The Levy Economics Institute of Bard College

Report

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Conference

EMPLOYMENT GUARANTEE POLICIES

Responding to the Current Economic Crisis and Contributing to Long-Term Development

With poverty, inequality, and unemployment trending upward worldwide, job creation, especially for marginalized populations, is urgently needed. By mobilizing unused domestic labor resources, direct job creation can become an engine of pro-poor growth while also promoting gender equality and meeting social inclusion targets—key international development goals. Public works projects, employment guarantees, and employment-of-last-resort strategies can play a crucial role in reducing unemployment and poverty, ameliorating distress migration, and delivering physical infrastructure and social services in ways that particularly benefit underserved communities.

Rebeca Grynspan, Regional Bureau for Latin America and the Caribbean, UNDP

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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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Conference *Continued from page 1*

On June 22 and 23, 2009, The Levy Economics Institute, in partnership with the Regional Bureau for Latin America and the Caribbean and Bureau for Development Policy, United Nations Development Programme (UNDP), convened an international conference to present the merits and challenges of public job creation programs as a constitutive component of an economic recovery strategy. Titled "Employment Guarantee Policies: Responding to the Current Economic Crisis and Contributing to Long-Term Development," the conference was held at Blithewood, the Institute's main research and conference facility, on the campus of Bard College in Annandale-on-Hudson, N.Y. Top policy advisers, members of government organizations, academics, and international development specialists met to analyze and exchange views on various public employment initiatives, drawing on existing research and the outcomes of country-level programs in South Africa, Argentina, India, Iran, and Chile.

For a summary of the various presentations and panel sessions, as well as audio and video archives, visit the News & Events section at www.levy.org.

Special Report

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

AJIT ZACHARIAS, THOMAS MASTERSON, and KIJONG KIM
Special Report, June 12, 2009

When President Obama signed the American Recovery and Reinvestment Act (ARRA) in February, his administration estimated that the $787 million package of transfers and tax cuts would create or save approximately 3.5 million jobs by the end of 2010, providing relief to low-income and vulnerable households while supporting aggregate demand.

Senior Scholar Ajit Zacharias and Research Scholars Thomas Masterson and Kijong Kim provide a preliminary assessment of ARRA that points toward the necessity for a comprehensive employment strategy that goes well beyond the current legislation. While the stimulus plan's positive impact on the employment situation is welcome, say the authors, the government could have achieved far more at the same cost by skewing the stimulus toward spending rather than tax cuts.

The authors' strategy to assess ARRA's implications consists of three principal steps: constructing a baseline scenario, estimating the increase in employment by industry and occupation, and simulating the effect of changes in earnings on the distribution of money income. The baseline for labor market conditions and income distribution was constructed using the 2008 Annual Social and Economic Supplement to the Census Bureau's monthly Current Population Survey. The authors impute labor force status in January 2009 and total income for 2008. They estimate that the fiscal stimulus imparted by ARRA in 2009–11 will total $531 billion, of which tax cuts account for 54 percent, while government purchases and transfers each account for only 23 percent. The 2006 input-output table for 201 industries was used to estimate the employment effect of government purchases of goods and services. The estimates generated by the input-output method and the conventional method (using Congressional Budget Office tax cut and transfer multipliers) were combined to arrive at the total additional employment that would accrue to each major industry as a result of the stimulus.

The authors find that the estimate of new jobs under their "medium" scenario is nearly identical to the Obama administration's estimate—that is, an additional 6.2 million jobs over 2009–11. However, total employment has already fallen by 7 million jobs since the start of the recession in December 2007. Given that a further (sizable) decline in employment is expected, ARRA's effect on the employment crisis is largely palliative—an easing of the symptoms, not a cure. The authors also find that the amount of stimulus required per each new job created is much higher for taxes than outlays under all scenarios. Further, the level of employment for women will be slightly higher than at the start of the recession as a result of ARRA, while whites will lose ground and nonwhites will make no significant gain. Individuals without a high school diploma will suffer the most in terms of job loss.

