerization and international trade both had a retardant effect on earnings. The sluggish behavior of average earnings during 1973-1997 is best explained by a combination of slowing labor productivity growth, dramatic increases in the use of information technology, and rising international trade.

## Contradictions Coming Home to Roost? Income Distribution and the Return of the Aggregate Demand Problem

Thomas I. Palley

[Working Paper No. 332](#)

There are currently two views of the U.S. economic situation. One is that the recent slowdown is merely a temporary setback-the result of a momentary wobble in the stock market. The other is that the slowdown is the beginning of a long-term trend that reflects deep-seated structural problems in generating high levels of aggregate demand. If the first view is correct, interest rate cuts by the Federal Reserve should put the economy back on track with little need for other corrective action. If the second is correct, a host of



alternative policies are required to ensure prosperity. In this working paper, Thomas I. Palley of the AFL-CIO argues for the second view and suggests that the main structural problem confronting the United States is a deterioration in income distribution.

The current economic slowdown, says Palley, was held at bay for almost two decades by a range of demand compensation mechanisms—steadily rising consumer debt, a stock market boom, and rising profit rates. However, these mechanisms are now exhausted and the U.S. economy is now confronted with a serious aggregate demand generation problem. Palley states that fiscal policy adjustments may be the only way out, but that these should be accompanied by measures to rectify the structural imbalances at the root of the current impasse. Absent this, the problem of deficient demand will reappear, at which time public sector finances may not be in a position favorable enough to deal with the situation.

Toward a Population History of the Second Generation: Birth Cohorts of Southern-, Central-, and Eastern-European Origins, 1871-1970

[Joel Perlmann](#)

[Working Paper No. 333](#)

In seeking to understand the progress of immigrants over time, researchers often focus on past-present comparisons of the progress of the second generation of immigrants. These, however, are often plagued by vague references to the baseline—the past. In this working paper, Senior Scholar Joel Perlmann seeks to contribute some specificity to the understanding of second generations past for the sake of comparison and as a contribution to historical understanding in its own right.

Perlmann first seeks to define the older second-generation groups that make for theoretically meaningful comparisons. He attempts to determine when they grew up and the magnitude of each ethnic birth cohort. He also calls attention to important shifts in the social composition of second-generation cohorts that have not previously been studied systematically (when indeed noticed at all). Specifically, over time, the proportion of immigrant parents who arrived as children, arrived after the mass migration, or married a native-born American varies immensely. Perlmann also analyzes Stanley Lieberson's work with ethnic cohorts in *A Piece of the Pie*, which compared the educational attainments of southern-, central-, and eastern-European second-generation immigrants and Northern-born African Americans.

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## New Policy Notes

**Financing Health Care: There Is a Better Way**

[Walter M. Cadette](#)

[Policy Note 2000/3](#)

In recent years, a number of proposals have been aimed at dealing with the sharp increase in health care costs and the rising number of medically uninsured. In this policy note, Senior Scholar Walter M. Cadette argues that a key cause of today's health care problems is that those who pay for others' health care—government and employers—are revolting against costs they never expected would become so high.

Cadette notes that a key feature of health care financing in the United States is its link to employment. Health care benefits are a form of tax-free income to employees, but this system leaves out the working poor, unemployed, and retired. The costs of federal programs to provide for the latter two groups have raised the hackles of taxpayers. Meanwhile, the working poor—those whose work is not valued enough to entitle them to health benefits—have been left out. Cadette argues for a health care system that severs the link between employment and health benefits and replaces it with a system of private insurance in which individuals buy the type of coverage they need, with those needing help with premiums receiving it via an income-scaled tax credit. Medicare subsidies, he says, should likewise be scaled to income.

## **Put Your Chips on 35**

[James K. Galbraith](#)

[Policy Note 2001/4](#)

In this policy note, Senior Scholar James K. Galbraith examines Federal Reserve Chairman Alan Greenspan's statements on recent economic growth with the aim of revealing their underlying theoretical presumptions and policy implications. He considers Greenspan's philosophy to be one guided by a fear of inflation. However, such a belief cannot serve as a practical guide because the central bank cannot fight potential future inflation without forcing the economy to suffer from excess capacity and unemployment today, or fight actual inflation without excessively raising interest rates.

