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New Strategic Analysis

CAN GLOBAL IMBALANCES CONTINUE? POLICIES FOR THE U.S. ECONOMY

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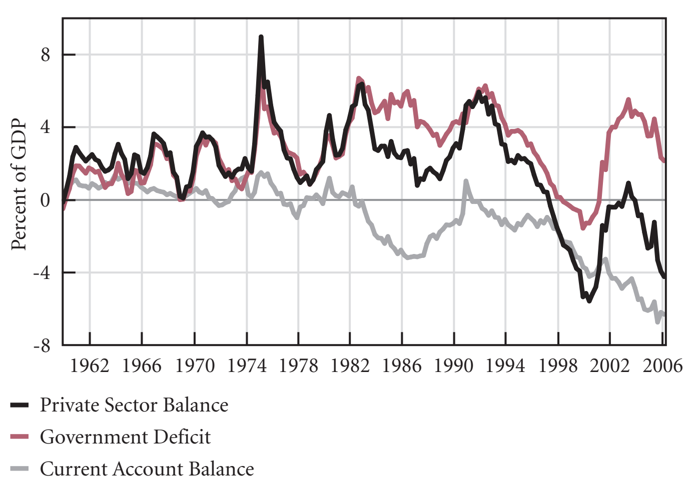
www.levy.org/pubs/sa_nov_06.pdf

The Levy Institute's macro-modeling team has been studying the U.S. economic imbalances—of the private sector, the government, and the economy as a whole—for some time. Figure 1 shows the historical levels of these imbalances. Over the past year, concerns about this issue have been expressed by more economists and policymakers in positions of power. Many believe that the value of the dollar will eventually collapse, succumbing to pressure from the deficit in the current account (an excess of imports and outward income payments over exports and inward income

Figure 1 Balances of the Main Sectors in Historical Perspective



Sources: Bureau of Economic Analysis and authors' calculations

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

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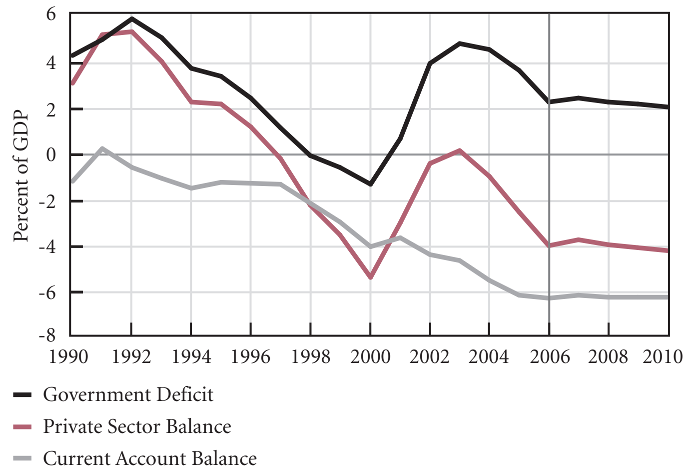
payments). Levy Institute President Dimitri B. Papadimitriou, Research Scholar Gennaro Zezza of the University of Cassino, and Research Scholar Greg Hannsgen agree that further devaluation is inevitable, but they emphasize its beneficial effects. A devaluation makes U.S. exports more attractive by reducing their prices in foreign currency, and boosts demand in the United States for goods produced domestically by increasing the dollar price of imports. If the current account deficit is not cured in this way, it will probably be corrected by a recession that reduces import demand by cutting incomes of U.S. residents. In contrast, a further devaluation is to be hoped for despite its potential ill effects, such as increased inflation and a fall in the value of dollar-denominated assets relative to assets denominated in foreign currency.

Papadimitriou, Zezza, and Hannsgen begin by reviewing literature and data on the current account deficit and the financial condition of the private sector. They show that there has been no progress toward alleviating the former imbalance, and that the burden of debt service on the household sector has continued to increase since the last strategic analysis, in July.

The final part of the strategic analysis consists of a report on three simulations the team conducted, using the Levy Institute macro model. In the baseline scenario, the authors assay the plausibility of projections by the Congressional Budget Office (CBO), the official agency that advises Congress on fiscal and economic matters. They feed into their model the projections of the CBO for the government deficit and U.S. economic growth. Next, they determine the requisite level of household borrowing necessary to uphold these assumptions. They then calculate the most likely paths over the next five years of the current account and private sector balances. The balances stay relatively stable (see Figure 2), but the scenario implies that the household sector must increase its borrowing well beyond current levels—an event which is probably beyond the capabilities of the overextended U.S. consumer.

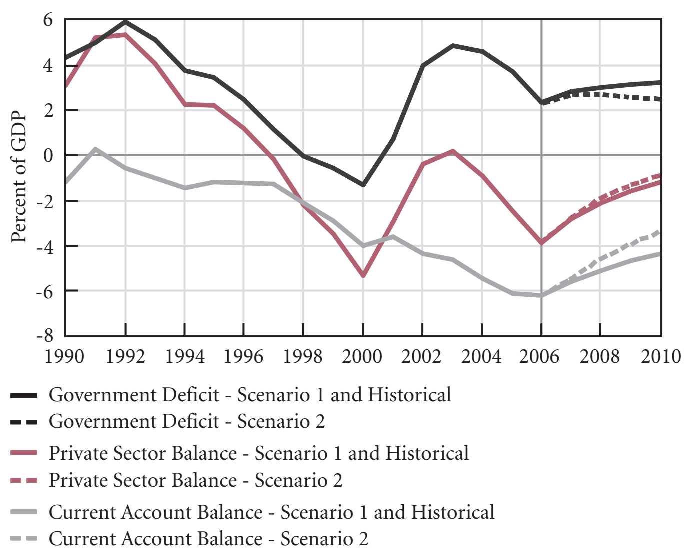
The authors then run two alternative scenarios. First, they drop the CBO's sanguine projections for U.S. growth and the government deficit. They add the realistic assumption that household borrowing actually falls by 4 percent over the next five years. The result is a "growth recession," or a period in which growth stays positive but is so slow that unemployment rises. Specifically, growth falls below 2 percent through 2007, then rises

Figure 2 **Main Sector Balances in Baseline Scenario**



Sources: Bureau of Economic Analysis and authors' calculations

Figure 3 **Main Sector Balances under Alternative Assumptions**



Sources: Bureau of Economic Analysis and authors' calculations

to about 2.3 percent by 2010. In this scenario, the current account and private sector balances improve gradually. (See Figure 3.)

Is there any optimistic, but plausible, scenario? The second alternative scenario maintains the assumption that household borrowing will drop sharply, but also assumes a 20-percent devaluation of the dollar against the euro and pound and a 10-percent devaluation against the major Asian currencies over the next two years. The authors assume that growth in the rest of the world is relatively strong. These developments would be favorable to U.S. growth and to a correction of the current account deficit, because they would stimulate U.S. exports and reduce imports. Indeed, the result is that the balances improve more rapidly and by a larger amount (shown in Figure 3), and while growth again falls below 2 percent for a time, it returns quickly to about 2.8 percent—a healthy rate.

The scenarios show that while that a growth recession is well within the realm of possibility, devaluation and strong world growth may hold the key to a better outcome. Neither the value of the dollar nor the rate of growth abroad are immutable givens; good policy can help bring them to the needed levels. The inevitable fall in household borrowing will not suffocate the U.S. economy, provided the right measures are taken to ensure adequate export demand.

Conference: Employment Guarantee Policies: Theory and Practice

Employer of last resort (ELR, or employment guarantee) programs were the topic of a conference that took place at the Levy Institute on October 13–14, 2006. The concept of ELR draws upon the U.S. experience with public employment programs, such as the Works Progress Administration, during the Great Depression. In its ideal form, an ELR program guarantees a government job to anyone who is willing and able to work. Society benefits, according to ELR advocates, because the poor can pay more of their bills, without relying upon unemployment benefits or welfare, and socially beneficial goods and services are produced. Few full-scale ELR programs exist, but many governments around the world have initiated large job programs inspired by the idea of ELR. Most of the conference's participants favored ELR laws, and they provided perspectives from governments, international agencies, and academe. The conference presentations and speeches are summarized below.