Median household income declined in 2008 by 1.5 percent, and the effect of ARRA is expected to slightly more than offset that decline, softening the blow to the middle class. Average money income for the middle quintile of working-age families

is estimated to increase by 1.8 percent (versus the Obama administration's estimate of 2.3 percent), and ARRA is shown to improve the shares of all quintiles in aggregate income, with the exception of the topmost. The legislation's likely effect on overall inequality in money income might be negligible, say the authors, since it does not address systemic inequality in the U.S. economy (e.g., nonwhite households continue to receive an annual income that is 28 percent less than that of white households).
For the complete text, go to www.levy.org/pubs/sr_06-12-09.pdf.

New Public Policy Briefs

Promoting Gender Equality through Stimulus Packages and Public Job Creation: Lessons Learned from South Africa's Expanded Public Works Programme

RANIA ANTONOPOULOS
Public Policy Brief No. 101

Beyond loss of income, joblessness is associated with greater poverty, marginalization, and social exclusion; the current global crisis is clearly not helping. Thus, there is a particularly urgent need for fresh dialogue and the pursuit of new policy directions.

Research Scholar Rania Antonopoulos explores the impact of both joblessness and employment expansion on poverty, paying particular attention to the gender aspects of poverty and poverty-reducing public employment schemes targeting poor women. The author advocates public employment as a policy instrument that, when set up as a permanent structure, acts as an automatic stabilizer. Its main feature is that the government steps in as guarantor to make jobs available to those who fail to secure one through the market.

Antonopoulos notes that such public job opportunities have typically been created in the building and maintenance of physical infrastructure, often bypassing equally meaningful jobs that enhance social service delivery. She argues that the latter are more effective in reducing poverty, especially among women, who account for the majority of the poor in many developing countries. This is because the creation of public jobs in the social sector converts the burdens of unpaid work—a key feature of female poverty—into paid employment, in addition to improving women's job market skills.

The author presents the results of a Levy Institute study that examines the macroeconomic effects of scaling up South Africa's Expanded Public Works Programme by adding a new sector for social service delivery in the fields of health and education. She notes that gaps in such services for households that cannot afford to pay for them are mostly filled by long hours of invisible, unpaid work performed by women and children. Her proposed jobs program addresses several policy objectives: income and job generation, meeting communities' underserved needs, skill enhancement for a new cadre of workers, and the promotion of gender equality by addressing the time burdens of women.

A budgetary allocation of 9.2 million rand creates approximately 571,000 full-time social sector jobs, the vast majority going to the unskilled poor and ultrapoor; 60 percent of these jobs are expected to be filled by women. The expenditure amounts to 1.1 percent of South Africa's GDP (in 2000 prices), yet it impacts GDP growth by 1.8 percent. All ultrapoor participants in the program rise above the ultrapoor poverty line, and all poor households with income levels previously at or just above the ultrapoor poverty line are lifted above the poverty line datum. Antonopoulos concludes by noting that drawing in marginalized segments of the population via the creation of public jobs in the social sector has the strong potential to fulfill multiple policy objectives.
For the complete text, go to www.levy.org/pubs/ppb_101.pdf.

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

JAN KREGEL
Public Policy Brief No. 102

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

Senior Scholar Jan Kregel reviews the implications of the global crisis for developing countries, based on the factors driving global trade. He concludes that a return to the (extremely) positive conditions that fueled the recent sharp increase in growth and external accounts is unlikely. The key for developing countries, says Kregel, is to transform from export-led to domestic demand–led growth. From this standpoint, Brazil seems much better placed today than the other BRIC countries.

When Brazil had the highest return on equities of any country in the world and the *real* became a large positive-carry currency—translating into higher incomes and growth rates—these features justified the *B* in BRIC. Its strong national development bank and greater financial stability, combined with an increase in the minimum wage, enabled Brazil to generate balanced growth during a global recession. However, the (indirect) impact of exchange rate appreciation and rising asset prices produced conditions that were typical of prior financial crises.