This misguided belief is why Greenspan and much of mainstream economics embraced the concept of the natural rate of unemployment (a level of unemployment at which inflation will not increase). But, argues Galbraith, it is impossible to determine the natural rate of unemployment. Greenspan did not pick up on this. Instead, he developed his now-famous New Economy arguments in an effort to account for the absence of inflationary pressures. In a number of speeches, Greenspan announced that the current business cycle was fundamentally different from the norm because of revolutions in information technology. Galbraith argues that the so-called New Economy was mainly a stock market bubble and had revealed itself as such by at least the late fall of 1999. Disappointingly, the Federal Reserve did not take any steps (such as raising the margin requirements) to burst the bubble and, by its pronouncements about the New Economy, might have actually accentuated it. Nevertheless, says the author, Greenspan should be commended for letting the jobless rate fall to as low as 4 percent without raising interest rates.

According to Galbraith, the speculative excesses of recent years challenge a core belief held by Greenspan and many economists: that capital markets are the best allocators of scarce capital resources (at the margin). In fact, they do not occupy any such privileged position and government might do better by directly investing or encouraging investment in schools, public transport, environment, health and cultural amenities.

## **The Backward Art of Tax Cutting**

[L. Randall Wray](#)

[Policy Note 2001/5](#)

Congress recently passed the Economic Growth and Tax Relief Reconciliation Act, which will provide about \$1.3 trillion of tax relief over the next decade. For many Americans, tax refund checks will be arriving this fall. In this policy note, Visiting Senior Scholar L. Randall Wray examines the case for large tax cuts and argues that the recent act passed by Congress provides little more than one-quarter of the fiscal relaxation required for the near term. Wray states that there is clear evidence that the U.S. economy is headed for a downturn and possibly a recession. If so, a much larger tax cut than that passed by Congress will be needed to deal with the coming economic situation.

Some economists who support a tax cut have, however, expressed fears that the economic downturn could eliminate projected budget surpluses and suggested that if these do not materialize, the tax cuts be eliminated. Wray argues that tax cuts should not be based on the achievement of budget surpluses. As economic growth slows, government must increase-not decrease-the fiscal stimulus. What is needed now to deal with the economic situation, says Wray, is an immediate fiscal adjustment of about \$450 billion. He suggests that Congress provide another \$200 billion of tax cuts targeted at the bottom three-quarters of the U.S. population through a reduction of the payroll tax.

## **Killing Social Security Softly with Faux Kindness**

[L. Randall Wray](#)

In this policy note, Senior Visiting Scholar L. Randall Wray contends that the President's Commission on Social Security Reform has seriously exaggerated the financial problems the program will face later in this century. Indeed, he argues, in its effort to push the privatization agenda, their draft interim report presents a biased view. Wray contends that, contrary to the report's claims, Social Security is a good deal for women and minorities. Further, the increased burden to be faced by workers over the next 60 years of providing for a larger number of retirees is not large relative to what has been dealt with over the past six decades. He advocates relatively small adjustments to the tax base and tax rates to resolve future financial shortfalls equitably without cutting benefits.

Some economists who support a tax cut have, however, expressed fears that the economic downturn could eliminate projected budget surpluses and suggested that if these do not materialize, the tax cuts be eliminated. Wray argues that tax cuts should not be based on the achievement of budget surpluses. As economic growth slows, government must increase-not decrease-the fiscal stimulus. What is needed now to deal with the economic situation, says Wray, is an immediate fiscal adjustment of about \$450 billion. He suggests that Congress provide another \$200 billion of tax cuts targeted at the bottom three-quarters of the U.S. population through a reduction of the payroll tax.

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## Publications and Presentations

### Publications and Presentations by Levy Institute Scholars

#### VISITING SENIOR SCHOLAR

##### PHILIP ARESTIS

*Publications:* "The Economic Analysis Underlying the 'Third Way'" (with Malcolm C. Sawyer). *New Political Economy* 6:3 (2001); "Financial Liberalisation and the Globalisation of Financial Services: Two Lessons from the East Asian Experience" (with P. O. Demetriades and B. Fattouh), in S. Lahiri, ed., *Regionalism and Globalization: Theory and Practice*. Contemporary Economic Policy Issues Series. New York: Routledge, 2001; "Bernard Corry: Obituary." *Royal Economic Society Newsletter*, April 2001.