Welcome and Introduction: DIMITRI B. PAPADIMITRIOU

Hyman Minsky, the late Levy Institute scholar and a critic of many policies to combat poverty and unemployment, was one of the chief advocates of an ELR program in the United States from the 1960s to the 1990s, Papadimitriou observed. The War on Poverty, Minsky said, was deeply flawed because it sought to fight poverty by changing the poor, not by changing the economy, which failed to provide opportunities for all. Alternatively, efforts to generate employment by boosting aggregate demand were effective, but they sometimes led to inflation and cycles of boom and bust. By contrast, an ELR program would put people to work at minimum cost, said Minsky, without destabilizing the economy.

The idea of the government acting as an employer of last resort may go back as far as 17th-century economist William Petty. The most compelling historical example in the United States was the massive public works programs initiated by Franklin Roosevelt during the Great Depression. In recent times, ELR programs have been adopted in India and Argentina, though these should really be considered *near*-ELR programs because they do not provide full-time, year-round work for all who need it. Moreover, research by Pinaki Chakraborty indicates that in the case of India, low-income states have not been able to supply enough jobs, because of a lack of organizational capacity. Nevertheless, the Indian and Argentine programs have had positive results, in the form of increased human capital and social inclusion, decreased poverty, and empowerment of women. Quasi-ELR programs have also been implemented in Morocco and Sri Lanka. All of these cases will be discussed in the following presentations.

Session 1. Employment Guarantee Policies

Chair: REBECA GRYNSPAN, UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

Speakers: MATHEW FORSTATER, UNIVERSITY OF MISSOURI-KANSAS CITY; DANIEL KOSTZER, UNDP; STEVEN MILLER, INTERNATIONAL LABOUR ORGANIZATION (ILO)

Forstater began with what he called the "fundamental theorem of political economics": "Within the present institutional framework of modern capitalist society, there is no single policy that carries with it more potential benefits than true full employment or a guaranteed job for everyone ready and willing to work (at a living wage-benefits package)." He listed many potential benefits of an ELR program, noting that economist Amartya Sen has enumerated three key aspects of employment: income, production, and social recognition. Some of the benefits of ELR noted by Forstater included: increased financial security and higher living standards, stimulation of economic activity, good physical

Mathew Forstater and Rebeca Grynspan

James K. Galbraith

and mental health, poverty reduction, crime reduction, fiscal health, increased productivity of industry, benefits to the elderly, and alleviation of poverty and inequality. The social and economic benefits of ELR have ripple effects throughout the community, according to Forstater, since ELR workers spend their paychecks at local businesses, and everyone benefits from reduced social ills. Alternative policies aimed at achieving full employment, including monetary and fiscal stimulus, have failed in their objectives, Forstater argued, and one reason for this failure is that unemployment serves certain economic functions, disciplining workers and containing wage growth.

Kostzer emphasized the importance of the labor market by calling it a gearbox, linking the macroeconomy with the well-being of the household. Employment must be considered an important goal of economic policy, he said, not only for its income, but also for its social and political dimension, as it confers a sense of social integration, personal achievement, social mobility, and full citizenship. Kostzer compared the economy and its relationship to employment in the current globalized, deregulated system with the earlier Latin American economic constellation, which he called "the domestic demand schema." In the newer system, labor suffers disadvantages, partly because it becomes a mere cost of production, rather than the bulk of the market for its own products. Unemployment has increased in the new schema, and society has become more polarized. Instead of the programs urged by neoliberal economists, Kostzer advocated concentrating efforts on macro policies that directly create full employment—specifically, ELR programs. The numerous advantages of these policies include more stable levels of demand for goods and services, more equal distribution of income, reduced poverty and exclusion, a minimum living standard, and a moderation of the swings of the business cycle. Kostzer agreed with critics that ELR programs are not a silver bullet for all economic and social problems; in order to be effective, ELR programs need a complementary array of social programs.

Miller's presentation was based on his extensive experience with the ILO's public employment projects. The organization has taken a number of different forms over the years: emergency employment schemes, special public works programs, employment and technology, employment and infrastructure, and employment-intensive investment. Miller focused on three questions: How can employment be placed in the center of macroeconomic policies? How can the ILO increase the impact of public investments in infrastructure on employment and decent work? How can the ILO improve the cost-effectiveness and impact of its programs and the quality of the jobs it creates? Several recent international mandates have encouraged employment programs: the 2005 World Summit recommendations on investment and employment, the recommendations of the African finance ministers on employment and investment, and a decision made by the ILO governing body last year.

Speaker: JAMES K. GALBRAITH, UNIVERSITY OF TEXAS AT AUSTIN AND THE LEVY ECONOMICS INSTITUTE

Galbraith discussed his work as a Congressional committee staffer on what became the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978. Many of the strongest provisions of the bill were eliminated before it was passed by the Senate, he said, yet it contained an endorsement of the goal of full employment and a passage (drafted by a young James K. Galbraith) that codified the obligation of the Federal Reserve chair to report to Congress periodically on progress toward price stability and full employment. That provision helped to bring more reason and discussion into the process of setting monetary policy, said Galbraith, and gave the United States a more pragmatic and flexible Federal Reserve than it would have had otherwise.

At the same time, the economic doctrine of the nonaccelerating-inflation rate of unemployment, developed by Milton Friedman and Edmund Phelps, has been a major roadblock to achieving the goals of the Humphey-Hawkins bill. The boom of the late 1990s, with its noninflationary high employment, disproved this theory, said Galbraith.

The Keynesian theory of unemployment, at least in its traditional form, may not be applicable in today's economic environment, said Galbraith. In Keynes's time, the workforce was largely fixed in size, and the main macroeconomic problem was to see to it that as many of these workers as possible were employed. Now the size of the workforce can change over time, due to the entry of women into labor markets and the ebb and flow of immigration. In this environment, Galbraith argued, unemployment arises because of wage inequality. In a labor market in which pay scales vary widely, people are more likely to abandon their current work in order to gamble on the possibility of obtaining higher-paying jobs. For example, the industrialization of eastern China has drawn many workers from the countryside into the cities, where there is a chance of obtaining a good job. This has led to the creation of a vast floating population of immigrants who are searching for work.

Inequality in pay is also associated with unemployment in much of the industrialized world, said Galbraith. Many argue that Europe suffers from high unemployment because of its relatively egalitarian wage structure, but research by Galbraith and several coauthors has shown just the reverse: those countries and regions in Europe that are most egalitarian and have the strongest trade unions and most compressed wage structures, have the lowest unemployment rates. Moreover, measures of inequality in Europe can be deceptively low, unless one includes the poorer states in eastern and southern Europe. Hence, the poor employment performance of much of Europe may arise from excessive inequality, not equality.

Commenting on ELR programs, Galbraith pointed out the importance of political constraints on spending for social programs. While ELR programs can be very useful, he said, they should be carried out within the context of a broader program of pressing for full employment and a more egalitarian society.