The factors driving global trade are all linked, directly or indirectly, to changes in financial regulation and competition in the United States. The evolution of the current crisis stems from the underregulated U.S. subprime mortgage and derivatives markets; the outcome will be a decline in returns due to rising capital requirements and reduced leverage. Thus, the "liquidity machine" based on structured investment vehicles, margin positions, and default insurance will not be part of the new financial system. Deleveraging and falling asset prices should not have any bearing on the surety of BRIC banking systems, but the high levels of liquidity have an impact on (higher) commodity prices and the BRIC equity markets.

Although Brazil's positive performance and initial membership in the BRIC group appears linked to a financial model and financial flows that are unlikely to be reestablished because of structural changes—for example, a reduction in U.S. household consumption and the disappearance of leverage from the global financial system—Brazil's financial system has been relatively untouched by the crisis. However, in Kregel's view, Brazil should not return to a development strategy designed to attract outside capital and grow external demand (which is tempting in light of domestic demand recovery in China). Rather, growth should be based on improving domestic income and consumption via a strategy of production and market diversification—particularly important in an economy where large peasant populations and associated income inequalities remain.

Kregel notes that Brazil already has a transition policy in place, along with programs designed to augment domestic demand and growth through government-sponsored infrastructure investment projects. He suggests that these programs be implemented in conjunction with a national job guarantee program in order to offset the rise in unemployment, which has been one of the major repercussions of the crisis. In addition, the domestic financial market should transform from a structure providing government financing to one providing long-term capital for domestic productive investment.

For the complete text, go to www.levy.org/pubs/ppb_102.pdf.

Financial and Monetary Issues as the Crisis Unfolds

JAMES K. GALBRAITH

Public Policy Brief No. 103

In June, a group of experts associated with Economists for Peace and Security and the Initiative for Rethinking the Economy met in Paris to discuss financial and monetary issues. Senior Scholar James K. Galbraith summarizes the group's viewpoints, which are largely at odds with the global political and economic establishment. Despite noting some success in averting a catastrophic collapse of liquidity and a decline in output, the group was pessimistic that there would be sustained economic recovery and a return to high employment. There was general consensus that the precrisis financial system should not be restored, that reviving the financial sector first was not the way to revive the economy, and that governments should not pursue exit strategies that permit a return to business as usual. Rather, the crisis exposes the need for profound reform.

The group's outlook was based on the belief that private equity will no longer influence global investment patterns, and that the growth of rich-country consumer debt will remain weak. Moreover, there is no region outside the United States that is prepared to step up and play the role of consumer of last resort, and no offset to the global demand for savings. Thus, the world economy will not grow its way out of depression and unemployment without major—and sustained—public initiative.

Neoliberal reform and neoclassical economics have veered away from general welfare by substituting the market for the functions of the state. The concept of public interest disappears from theory, and markets, by definition, serve only private interests (i.e., an alliance of the rich against the middle class and the poor). The slippage from liberal to neoliberal thinking has been especially clear in banking, and is evident in the U.S. administration's response to the crisis. Fundamental reform and "bottom up" recovery strategies are blocked by efforts to preserve the existing (unstable) system, and by a failure to prosecute fraud. The group favors stronger national and transnational regulatory agencies, aligning the reach of banks with the regulatory framework, and government enforcement. Moreover, there is merit in achieving (smaller) public-purpose financial structures that are not "too big to fail."

The group broadly agreed that a mixed financial system, with public-private institutional underpinnings and a market framework, requires regulation of institutional conduct and governance, as well as market instruments. In this context, the reform packages in both the United States and Europe fall short. And there is no particular need for the U.S. Treasury to establish separate entities as receptacles for toxic assets, and no excuse for the government to fail to redefine and set economic accounting standards for the conduct of banks, or to fully employ human potential.