*Presentations:* "The Impact of Financial Liberalisation Policies on Financial Development: Evidence from Developing Economies" (with P. O. Demetriades, B. Fattouh, and K. Mouratidis), Maxwell Fry Memorial Conference, London, May 11; "The Euro and the EMU: Lessons for Mercosur" (with F. Ferrari, L. F. de Paula and Malcolm C. Sawyer), Towards Macroeconomic Convergence in Mercosur, St. Antony's College, Oxford, June 12.

#### SENIOR SCHOLAR

##### WALTER M. CADETTE

*Publications:* "U.S. Health Care Finance: Need for a New Structure." *SRA Quarterly Commentary*, Second Quarter, 2001.

#### SENIOR SCHOLAR

##### JAMES K. GALBRAITH

*Publications:* Editor (with Maureen Berner). *Inequality and Industrial Change: A Global View*. Cambridge, Mass.: Cambridge University Press, 2001. *Presentations:* "Inequality in China and the World Economy" and "Current U.S. Economic and Political Conditions," Distinguished Fulbright Lectures, Tsinghua University and University of International Trade and Finance in Beijing, Northwest University and Foreign Languages University in Xi'an, Nanjing University and Nanjing Normal University in Nanjing, and Shanghai Jiaotong University and Tongxi University in Shanghai, June 21 to July 2; "Future History: The Humphrey-Hawkins Process and the Deeper Thought of Alan Greenspan," History of Economic Thought Society of Australia, Hobart, July 12; "Global Coup: The Evolution of Inequality in the World Economy under Neoliberalism," Hawke Institute, University of South Australia, Adelaide, July 19, and the Whitlam Institute, University of Western

Sydney, July 24.

**VISITING SENIOR SCHOLAR  
MALCOLM SAWYER**

*Publication:* "The Economic Analysis Underlying the 'Third Way'" (with Philip Arestis). *New Political Economy* 6:3 (2001).

*Presentations:* "The Causes of the Decline of the Euro," Università di Napoli Federico II, Italy, May 23 and 28; "The Welfare State" workshop, University of the Basque Country, Bilbao, June 23; "A Contribution to the Analysis of Endogenous Money," Association for Heterodox Economics, London, July 8, and *the Problemas del Desarrollo* 32nd anniversary theoretical seminar, Mexico City, September 4.

**SENIOR SCHOLAR  
EDWARD N. WOLFF**

*Publications:* Editor (with Thomas M. Shapiro) and author of included article "Recent Trends in Wealth Ownership, from 1983 to 1998." *Assets for the Poor: The Benefits of Spreading Asset Ownership*. New York: Russell Sage, 2001; Review of *Growth and Distribution* by Duncan K. Foley and Thomas R. Michl. *Journal of Economic Literature* 39:1 (2001).

*Presentations:* "Skills, Computerization, and Earnings in the Postwar U.S. Economy," Federal Reserve Bank of New York, April 26; "Is Wealth Becoming More Polarized in the United States?," European Society of Population Economists, Athens, June 14-16

**VISITING SENIOR SCHOLAR  
L. RANDALL WRAY**

*Publication:* "Understanding Modern Money," Association for Heterodox Economics, London, July 8.

**VISITING SCHOLAR  
JÖRG BIBOW**

*Publication:* "Making EMU Work: Some Lessons from the 1990s." *International Review of Applied Economics* 15:3 (2001); "The Loanable Funds Fallacy: Exercises in the Analysis of Disequilibrium." *Cambridge Journal of Economics* 25 (2001); "The Markets versus the ECB, and the Euro's Plunge." *Eastern Economic Journal* 27 (2001).

**RESEARCH ASSOCIATE  
WILLEM THORBECKE**

*Presentation:* "The Rise and Fall of the Inflation Risk Premium," Western Economic Association Meetings, San Francisco, July 8; "Incorporating Credit Factors into a CGE Model of the Indonesian Economy," Asian Development Bank-Institute, Tokyo, July 25; "U.S. Structural Change: Macroeconomic Policy Issues," Rutgers University Law School, Newark, September 14.

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