Session 2. Employment Guarantee Policies: Budgetary Implications and Price Effects

Chair: MARTHA MELESSE, INTERNATIONAL DEVELOPMENT RESEARCH CENTRE (IDRC)

Speakers: PHILIP HARVEY, RUTGERS UNIVERSITY SCHOOL OF LAW; SANTOSH MEHROTRA, PLANNING COMMISSION OF THE GOVERNMENT OF INDIA; L. RANDALL WRAY, UNIVERSITY OF MISSOURI-KANSAS CITY

Discussant: AHMED EL BOUAZZAOUI, MINISTRY OF ECONOMY AND FINANCE, MOROCCO, AND INTERNATIONAL WORKING GROUP ON GENDER, MACROECONOMICS, AND INTERNATIONAL ECONOMICS (GEM-IWG)

Harvey's paper covered a controversy about funding for a massive jobs program. Proponents of employer-of-last-resort policies have taken two approaches to funding. Many post-Keynesians believe that since the government controls issuance of currency in modern monetary economies, it does not face a budget constraint, at least not of the same sort that confronts individuals and businesses. For this reason, post-Keynesians tend to share the "functional finance" notion that the government should base its decisions on fiscal policy, not on the need to balance the budget but solely on considerations of macroeconomic outcomes, such as inflation and unemployment. Moreover, an ELR program would probably not increase inflation. On the other hand, Harvey defends the budgetary aspects of ELR programs by noting that they are likely to save as much money as they cost, and thus need not result in additional deficit spending. Harvey has estimated that the U.S. government would have incurred approximately $1.2 trillion in direct expenses if it had maintained an ELR program from 1977 to 1986. Several types of savings would have fully offset these costs, however: 1) stimulative effects on the economy similar to those of other forms of government spending; 2) ameliorative effects on social and medical problems ranging from family dissolution to mental illness; and 3) sales of goods and services produced by ELR workers.

Since 1960 the Indian central government has initiated seven public employment programs, and state governments have started many other programs, said Mehrotra. These programs have suffered from a number of drawbacks: funds have not been fully utilized; projects have been relatively capital- not labor-intensive, which has limited the number of workers hired; jobs lasted only 30 days; workers built few durable assets; and administrators and politicians siphoned off funds intended for workers. The political imperative for the latest ELR program arose during the election of 2004 when the Congress Party promised to aid rural economic development and employment. The economic imperative was that while the overall growth rate had been high under the previous government, rural wages had been stagnating, and income differentials between urban and rural areas had increased. The new program differs from previous programs in several respects: there is now a legal right to an ELR job; the government provides jobs on demand where they are needed; and local governments are more involved with the implementation of the scheme. Some of the challenges faced by the program in coming years include creating rural infrastructure; ensuring adequate capacity for planning at the village level; developing good financial management; and fighting corruption.

Wray argued that ELR would stabilize the price of labor, just as a commodity buffer-stock program stabilizes the price of commodities. If the price of private sector labor (wage) starts to fall toward the ELR wage, workers will move from the private sector to ELR jobs, preventing further decreases in the private sector wage. On the other hand, companies that want more employees can find a ready supply of trained workers in the ELR "buffer stock" who will be willing to work for little more than the minimal ELR wage. Turning to the question of affordability, Wray argued that a sovereign government with its own fiat currency and a flexible exchange rate never has a financial constraint on its spending, because it can write checks or credit bank accounts in potentially unlimited amounts. This is often referred to, in a somewhat misleading way, as "printing money." (This does not imply that no limits on spending exist, since problems such as inflation might eventually arise if deficits were extremely high.) Wray discussed the positive experience of the Argentinian ELR program, Jefes. The program created two million jobs in its first four months and cost only about 1 percent of GDP, with the economic benefits reaching 2.49 percent of GDP. Jefes employees reported satisfaction with the program, saying that they took pride in contributing to society.

Rania Antonopoulos and Saul Weisleder

Session 3. Modeling Employment Guarantee Policy

Chair: SAUL WEISLEDER, PERMANENT MISSION OF COSTA RICA TO THE UNITED NATIONS

Speakers: RANIA ANTONOPOULOS, THE LEVY ECONOMICS INSTITUTE; MARZIA FONTANA, THE LEVY ECONOMICS INSTITUTE AND THE INSTITUTE FOR DEVELOPMENT STUDIES; SCOTT FULLWILER, WARTBURG COLLEGE; FAHDEL KABOUB, DREW UNIVERSITY

Discussant: HAMIDOU POUFON, CAMEROON SCHOOL OF PUBLIC ADMINISTRATION AND GEM-IWG

Women around the world face a huge burden of unpaid work, said Antonopoulos—in their homes. At the same time, many women who perform the greatest amount of unpaid work cannot find the paid work they need to support their households. This seems particularly unfair because women's unpaid work often subsidizes profit-making sectors of the economy. For example, by cooking and cleaning without pay, many women enable their male partners to work longer hours and for lower wages. Moreover, by giving their time to their households, as rewarding as that might be, women lose out on opportunities to gain education or build job skills for the future. Hence, Antonopoulos argued, a government could accomplish a great deal by paying women for what they now often do for nothing, an approach that may help women more than traditional public infrastructure projects do. Development experts have commonly separated out social issues from discussions of economic policy, an unsuccessful division, since the resulting economic policies have generated much inequality that cannot be alleviated simply by separate social policies. Antonopoulos and Fontana presented a plan for work they will conduct to address all of these issues, using "social accounting matrix" models that encompass unpaid and paid work and show how women's economic contributions differ from those of men.

Fullwiler has used a large econometric model developed by Ray Fair of Yale University to simulate the effects of an ELR program on inflation, GDP, and other variables. He first defended the model against criticism leveled at such models by the New Classical school of economists, pointing out that Fair's model has produced good predictions, at least compared with other standard types of econometric models. Fullwiler found that if a large ELR program had been in effect from 1985 to 2005, GDP would have been about $40 billion higher for most of that period, and effects on inflation would have been very modest. Fullwiler next compared the stabilizing properties of ELR compared with Fed policy and fiscal policy. The ELR program has a stabilizing influence on GDP growth and inflation, because spending and hiring under the program rise when the economy goes into recession and more workers are laid off. The ELR, according to the simulation results, performs just as well as monetary policy in stabilizing inflation, while it also allows the Fed to respond less aggressively to cyclical variation in economic variables. Moreover, in contrast to other forms of macroeconomic policy, the ELR operates automatically; workers can join the program at any time, without additional hiring legislation.

Tunisia has experienced at least moderate economic growth over the last 15 years, but the official unemployment rate has remained stuck at around 14 to 16 percent, with over half of those unemployed out of a job for at least one year. Tunisia's Solidarity Network, a series of government and government-sponsored agencies providing employment and training, was created in the 1990s to help deal with the poverty generated by neoliberal policies. The first phase of the network was the National Solidarity Fund, which was designed specifically to fight poverty in isolated, extremely impoverished areas. Subsequent phases were the National Solidarity Bank, which provided loans to small enterprises, and the National Employment Fund, which pays for various training programs. Kaboub proposed to expand the Solidarity Network into a full-blown ELR program, meaning that it would provide jobs on demand to all unemployed people. Kaboub's plan would be implemented in three stages: first, for unemployed heads of household; second, to cover the long-term unemployed; and third, to the full-scale ELR stage. Kaboub estimates that by the sixth year of the program, when nearly all of the unemployed—around 430,000 people—were offered ELR jobs, the government would spend 2.7 percent of GDP on the wages of ELR workers. In return, however, ELR workers would spend their incomes at private businesses, and the net effect on GDP would be an increase of about 3.6 percent.


Amit Bhaduri

Speaker: AMIT BHADURI, JAWAHARLAL NEHRU UNIVERSITY AND UNIVERSITY OF PAVIA

Bhaduri began by discussing why policymakers in countries such as India generally neglect policies designed to enhance domestic markets, such as public employment programs. First, in a global economy the corporate sector relies less on its domestic market. Governments know that their policies generally cannot expand the size of the international market, so they worry mostly about the size of their own global market share. This concern leads them to favor policies that enable firms to cut unit production costs over policies that put more spending power into the hands of their residents. When all countries attempt to do this at once, wages tend to fall. The overall size of the market is the same or smaller, and the poor are no better off.

The second reason governments are reluctant to expand domestic demand lies in a concern with the performance of their stock markets. Policymakers often believe that investors generally push up stock prices when governments follow the deflationary policies encouraged by the international financial institutions.