The design of economic policy has relegated environmental, health, and inequality indicators to secondary roles in favor of the drive for price stability. A preferred alternative is to design policy that focuses on global public goods, nonrenewable resources, human resource use, and the sharing of knowledge goods. Increasing economic activity and employment requires a program of general fiscal assistance or revenue sharing, relief from payroll taxes, and expanded Social Security benefits. Moreover, a public job at a fixed wage for all takers would function as a buffer stock for human labor, stabilizing both total employment and the bottom tier of the wage structure.

According to the group, the historic justifications for a dollar-based system are no longer persuasive, and existing international monetary institutions are weak and dysfunctional. The group favors the development of regional monetary authorities and freeing developing countries from the need to serve the export sector on any terms. They note that the problem of unemployment is easily cured without threat to profitability or as a source of inflation, and that the problem of liquidity can be solved only at the level of the currency unit. In sum, the group warns that the crisis is not over, that current policies are insufficient, and that the goals set by the authorities are neither desirable nor possible.

For the complete text, go to www.levy.org/pubs/ppb_103.pdf.

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

DIMITRI B. PAPADIMITRIOU and GREG HANNSGEN
Public Policy Brief No. 104

In this new public policy brief, President Dimitri B. Papadimitriou and Research Scholar Greg Hannsgen examine two key laws enacted during the worst economic crisis of the 20th century: the National Industrial Recovery Act (NIRA) of 1933, which called for industry codes that would ban child labor, end unfair business practices, limit the workweek, facilitate union organization, and regulate wages and prices; and the National Labor Relations Act (NLRA) of 1935, which put the right to organize on a firmer footing. In the 25 years following World War II, most economists and policymakers believed that these laws had little to do with the speed of the recovery from the Depression. This view is now being challenged by a wave of revisionist work claiming to show that NIRA and NLRA slowed the economic recovery from 1933 to 1939. Amity Shlaes, in her controversial work *The Forgotten Man* (2007), writes that rules written under NIRA actually hurt businesses by frightening away capital and discouraging new hires; she also blames continuing high unemployment in the late 1930s partly on strikes that were made possible by NLRA. Shlaes concludes that it was government intervention that "helped to make the Depression Great."

Economists have also weighed in, with articles on the harmful effects of "anticompetitive" New Deal legislation on the speed of the recovery from the Depression. In their brief, Papadimitriou and Hannsgen focus on the *cartelization* hypothesis as advanced by Harold Cole and Lee Ohanian in their 2004 paper "New Deal Policies and the Persistence of the Great Depression: A General Equilibrium Analysis." The article's thesis is that NIRA and NLRA hindered recovery from the Depression after 1933, in part by allowing companies to conspire to reduce output and raise prices, and further, reduced employment by raising wages.

The brief points out some facts that cast into doubt the way Cole and Ohanian measure the effects of the two laws. First, cartels, monopolies, and industries controlled by a few powerful firms were common long before the New Deal, and many of these would have survived throughout the 1930s even without NIRA. Second, industry generally flouted NIRA's labor provisions, using time-honored but illegal methods to quash union activities. The wage and hours codes were usually drafted by boards with no labor representation. NLRA was a much more effective piece of legislation, but coming as late as it did, that bill probably had only a minor effect on overall macroeconomic performance during the 1930s. Moreover, economists have found evidence that good unions can accomplish more than raising their members' wages, to the benefit of the wider economy.

Papadimitriou and Hannsgen suggest that any adverse effects of NIRA and NLRA on incentives to work, save, invest, and innovate were small, and overshadowed by the obvious benefits of legislative accomplishments such as Social Security and federal deposit insurance. NIRA, and to a lesser extent NLRA, admittedly had many flaws, but these should not obscure the fact that the New Deal helped the country through a desperate time and laid the basis for a quarter century of relative prosperity following World War II. Fiscal policy and jobs programs had a much greater impact on economic growth in the 1930s, say the authors, and this impact was both positive and significant. Hence, the public works and relief programs of the New Deal are the most relevant lessons for ending the current recession and probable employment slump.