Third, governments prefer large projects, which employ relatively few people and result in displacing some other workers from their existing jobs and from the land. The benefits of these projects go mostly to a small section of the middle class.

Bhaduri characterized these issues as the hidden agenda of the current Indian government. He predicted that any future government would be subject to the same economic constraints and hence would not be able to change policy dramatically, but he also observed that resistance to the current economic order was on the rise as never before.

For an employment guarantee scheme to work, some administrative power must devolve on local governments, a difficult transition in India. Another imperative is providing incentives for doing high-quality work; game theory can provide insights into how this can be done.

Session 4. Institutional Arrangements

Chair: RANIA ANTONOPOULOS, THE LEVY ECONOMICS INSTITUTE

Speakers: JAN KREGEL, UNIVERSITY OF MISSOURI-KANSAS CITY; INDIRA HIRWAY, CENTRE FOR DEVELOPMENT ALTERNATIVES, THE LEVY ECONOMICS INSTITUTE, AND GEM-IWG

Discussant: RATHIN ROY, UNDP

ELR programs could be a successful strategy for economically developing poor countries, said Kregel. Beginning in the 1960s, the United Nations strategy was to implement international transfers of resources to less-developed nations, since underdevelopment was apparently due to a lack of domestic saving. In fact, there was a net outflow of resources for most of the last half of the 20th century. Partly for this reason, world leaders realized that a new approach was needed, and in 2000, with the Millennium Declaration, they adopted a strategy that focused less on achieving a certain rate of resource transfer. The Declaration adopted a timetable for meeting specific goals, such as cutting in half rates of extreme poverty. Kregel argued that an ELR program would help achieve the goals without excessive reliance on external resources. In some senses, most developing countries do not lack domestic resources: many are well-endowed with natural resources, and all have people looking for work. An ELR program need not depend on external capital, for, as theorists of "functional finance" have argued for years, nations with a sovereign currency have no effective budget constraint; their central banks are free to meet any obligations incurred by the government, and to set the terms under which the government borrows. A strategy that instead attempts to attract capital from abroad forces countries to run current account surpluses to obtain foreign currency for debt service. Governments often achieve these current account surpluses by restraining the domestic economy to reduce import demand. This is a hidden cost of a development strategy based on international borrowing. Argentina's Jefes program offered an example of how ELR programs could be used to meet the Millennium Development Goals, said Kregel.

Hirway gave an account of the economic role played by an ELR scheme, listed some challenges faced by such programs, and described a successful ELR law in the Maharashtra state of India. The first and foremost economic benefit of an ELR program is the eradication of hunger and starvation. ELR programs also reduce the need for migration (often detrimental to the poor) in search of work and encourage the poor to mobilize politically, increasing their power. Among the pro-poor benefits to the labor market are an increase in the minimum wage and a reduction in wage differentials between sexes and ethnic groups. The poor also benefit from the assets produced by an ELR program, which may generate further employment opportunities in the mainstream economy, satisfy human needs, improve the environment, and increase the wealth directly held by the poor. ELR programs also help local communities by putting purchasing power into the hands of the poor. The programs also have the potential to improve gender equality, because ELR employees are primarily women, ELR programs reduce unpaid efforts to obtain firewood, water, etc., and the programs politically empower women. As exemplified by the experience in Gujarat, however, several stumbling blocks can stall the success of ELR programs in countries such as India: state governments often try to avoid meeting their obligations to provide jobs on demand or pay unemployment benefits; workers are sometimes paid on a piecework basis and in practice do not always receive the minimum wage; planning occurs from the top down, without a view toward the long run; village- and local-level projects are not always coordinated at the regional level; and women are not empowered as much as they could be because wages are paid to their husbands, projects are not oriented toward women's needs, and women often cannot find work except as part of a "gang" of female workers.

Session 5. Country Experiences: Morocco, Argentina

Chair: DANIEL KOSTZER, UNDP

Speakers: HIND JALAL, MINISTRY OF ECONOMY AND FINANCE, MOROCCO, AND GEM-IWG; PAVLINA TCHERNEVA, BARD COLLEGE; CORINNE PASTORET, UNIVERSITY OF MISSOURI-KANSAS CITY; MARTHA TEPEPA, UNIVERSITY OF MISSOURI-KANSAS CITY

Discussant: VALERIA RENATA ESQUIVEL, UNIVERSIDAD NACIONAL DE GENERAL SARMIENTO AND GEM-IWG

In Morocco, La Promotion Nationale provides public sector employment to about 50,000 people each year. Among the program's projects are reforestation, maintenance of national parks, irrigation, and the construction of public buildings. Jalal cited several benefits of the program: improved "monetization" of the rural economy; increasing the incomes of the poor; better human development and education; reduced costs of providing irrigation; and a deceleration of migration from rural areas to cities. Still, La Promotion Nationale has several flaws. It has not concentrated its efforts on the poorest provinces, with spending distributed unevenly across areas. Also, a number of human resources issues have arisen, especially in connection with rights demanded by employees, lack of motivation, and barriers to dismissal. A lack of data hinders studies of the program. Jalal recommended to the government disaggregating data on the program by gender and redirecting some resources from urban to rural areas, where help is most needed.

Tcherneva's presentation was the first of two focusing on Argentina's Jefes program, under which workers are paid 150 pesos per month for four hours of work each day. Only one household member per family is allowed to participate; three-quarters of the participants are women. Funding for the program comes primarily from the national government. Many women work longer than the required four hours, since the additional output can be sold. Tcherneva recounted information she had gathered in interviews and site visits in Argentina. She reported speaking to policymakers at the ministry of labor and the government of the city of Buenos Aires, workers, supervisors, managers, and activists. She showed slides and video of a number of Jefes projects, which take place in homes and newly built structures. Among these projects were a vegetable garden and nearby day care center, a pastry shop, and a toy shop. In interviews, participants insisted that they preferred Jefes to welfare programs without work and wished they could be offered more work hours. Asked why they were satisfied with the program, over 40 percent of Jefes workers said it enabled them to do something instead of staying at home. Twenty-five percent cited a good work environment; less than 10 percent said they were satisfied with Jefes because it provided an income.

Lydia Santova Shouleva and Dimitri B. Papadimitriou

Pastoret and Tepepa presented further information on Jefes, providing a gender-aware perspective on community development fostered by the program. Their study included opinion surveys taken in some of the poorest neighborhoods in Buenos Aires. They interviewed 45 participants for about 30 minutes each, in separate rooms where conversation was private. They attended workers' meetings and interviewed managers. Women make up a high percentage of Jefes workers because men have easier access to private sector labor markets, and community projects are often seen as a duty of women, rather than men. The program is helpful for many reasons: job sites are close to women's homes; a paycheck provides a modicum of independence; women spend a greater proportion of their pay on children than men do; a job increases self-confidence and sometimes provides a second "family"; Jefes often leads to greater political involvement and social consciousness; and workers receive training for jobs in the private sector.

Speaker: LYDIA SANTOVA SHOULEVA, MEMBER, 40TH NATIONAL ASSEMBLY AND OBSERVER IN EUROPEAN PARLIAMENT, BULGARIA

When Shouleva became minister of labor and social policies of Bulgaria in 2001, the unemployment rate, which was running at about 19 percent, was the country's chief economic and social problem. Bulgaria offered some social benefits to the unemployed, but Shouleva believed that benefits provided in the form of publicly sponsored work would be more helpful to the unemployed and society alike.

Shouleva's team devised an ELR program they called From Social Assistance to Employment. Projects were developed by municipalities and included upkeep and maintenance of infrastructure, tree planting, security services, and assistance for disabled people. The program provided not only wages, but also medical insurance, job training, and participation in the public pension scheme. People who refused a job offer, however, lost their social benefits. Costs of the program were offset largely by savings in other parts of the public budget. For each $100 of program benefits, expenditures on welfare programs were reduced by $32, and $22 went to the public pension and health care systems, replacing government subsidies.

Some of the program's achievements included a large reduction in unemployment (from 330,000 people in 2002 to 185,000 now), development of the potential and flexibility of the workforce, opportunities for training and improvement of qualifications, social inclusion, the establishment and development of new businesses, an increase in the revenues of public pension and health insurance funds, and a reduction of dependence on informal labor markets. These benefits have not come at the expense of private industry: over the past eight years, economic growth has been around 4 to 6 percent, and foreign investment has risen considerably.

Bulgaria will become a full member of the European Union in 2007. The full employment program is compatible with the social model of Europe, which should not be seen as in conflict with competitiveness and economic growth.

Session 6. Country Experiences: South Africa, Sri Lanka, Bangladesh

Chair: RAMAA VASUDEVAN, BARNARD COLLEGE AND GEM-IWG

Speakers: OLAGOKE AKINTOLA, UNIVERSITY OF KWAZULU-NATAL; SANJAYA DESILVA, BARD COLLEGE; MEHNAZ RABBANI, BRAC (BANGLADESH) AND GEM-IWG

Discussant: BOLA AKANJI, NIGERIAN INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH AND GEM-IWG

Akintola cited a recent report that estimated South Africa's poverty rate at 49.9 percent, while its unemployment rate is 26.5 percent. Women and people of African descent are particularly hard-hit. At the same time, the country has one of the fastest-growing AIDS epidemics in the world. Providing care for the sick constitutes an enormous financial, emotional, social, and physical burden on caregivers, most of whom are women. Today, many caregivers in South Africa are volunteers who provide their services in private homes through a government program that has reduced the epidemic's burden on hospitals. These volunteers are mostly unemployed, however, and desperately want paid work. Because of their need for cash, their turnover is high. Akintola proposed to pay these workers as part of a public jobs program. Such a program would provide help where it was especially needed, would offer training for careers such as nursing, and would free up time for young girls to do schoolwork and for primary caregivers to engage in other forms of paid work.

DeSilva presented work he has done on a political-economic analysis of the root causes of unemployment in Sri Lanka, which, he said, is largely a problem of educated youth. In the early 1970s, the ILO attempted to explain the problem by positing a "skills mismatch," a disparity between the jobs available and the skills imparted by the educational system. Other experts blamed the slow growth of the Sri Lankan economy. The ILO proposed sweeping educational reforms aimed at reorienting public schools toward vocational education. In line with the second hypothesis, international financial institutions have called for free market reforms of the economy. What little progress has taken place since these proposals were made probably stems from migration to the Middle East, the garment industry, and the military, three avenues to work that do not promise an imminent or sustainable solution to the employment problem. DeSilva called for a comprehensive approach: educational reforms without economic growth might only lead to more frustrated aspirations, while an exclusive focus on growth might fail to provide attractive opportunities, aggravating youth unrest. DeSilva's explanation of youth unemployment argues that what is needed in today's labor market is not a fixed set of vocational skills but a fluid set of cognitive and affective skills largely unique to each job. Youth fail to acquire these skills, he says, because of poor incentives.

Though the Bangladeshi economy has grown fairly rapidly over the past five years, it has not produced enough jobs to keep up with growth in the labor supply. Rabbani discussed the Rural Maintenance Program (RMP), which pays women to repair dirt roads year-round for the minimum wage. The money for the program originally came from the national government and the government of Canada, with the European Union's help beginning in

2002. Local governments assisted in the selection of workers and tasks and disbursed wages, and the nongovernmental organization CARE managed the program and supervised the workers. The program offered workers more than a job, providing training in numeracy, income diversification, health, and business management. Group discussions with participants revealed that the program increased their confidence and conferred a sense of group solidarity. Perhaps best of all, 52 percent of the program's graduates reported earning at least as much as the RMP wage. Rabbani suggested several guidelines for developing successful employment programs in Bangladesh in the future: 1) emphasize production for local markets; 2) implement diverse employment projects, not just road rebuilding; 3) ensure financial sustainability; and 4) develop partnerships between local governments, nongovernmental organizations, and communities.

Session 7. Roundtable Discussion

Moderator: DIMITRI B. PAPADIMITRIOU, THE LEVY ECONOMICS INSTITUTE

Participants: AMIT BHADURI, JAWAHARLAL NEHRU UNIVERSITY AND UNIVERSITY OF PAVIA; RANIA ANTONOPOULOS, THE LEVY ECONOMICS INSTITUTE; STEVEN MILLER, ILO; RATHIN ROY, UNDP; HIND JALAL, MINISTRY OF ECONOMY AND FINANCE, MOROCCO, AND GEM-IWG

The conference concluded with brief statements by several experts, followed by a discussion that involved many of the participants.

New Public Policy Brief

Rethinking Trade and Trade Policy: Gomory, Baumol, and Samuelson on Comparative Advantage

THOMAS I. PALLEY

Public Policy Brief No. 86

www.levy.org/pubs/ppb_86.pdf

Citing the neoclassical theory of trade has proven to be a highly effective way for economists to defend policies that increase global trade and investment. In its conventional form, this theory borrows from 19th-century economist David Ricardo the idea that world output is highest when each country specializes in producing goods in which it has a comparative advantage. Whether globalization in its current form approximates the ideal depicted in Ricardo's work and current textbooks is debatable, but free trade policies and neoclassical trade theory nevertheless remain largely unchallenged. Hence, it may come as a surprise that trade theory has been criticized recently from within the neoclassical mainstream of the discipline, by well-known economists Ralph Gomory, William Baumol, and Paul Samuelson.

Gomory, Baumol, and Samuelson agree with traditional theory that trade allows goods and services to be produced more efficiently. They do not adopt standard critiques involving trade imbalances and job losses due to outsourcing. Instead, they focus on how the gains from trade are distributed among countries. The distribution depends on what are known as the "terms of trade"—the relative price of imports in terms of exports. The terms of trade, like any other prices, are influenced by both supply and demand, which can in turn be manipulated by countries eager to capture more of the gains of trade. For example, a country could seize economies of scale in a newly emerging industry by winning a large market share early on. That country might then be able to produce at such a low cost that competitors would never get a foothold, even though they might be potentially more efficient producers. The result of this failure of competition is that the world's gains from trade are lower than they might otherwise be, while the economy that won the industry enjoys better terms of trade and is wealthier than if it had shared the gains more evenly.

This sort of strategic thinking leads to somewhat different policy prescriptions than standard theory. Samuelson emphasizes the importance of technology transfer and catch-up by lagging international competitors. Another lesson of Samuelson's analysis is that comparative advantage depends on technology and is created, rather than determined by climate, resource endowments, or other inherent advantages. Different potential equilibria can exist, which imply different distribution of the gains of trade. Shrewd policy has more to do with economic success than some economists would have us believe.

New Working Papers

Capital Stock and Unemployment: Searching for the Missing Link

ALFONSO PALACIO-VERA, ANA ROSA MARTÌNEZ-CAÑETE, ELENA MÁRQUEZ DE LA CRUZ, and INÉS PÉREZ-SOBA AGUILAR
Working Paper No. 475
www.levy.org/pubs/wp_475.pdf

Unemployment, one of the most crucial aspects of economic performance, remains a severe problem in most countries, particularly in many European Union economies. Economists have urged governments to respond by reducing labor market regulation, minimum wages, and unemployment benefits, which apparently increase the cost of hiring without improving the value of workers to firms. Since such policies play an important role in preventing deprivation and maintaining social order, it is notable that some economists lay the blame for unemployment on other factors. In a new working paper, Alfonso Palacio-Vera, Ana Rosa Martìnez-Cañete, Elena Márquez de la Cruz, and Inés Pérez-Soba Aguilar of the Universidad Complutense de Madrid argue that a scarcity of capital, not labor market regulations, can raise the "nonaccelerating-inflation rate of unemployment" (NAIRU). (To an economist, "capital" is essentially goods such as factories, equipment, and software, which can be used to produce more goods or services. NAIRU is the unemployment rate below which an inflationary spiral begins.)