For the complete text, go to www.levy.org/pubs/ppb_104.pdf.

New Policy Note

Some Simple Observations on the Reform of the International Monetary System

JAN KREGEL

Policy Note 2009/8

The global dimensions of the financial crisis have drawn attention to the need for reform of the international financial system forged in 1944 at Bretton Woods. Most of the attention has focused on the role of the U.S. dollar and the need for an alternative currency.

According to Senior Scholar Jan Kregel, discussions have ignored the basic criticisms of the functioning of the existing monetary system. Instability of the international reserve currency's purchasing power is less a question of the asset that serves as that currency and more a question of the operation of the international adjustment mechanism. Is the mechanism automatic or coordinated? Is it sufficiently compatible with global aggregate demand to provide full employment and support the national development strategies of emerging economies?

Kregel reviews the international gold standard system, which was based on the free exchange of goods, services, and capital. He finds that the stability of gold's purchasing power was a result of the operation of the international adjustment mechanism rather than some quality or value inherent in gold itself.

John Maynard Keynes criticized the international gold-standard system because the mechanism for addressing imbalances was normally not through arbitrage to eliminate price differentials but rather through (asymmetric) adjustments in the level of activity; particularly, employment. To resolve the problem of asymmetric adjustment, Keynes recommended the creation of an international clearing union with temporary payment imbalances settled by means of a notional unit of account that could not be traded in private markets. The critical point is that member governments would agree to implement coordinated symmetric adjustment policies, with policy actions taken by both deficit and surplus countries in order to maintain global demand at a constant level. This would allow countries to pursue national policies of full employment if they chose.

Robert Triffin critiqued the adoption of the U.S. dollar in place of gold at Bretton Woods. Any national currency playing the role of international reserve currency and fixed in terms of gold would lead to the erosion of confidence in its value (as a result of asymmetric adjustments, as noted by Keynes), with the exception of the issuing country. If a currency were linked to gold, its outstanding issue would soon exceed the gold supply, leading to an inability to meet the commitment to fix the exchange value of the currency in gold (which is what occurred in the 1960s). The stability of the reserve currency's purchasing power is inherently linked to the operation of an adjustment mechanism that eliminates international imbalances, either automatically or through a coordinated policy mechanism.

The demand for reform of the international financial system has not focused on the current system's inability to support global full employment, observes Kregel. Rather, it concerns the dollar's loss of purchasing power in foreign markets and its substitution by an international reserve currency that is not a national currency (e.g., special drawing rights, or SDRs). However, a basket of national currencies cannot resolve the problem. Kregel notes that an automatic adjustment process based on a reduction in domestic income and employment, or in the exchange rate, would preserve the value of accumulated reserves from external surpluses (exports less imports).

In its preliminary report, issued in May 2009, the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System concluded that the international system suffers from an inbuilt tendency toward deficient aggregate demand and a lack of official international liquidity. Thus, the first steps in the reform process must offset the balance sheet losses caused by the collapse of asset values, and provide both an alternative source of demand to replace the U.S. consumer and an alternative source of finance to offset the deleveraging of financial institutions. This can be done through traditional, countercyclical deficit expenditure policies that are implemented on a global scale. For most developing countries, however, stimulus policies are not an option, since financing deficit spending requires even more liquidity.

This leads to the necessity of an alternative financial facility. One method of financing such a facility is to increase the SDR allocation in order to provide liquidity for developing countries, and for emerging market countries that may be adversely affected by the rapid contraction in international flows (a recommendation in line with the original objective of SDRs).

It is clear that the introduction of SDRs or another global currency cannot resolve the problem of the adjustment mechanism's operation. One difficulty is that some countries may choose to adopt a development policy based on net exports, a pursuit that would require a distortion of prices, exchange rates, or the global distribution of demand. Another problem concerns private capital flows, which can create substantial distortions to the international adjustment mechanism. A coordinated global policy is required not only to distribute surpluses and deficits but also to allocate the costs of distribution appropriately, provide the required liquidity to finance them, and manage capital flows.

For the complete text, go to www.levy.org/pubs/pn_09_08.pdf.

New Working Papers

Revisiting (and Connecting) Marglin-Bhaduri and Minsky: An SFC Look at Financialization and Profit-led Growth

CLAUDIO H. DOS SANTOS and ANTONIO CARLOS MACEDO E SILVA

Working Paper No. 567, June 2009

The stock flow–consistent (SFC) approach provides a general framework that allows the integration of important threads of heterodox macroeconomics that have tried to analyze the financialization of modern capitalist economies. However, the urge for realism has fostered the development of very large models and relatively complex computer simulations. Moreover, these short-period models are often used to shed light on long-period phenomena.

Research Associate Claudio H. Dos Santos and Antonio Carlos Macedo e Silva, University of Campinas, Brazil, believe that small SFC constructs can avoid the shortcomings of large models while addressing the concerns of heterodox economists and providing valuable (and possibly unconventional) insights into longer-period or dynamic phenomena. The key to Post Keynesian, structuralist, and heterodox dynamic analyses is using an approach that looks closely at the dynamics of both the size and composition of sectoral balance sheets, as advocated by Levy Distinguished Scholar Wynne Godley.

For the complete text, go to www.levy.org/pubs/wp_567.pdf.

Distributional Impact of the American Recovery and Reinvestment Act: A Microsimulation Approach

AJIT ZACHARIAS, THOMAS MASTERSON, and KIJONG KIM
Working Paper No. 568

Senior Scholar Ajit Zacharias and Research Scholars Thomas Masterson and Kijong Kim provide a preliminary assessment of the likely impact of the American Recovery and Reinvestment Act (ARRA) on median household income, gaps between population subgroups, and income inequality. They find that ARRA partially replaces lost jobs and has a remedial effect on median household money income, but that it is unlikely to restore robustness to middle-class incomes or improve the money income of the bottom 60 percent of households. It is also unlikely that the legislation will redress the substantial gaps in money income between nonwhites and whites, single female–headed families and married couples, and less-educated and college graduates. The analysis points toward the necessity for a comprehensive employment strategy that goes well beyond ARRA, including an expanded role for public employment.

ARRA is a package of spending increases and tax cuts initiated by the Obama administration that is expected to provide relief to low-income and vulnerable households hurt by the economic crisis, while supporting aggregate demand (e.g., modernizing health care and infrastructure, improving schools, and investing in clean energy technologies). The authors' preliminary assessment of ARRA's impact consists of three main steps: constructing a baseline scenario of labor market conditions and the distribution of income, estimating the increase in employment by industry and occupation, and simulating the changes in earnings on the distribution of money income.

Zacharias, Masterson, and Kim estimate the potential additional employment from the stimulus created by the Act under two sets of multipliers for transfers, taxes, and subsidies (high and medium) and under two assumptions regarding the distribution among industries of final demand generated by government purchases (termed "government" and "private").

As expected, there is a much lower share of government employment under the "private" than the "government" scenario. Nevertheless, the government sector is the largest employer under both assumptions, followed by professional and business services, and education and health services. Additional employment generated by ARRA is expected to favor blue-collar and low-end service occupations, males, nonwhites, college-educated workers, and people over 60 years of age. The authors estimate that average annual earnings from ARRA jobs are likely to be approximately 3 percent higher than earnings from non-ARRA jobs, with workers in the bottom quintile of the earnings distribution seeing the most striking increase. In general, the effect of ARRA will be to raise the lower end of the earnings distribution and distribute gains in a pro-poor fashion, but this will have only a negligible effect on overall inequality in money income.

This working paper formed the basis for the authors' June 2009 Special Report, presented on page 3.

For the complete text, go to www.levy.org/pubs/wp_568.pdf.