Most students of economics are taught that policies such as restrictions on firing workers can cause unemployment, but it may not be obvious that a lack of capital can have the same effect. This works as follows: When the capital stock is rapidly increasing, the output of each worker per hour, or productivity, rises quickly. Firms can raise wages without increasing the prices of their products, and workers' aspirations for higher living standards can thus be met. But when productivity growth stalls, as it did in the 1970s, workers may still demand wage increases, but firms cannot pay for higher wages with higher productivity. They must pass their wage costs on to consumers in the form of higher prices. Hence, the economy can be vulnerable to an inflationary episode at higher levels of unemployment, or, in other words, the NAIRU increases.

In this working paper, the authors address this problem by using a statistical model called a "cointegrating vector autoregression" to determine whether a long-run relationship exists between the NAIRU and the capital stock. To say two variables are cointegrated means that they can both wander, but they maintain the same mathematical relationship over the long term. The study uses quarterly data on the United States from 1964 to 2003. It finds that the ratio of capital to output indeed had a negative relationship with NAIRU. The real price of imports and capacity utilization were important determinants of NAIRU, while factors such as technological progress and the level of long-term unemployment did not affect NAIRU significantly. Since the interest rate can affect the capital stock, the authors conclude that monetary policy can affect NAIRU, and thus the economy's capacity for inflation-free growth.

The "New Consensus" View of Monetary Policy: A New Wicksellian Connection?

GIUSEPPE FONTANA
Working Paper No. 476
www.levy.org/pubs/wp_476.pdf

Starting in the 1970s, the monetarist school of macroeconomists became hugely influential in the U.S. branch of the profession. Crucial to these economists was the quantity theory of money, which had two important parts: 1) the central bank controls the money supply and 2) the money supply determines the price level over the long term, but has no long-run influence over the level of economic output. Since the 1990s, the New Consensus theory of the macroeconomy has become more influential than old-school monetarism. This school claims to have roots in the work of Knut Wicksell, a Swedish economist of the early 20th century. In a new working paper, Giuseppe Fontana of the University of Leeds assesses the relationship of the New Consensus approach to the work of Wicksell and argues for a post-Keynesian alternative that is also influenced by Wicksell.

In Wicksell's theory, the banking system set the interest rate. In addition to the bank interest rate, a natural rate of interest was determined by nonmonetary factors, namely the supply of saving and the productivity of capital. When banks set their interest rate below the natural rate, inflation and excessive growth occurred, while deflation and recession occurred when the bank rate rose above the natural rate. In contrast to monetarism, the supply of money did not determine output, employment, or the price level, since it passively adjusted to money demand. This theory of money and the economy may sound familiar: it forms the basis for the New Consensus and has been highly influential among central bankers, including former Federal Reserve chairman Alan Greenspan. Today, most central bankers do not try to target the money supply, and they attempt to set the interest rate (the federal funds rate in the U.S. case) at a natural or neutral level.

Fontana discusses another aspect of Wicksell's theory that has been forgotten by much of the economic establishment. The mature Wicksell and his student Lindahl came to believe that the natural rate was not fixed independently of monetary factors; it could be influenced by the bank rate of interest. Hence, a reduction in the bank interest rate might lower the natural rate of interest, allowing the economy to achieve a higher inflation-free unemployment rate in future years.

Fontana points out that while the New Consensus has neglected this latter aspect of Wicksell's theory, he and other post-Keynesians have built their work upon it. They reject the notion that monetary policy is neutral over the long run, because the interest rate can affect the supplies of labor and capital and the state of technological know-how over the long term.

When Knowledge Is an Asset: Explaining the Organizational Structure of Large Law Firms

JAMES B. REBITZER and LOWELL J. TAYLOR
Working Paper No. 477
www.levy.org/pubs/wp_477.pdf

Large law firms are organized differently than most other companies. Their practice of hiring inexperienced associates who must eventually either become partners or be fired is explained in a new working paper by Research Associate James Rebitzer of Case Western Reserve University, the National Bureau of Economic Research, and the Institute for the Study of Labor (IZA), and Lowell J. Taylor of Carnegie Mellon University. The partnership system developed, write Rebitzer and Taylor, because firms do not have legal rights to some of their most important "assets"—their employees' knowledge of their clients. A common problem in the legal industry is "grab and leave"—top employees resigning and taking their clients to a different firm. Since the U.S. legal framework does not prevent this, firms developed a strategy to maintain their "property" in their employees' relationships with important clients.

Rebitzer and Taylor develop their model in three stages, the last of which theoretically explains the "up or out" system of promotion in law firms. They show that if employees control valuable knowledge, the firm will not maximize profit; doing so would foil efforts to retain employees. Instead, firms maximize profit *per partner,* which requires them to fire some associates while they promote others to partnership. This means that firms must fire some associates, say the authors, even if they are good attorneys, a situation that might appear paradoxical at first.

The paper includes an analysis of laws and codes of professional conduct in the United States that shows that firms cannot enforce contracts that prevent grabbing and leaving. Specifically, state codes of ethics, which originate in American Bar Association (ABA) rules, allow clients the freedom to choose their representatives. The ABA also prohibits "noncompete" clauses in lawyers' contracts; these are utilized in some other industries and states to prohibit former employees from using knowledge and serving clients from former jobs. This institutional framework emerged gradually in the early 20th century from a system in which lawyers were allowed to solicit clients early in their careers and take them along as they moved from firm to firm.

Rebitzer and Taylor investigate their hypothesis empirically by studying the factors that determine how much time lawyers spend in direct contact with their clients. They find that associates spend less time with clients and in client-development activities. This finding holds up even when associates and partners with similar types of practice, experience levels, geographic locations, and undergraduate institutions are compared. Limiting time with clients and work on client development is one way that firms can reduce the possibility of grabbing and leaving. Rebitzer and Taylor's hypothesis suggests that the problem of controlling employees' knowledge is most important in large firms, and their data show that the larger the firm, the more limited the associates' client-related work.

On Lower-bound Traps: A Framework for the Analysis of Monetary Policy in the "Age" of Central Banks

ALFONSO PALACIO-VERA

Working Paper No. 478

www.levy.org/pubs/wp_478.pdf

Economists and the press always await with great concern the decisions of the central banks of the industrial powers. But just how much power does a central bank have to prevent the most serious problem an economy can face—a severe recession or depression? Many economists believe that only under rare circumstances can a central bank fail to stop a recession, provided it makes interest rate decisions wisely.

In at least one situation, however, central banks can be impotent in the face of declining economic activity. The common assumption is that economic output is negatively related to the real interest rate; the resulting implication is that the central bank can stop recessions by reducing rates. And as long as the interest rate is set properly, inflation will remain contained. But monetary policy can fail if the interest rate hits some form of "lower bound," such as a zero nominal level, before the economy recovers from recession. In that case, the economy can experience a problem of aggregate demand—a fall in output and employment that ensues from a lack of willingness and ability to spend on the part of consumers and firms.

Using a simple model, Alfonso Palacio-Vera of the Universidad Complutense de Madrid studies these limitations of monetary policy in a new working paper that makes a number of contributions. First, the model integrates the notion of a natural, or neutral, interest rate; liquidity preference theory; and a realistic portrayal of modern central bank activity. This makes possible a richer and more realistic analysis than has been conducted previously of the circumstances in which an aggregate demand problem can arise. Second, the paper shows that, contrary to conventional wisdom, a combination of "structural" factors, such as a high saving rate and a low "natural" rate of growth, along with temporary economic shocks, can cause a failure of effective demand. Third, the analysis supports scholars who claim that the Japanese economy, at least until recently, has been in a "liquidity trap," a recession that cannot be cured by monetary policy. The author attributes the Japanese liquidity trap to a high saving rate and a low "natural" rate of growth. Fourth, the paper reveals that the New Consensus school of economists can explain the existence of a liquidity trap only by resorting to unrealistically large shocks. The fifth finding is related to the nonaccelerating-inflation rate of unemployment (NAIRU), which is the minimum unemployment rate that can be maintained without an inflationary spiral: a rise (fall) in the NAIRU can lead to a fall (rise) in the natural interest rate.