Fiscal Policy and the Economics of Financial Balances

GENNARO ZEZZA
Working Paper No. 569

The Levy Institute's macroeconometric model has proved a useful tool to track the evolution of the U.S. economy in the medium term. The model has shown that the growth path, which has been characterized by the accumulation of large (and growing) debts, was unbalanced and ultimately unsustainable. Projections of a recession eventually materialized.

Research Scholar Gennaro Zezza outlines how the model's approach is based on the financial balances of the private, public, and foreign sectors. He sheds light on how the dynamics of financial balances can be used as a guide to an economy's prospects, and how fiscal policy relates to imbalances and economic growth. In his view, the current crisis is not a consequence of financial industry and policy failures, but rather the inevitable result of an unbalanced growth process that started in the 1980s, when the personal savings rate declined and the distribution of income shifted systemically in favor of the rich.

The author describes how the stock market bubble played a major role in the "New Economy" period (1995–2000) and why a housing market bubble followed. He notes that most of the unsustainable processes outlined by Levy Distinguished Scholar Wynne Godley in 1999 remained after these bubbles burst, with the exception of budget and monetary policy. While some commentators argue that the current crisis is based on the easing of monetary policy, this explanation does not take into account that household (and foreign) debt had started to rise well before monetary easing. Moreover, one of the problems of the current recession is that fiscal policy is required at a time when the government is already running a deficit.

In Zezza's view, the long period of sustained growth in the United States was fueled by "excessive" private domestic expenditures that were financed by ever larger injections of credit. His view contrasts with that of the mainstream (before the bubbles burst), which holds that growth in domestic expenditures, rather than being excessive, was due to reasonable expectations of future income growth.

Using the social accounting matrix approach, Zezza investigates the mechanism linking borrowing and expenditure to growth and financial balances. The model's crucial equation relates private expenditure to the disposable income and net financial assets of the private sector. The sector's income-to-asset ratio is affected by capital gains on homes and equity, as well as borrowing—that is, an increase in either the real price of equities, the real price of homes, or borrowing that will raise expenditures above income and wealth. The rest of the model is more conventional, and follows the Keynesian and Post Keynesian tradition (e.g., trade depends on income and relative prices, and trade prices react to the exchange rate as well as to domestic and foreign prices).

The author finds that the savings rate for the personal sector has declined steadily since 1985. Concomitantly, the share of residential investment financed by borrowing has increased, the value of new mortgages has exceeded the value of residential investment in the 2000s (characteristic of a speculative bubble), and the magnitude of the drop in borrowing in the current crisis has been unprecedented. A comparable situation evolved in the nonfinancial corporate sector—for example, the increase in business borrowing was not matched by an increase in investment and was instead used to acquire financial assets. Fiscal policy partly offset the rise in domestic demand until the 2001 recession, then turned expansionary in order to counter the drop in domestic demand.

Godley and associates adopted the sector balances approach as the basis for a model of the UK economy in the 1970s. Termed the "New Cambridge" hypothesis, this approach was unconventional at the time because it merged households and businesses, and analyzed the private sector as a whole. The hypothesis held that the net acquisition of financial balances for the private sector was stable relative to GDP, and any shock to this assets-to-income ratio would be corrected rather quickly. It implied the creation of "twin deficits," where any imbalance in the foreign account is matched by an imbalance in the government account. A crisis that called for expansionary fiscal policy along Keynesian lines meant the adoption of measures to counter the implied widening of the current account imbalance (e.g., exchange rate devaluation or protectionism). Although this hypothesis was eventually abandoned, it was resurrected by Godley at The Levy Economics Institute in the 1990s.

Inspection of financial balances is useful to quickly evaluate whether a deficit is "excessive"—that is, whether the underlying stock of debt is unsustainable. Since private sector debt is more likely to trigger a crisis, says Zezza, it is better to substitute public debt for private debt through fiscal expansion. He examines the effects of expenditure and transfer shocks to government outlays and compares the results to a baseline projection. He finds that the Levy Institute model respects the New Cambridge hypothesis, but only in the medium term. And since any fiscal expansion will result in a wider external deficit, fiscal policy alone will not solve (and could worsen) the problem of global financial imbalances.