European Welfare State Regimes and Their Generosity toward the Elderly

AXEL BÖRSCH-SUPAN

Working Paper No. 479

www.levy.org/pubs/wp_479.pdf

An earlier version of this paper was presented at the Institute's conference "Government Spending on the Elderly" on April 28–29, 2006. Please see the summary of this presentation on page 4 of the July 2006 *Report.*

Levy Institute News

New Research Associates

The Levy Institute welcomes five new research associates. **Lekha Chakraborty** is senior economist at the National Institute of Public Finance and Policy (NIPFP), an autonomous research institute of the Ministry of Finance of India. Previously, she worked for the World Bank, United Nations Development Fund for Women (UNIFEM), and Commonwealth Secretariat. She is a member of the International Working Group on Gender, Macroeconomics, and International Economics (GEM-IWG) and has given lectures on gender and fiscal policy for that group's summer program at the University of Utah. She received an M.Phil. in applied economics and a Ph.D. in economics from the Centre for Development Studies at Jawaharlal Nehru University, New Delhi.

Pinaki Chakraborty is a fellow at NIPFP. He was previously senior economist and economist for that institute. Before joining NIPFP, he was a consultant for the 11th Finance Commission of India. He is engaged in a number of research projects on fiscal policy. He has published numerous articles in books and journals and given many lectures and presentations around the world.

Chakraborty holds an M.A. in economics from North Bengal University and an M.Phil. in applied economics and a Ph.D. in economics from the Centre for Development Studies at Jawaharlal Nehru University, New Delhi.

Valeria Esquivel is a researcher and assistant professor of economics at Universidad Nacional de General Sarmiento. She is currently working on the design of a time use survey module that will be introduced along with the annual household survey in Buenos Aires, Argentina. Her research interests focus on macroeconomics, labor markets, and social policy from a gender perspective, and she has published in the areas of labor market regulation, poverty, and income distribution. Esquivel has worked as a senior consultant on gender and labor markets for the Ministry of Labor, Employment, and Social Security in Argentina. She is a coordinator of the Time Use group, as well as a member of GEM-IWG. Esquivel holds an M.Sc. in economics with special reference to Latin America at the Institute of Latin American Studies (now ISA) and QMW, University of London.

Thomas I. Palley is an economist living in Washington, D.C. He was formerly chief economist with the U.S.–China Economic and Security Review Commission. Prior to joining the commission, he was director of the Open Society Institute's Globalization Reform Project and assistant director of public policy at the AFL–CIO. He is the founder of Economics for Democratic and Open Societies, which seeks to stimulate public discussion on the kinds of economic arrangements and conditions needed to promote democracy and open societies.

Palley is the author of *Plenty of Nothing: The Downsizing of the American Dream and the Case for Structural Keynesianism* (Princeton University Press, 1998) and *Post Keynesian Economics* (Macmillan Press, 1996). His recent policy articles include "External Contradictions of the Chinese Development Model" in *Journal of Contemporary China*, February 2006; "The Questionable Legacy of Alan Greenspan" in *Challenge*, November–December 2005; and "The Economic Case for International Labor Standards" in *Cambridge Journal of Economics*, January 2004. He has also published in numerous magazines, including the *Atlantic Monthly*, *American Prospect*, and *Nation*. He holds a B.A. degree in modern history and economics from Oxford University and an M.A. in international relations and Ph.D. in economics from Yale University.

Robert W. Parenteau is the chief U.S. economist and investment strategist at RCM, an investment management company of Allianz Global Investors. He employs macroeconomic insights to drive U.S. equity and global balanced portfolio strategy. In this effort, he guides the global and domestic asset allocation, sector, factor, and industry selection decision making of RCM portfolio managers and equity analysts. Parenteau has served as a regular lecturer for all three levels of the Security Analysts of San Francisco CFA preparation course. He has presented several papers at our annual conference on financial structure that applied Hyman P. Minsky's financial instability hypothesis to the late 1990s technology bubble. He further explored the macrodynamics of financial imbalances in papers that have been published as chapters in *Contemporary Post Keynesian Analysis* (L. R. Wray, ed.) and *Financialization and the Global Economy* (G. A. Epstein, ed.). Parenteau holds a B.A. in political economy with honors at Williams College, as well as a chartered financial analyst degree.

Levy Institute Awarded Grant from UNDP

Research Scholar **Rania Antonopoulos** has received support from the United Nations Development Programme (UNDP) to lead a research project on the impact of public employment guarantee schemes (EGS) on pro-poor development and gender equality. The project consists of a pilot study, which will explore the synergies between EGS and unpaid work, including unpaid care work, for India and South Africa.

In developing countries, the call for compensating the private investment gap by increased public investment has recently received wide endorsement. At the same time, EGS has been used in rural areas of several developing countries to create a safety net by providing public employment for people who are willing and ready to work but unable to find a job. Public employment generates income for the poor and also results in asset creation and improvements in human development. The extensive worldwide participation of women in EGS, however, points to the fact that substitution of unpaid work with public jobs can be instrumental for gender equity by simultaneously creating much-needed employment and alleviating the time burdens of women.

UNDP supports the development of cutting-edge products for promoting gender equality and pro-poor programs. The Levy Institute research project is expected to contribute to current policy dialogues and provide empirical evidence necessary for policymakers to initiate innovative poverty-alleviation plans.

The Levy research team will include Research Scholars Rania Antonopoulos and Marzia Fontana, Research Associates Indira Hirway and Valeria Esquivel, and President Dimitri B. Papadimitriou.

New Levy Institute Book

International Perspectives on Household Wealth

EDWARD N. WOLFF

December 2006

Edward Elgar Publishing, in association with The Levy Economics Institute

The contributors to this comprehensive volume analyze the assets and debts of households in the United States, Canada, Germany, Italy, Sweden, and Finland during the 1990s and into the 21st century. In their analyses of the United States, the authors highlight trends in wealth holdings among the low-income population, changes in wealth polarization, racial differences in wealth holdings, and the dynamics of portfolio choices. The consensus among the contributors is that wealth inequality has generally risen in the OECD countries since the early 1980s, although Germany stands out as an exception. In the case of the United States, the authors note, wealth holdings have generally failed to improve among low-income families, and the racial wealth gap widened during the late 1980s.

International Perspectives on Household Wealth also contains new results on a number of topics, including measures of levels and changes in wealth polarization in the United States, measurement of levels and changes of the number of different assets held by each household in the United States, asset holdings of low-income U.S. households, and the effects of parental resources on asset holdings in Chile.

Academic, government, and public-policy economists in OECD countries, as well as those in the so-called middle-income countries around the world, will find much in this volume to engage them. The book will also appeal to specialists in international and welfare economics and other social scientists interested in the issues of inequality.

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

RANIA ANTONOPOULOS *Research Scholar*

Publication: "Asset Ownership Along Gender Lines: Evidence from Thailand," *Journal of Income Distribution*, Vol. 13, No. 3–4.

Presentations: "Gender and the Continuum of Paid and Unpaid Work," panel discussion with political philosopher Linda Hirshman, author of *Get to Work: A Manifesto of Women of the World*, Bard College, September 21; "From Unpaid Work to Gender-aware Job Creation," research workshop on Labour Markets and Growth: Better Jobs under Globalization? International Development Research Center, and Carleton University, Ottawa, Canada, November 15–16.

PHILIP ARESTIS *Senior Scholar*

Publication: "Financial Development and Productive Efficiency in OECD Countries: An Exploratory Analysis" (with G. Chortareas and E. Desli), *The Manchester School of Economic and Social Research*, Vol. 74, No. 4, Special Issue, 2006.

Presentations: "Monetary Policy in the U.K." (with A. Angeriz), Evaluating the Economics of New Labour workshop, St. Catherine's College, Cambridge, September 12; "Assessing Inflation Targeting through Intervention Analysis" (with A. Angeriz), annual conference of the Money, Macro, and Finance (MMF) Research Group, September 14.

JAMES K. GALBRAITH *Senior Scholar*

Publications: *Innovation, Evolution, and Economic Change: New Ideas in the Tradition of Galbraith*, J. K. Galbraith, B. Laperche, and D. Uzinides, eds., New Directions in Modern Economics, Cheltenham, U.K., and Northampton, Massachusetts: Edward Elgar Publishing Ltd., 2006; "La Prédation économique moderne: guerre, fraude d'entreprise et cruelle chimère des réformes du marché du travail," *A Contrario*, Vol. 4, No. 1; "Unemployment in Europe: Some American Suggestions," *Journal of International Politics and Society*, 1; "Endogenous Doctrine, or Why Is Monetary Policy in America So Much Better Than in Europe?" *Journal of Post Keynesian Economics*, Spring, Vol. 28, No. 3; "Taming Predatory Capitalism," *The Nation*, April 17; "Withdrawal Symptoms" and "The Predator State," *Mother Jones*, March-April and May-June; "Economic Equality and Victory in War: An

Empirical Investigation" (with C. Priest and G. Purcell), UTIP Working Paper No. 37, June 13; "Pay Inequality in Cuba: The Special Period and After" (with L. Spagnolo and D. Munevar), UTIP Working Paper No. 38, June 13.

CAREN A. GROWN *Senior Scholar*
Presentations: "Gender and Trade Liberalization: Framing the Issues," New School Graduate Program in International Affairs, New York, October 17; "The Gender Asset Gap," UN-DESA Forum on Eradicating Poverty, New York, November 15–16.

GREG HANNSGEN *Research Scholar*
Presentation: "The Gibson Paradox: Modelling a Conundrum of Tight Money," Second Biennial Post-Keynesian Conference, University of Vermont, Burlington, September 23.

DIMITRI B. PAPADIMITRIOU *President*
Presentations: Interview with Jonathan Peterson regarding the growing household debt held by older families and its potential concern, *Los Angeles Times*, July 14; interview with Mara Der Hovanesian regarding the sustainability of housing prices, household debt, and growth, *Business Week*, July 26; interview with Alix Stuart regarding credit derivatives, *CFO Magazine*, August 2; interview with Steve Johnson regarding foreign reserve diversification and the U.S. current account deficit, Reuters, August 3; interview with Tom Ramstack regarding the effect of rising interest rates on borrowers with adjustable rate mortgages, *The Washington Times*, August 8.

EDWARD N. WOLFF *Senior Scholar*
Publications: *International Perspectives on Household Wealth*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "International Comparisons of Wealth: Methodological Issues and a Summary of Findings," "Changes in Household Wealth in the 1980s and 1990s in the U.S.," and "Is Wealth Becoming More Polarized in the United States?" (with C. D'Ambrosio) in *International Perspectives on Household Wealth*, E. N. Wolff, ed., Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "The Vintage Effect in TFP-growth: An Analysis of the Age Structure of Capital" (with M. Gittleman and T. ten Raa), *Structural Change and Economic Dynamics,* Vol. 17, Issue 3, September; "The Distribution of Wealth in the USA: Trends and Contributory Factors" in *Steigende wirtschaftliche Ungleichheit bei steigendem Reichtum?* G. Chaloupek and T. Zotter, eds., Austrian Federal Chamber of Labour, 2006; "An Overall Assessment of the Distributional Consequences of Government Spending and Taxation in the U.S., 1989 and 2000" (with A. Zacharias) in *The Distributional Effects of Government Spending and Taxation*, D. B. Papadimitriou, ed., Houndmills, Basingstoke, Hampshire, U.K., and New York, N.Y.: Palgrave Macmillan, 2006; "Information Technology and Growth: The U.S. Experience" in *Growth, Capital and New Technologies*, P. Schreyer and M. Mas, eds., Fundación BBVA, 2006; "The Growth of Information Workers in the U.S. Economy, 1950–2000: The Role of Technological Change, Computerization, and Structural Change," *Economic System Research*, Vol. 18, No. 3, September.
Presentations: "The Growth of Information Workers in the U.S. Economy, 1950–2000: The Role of Technological Change, Computerization, and Structural Change," NBER Summer Productivity Workshop, July 18–21; "Net Government Expenditures and the Economic Well-Being of the Elderly in the United States, 1989–2001," "Class and Household Economic Well-Being in the United States, 1989–2002," and "Estimating the World Distribution of Household Wealth," 29th General Conference, International Association for Research in Income and Wealth, Joensuu, Finland, August 20–26.

L. RANDALL WRAY *Senior Scholar*
Publications: *Money, Financial Instability and Stabilization Policy* (with M. Forstater), eds., including chapter 3, "System Dynamics of Interest Rate Effects on Aggregate Demand" (with L. Tauheed), Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "What a Long, Strange Trip It's Been: Can We Muddle Through Without Fiscal Policy?" (with S. Kelton) in *Post-Keynesian Principles of Economic Policy*, C. Gnos and L.-P. Rochon, eds., Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; new introduction and chapter for a Mexican (Spanish language) edition of *Understanding Modern Money*, UNAM, October 2006.
Presentations: Radio interview with Mike Norman, BizRadio Network KXYZ-AM, August 8 and November 2; paper on the contributions of Basil Moore, 9th International Post-Keynesian Conference: A Celebration of the Impact of Keynesian Economics on Policy, UMKC, September 15–18; "Demand Constraints, Secular Stagnation, and Big Government: The Contributions of Harold G. Vatter," Harold Goodhue Vatter Memorial Lecture in Economics, Portland State University, October 25.

AJIT ZACHARIAS *Senior Scholar*

Publication: "An Overall Assessment of the Distributional Consequences of Government Spending and Taxation in the U.S., 1989 and 2000" (with E. N. Wolff) in *The Distributional Effects of Government Spending and Taxation*, Dimitri B. Papadimitriou, ed., Houndmills, Basingstoke, Hampshire, U.K., and New York, N.Y.: Palgrave Macmillan, 2006.

Recent Levy Institute Publications

STRATEGIC ANALYSES

Can Global Imbalances Continue? Policies for the U.S. Economy
DIMITRI B. PAPADIMITRIOU, GENNARO ZEZZA, and GREG HANNSGEN
November 2006

Can the Growth in the U.S. Current Account Deficit Be Sustained? The Growing Burden of Servicing Foreign-Owned U.S. Debt
DIMITRI B. PAPADIMITRIOU, EDWARD CHILCOTE, and GENNARO ZEZZA
May 2006

Are Housing Prices, Household Debt, and Growth Sustainable?
DIMITRI B. PAPADIMITRIOU, EDWARD CHILCOTE, and GENNARO ZEZZA
January 2006

LEVY INSTITUTE MEASURE OF ECONOMIC WELL-BEING

Interim Report 2005: The Effects of Government Deficits and the 2001–02 Recession on Well-Being
EDWARD N. WOLFF, AJIT ZACHARIAS, and HYUNSUB KUM
May 2005

POLICY NOTES

The Burden of Aging: Much Ado About Nothing, or Little To Do About Something?
L. RANDALL WRAY
2006/5

***Debt and Lending:* A Cri de Coeur**
WYNNE GODLEY and GENNARO ZEZZA
2006/4

PUBLIC POLICY BRIEFS

Rethinking Trade and Trade Policy: Gomory, Baumol, and Samuelson on Comparative Advantage
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