Zezza concludes that government expenditures can and should play a role in sustaining aggregate demand when either the private or the foreign sector is shrinking. Fiscal policy, however, will generate larger external deficits in the medium term, and these deficits should be countered through additional policy intervention.

For the complete text, go to www.levy.org/pubs/wp_569.pdf.

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

RANIA ANTONOPOULOS and TAUN TOAY

Working Paper No. 570

Traditional economics focuses on the economic marketplace. However, a significant amount of production takes place through unpaid (informal) work, which is outside the boundaries of market transactions. This market focus is especially problematic for developing countries, and in the context of the HIV/AIDS epidemic, the intersection of unpaid work, gender, and poverty has yet to receive adequate policy attention.

Research Scholar Rania Antonopoulos and Research Analyst Taun Toay address the gender dimensions of employer-of-last-resort policies. They focus on South Africa's Expanded Public Works Programme (EPWP) because of its initiatives with respect to social service delivery, the country's large HIV/AIDS population (estimated at 5.5 million), and the fact that three-quarters of the time spent on unpaid work is accounted for by women. Two priority areas for job creation exist within the social sector: community- and home-based care, and early childhood development. EPWP has created policy space to enable caregivers to make the transition from unpaid to paid work in these areas, and to establish a gender-informed public employment program.

The authors note that public employment programs are linked to time spent on unpaid work. According to time-use surveys, home-based care and early childhood development are primarily the responsibility of women in most countries. Moreover, the gender division of labor is replicated in the context of HIV and AIDS. The increased burden of unpaid work affects women's ability to engage in paid work, reinforcing existing gender inequalities. Unpaid work imposes a "time tax" on caregivers because they are effectively subsidizing the social sector. As a result, women work longer hours and receive less pay than men.

There is an important distinction between "care in the home" and "home-based care" (i.e., ad hoc care provided by untrained women and girls versus formal treatment programs), and this distinction involves drastically different approaches. Moreover, the aggregate unemployment rate in South Africa hides the fact that unemployment is disproportionately high among particular segments of the population (e.g., the urban ultrapoor). Therefore, a program can be designed to counter the very high unemployment rate as well as the skewed disposition of time spent on unpaid work.

Antonopoulos and Toay employ a social accounting matrix model to analyze the macro and micro implications of scaling up the community- and home-based care component of EPWP. The original program, which relied on volunteers, was insufficient to address the challenges of equipping thousands of unemployed people with the skills and experience to enter a community health–training program. The authors propose an additional 110,000 full-time EPWP jobs to create a cadre of (professional) community health workers who have completed a graduate program in home-based care. They also expand the list of job types and extend the duration of enrollment (to two consecutive years per job), at a projected annual cost of 1.6 billion rand (merely 0.2 percent of GDP). The expectation is that the majority of jobs created will be directed toward women, since they are the main caregivers and spend the most time in unpaid work. Paid workers who were formerly unpaid volunteers have the added advantages of local knowledge and a stake in the community, and require little or no transport.

The authors estimate that one additional indirect job will be created for every three new program-related jobs. In the simulation, GDP expanded by 1.8 percent, so one third of the cost of the scaled-up program would be paid for through an increase in taxes associated with the multiplier effect. The simulation also showed proper pro-poor growth, reducing poverty by 60 to 80 percent. (The authors note, however, that job rationing might be required to favor the selection of ultrapoor households.)

Based on previous studies, the intervention is expected to result in social inclusion (e.g., greater self-respect and dignity) for the unemployed, a reduction in income and asset poverty, and an increase in social service delivery and gender equality. Providing women with training, certification, work experience, and income can be instrumental in helping them participate in the mainstream economy.

The authors stress the fact that South Africa is faced with a pandemic that requires a multifaceted response, and that their recommendations are specific to the historical context of and current situation in South Africa.

For the complete text, go to www.levy.org/pubs/wp_570.pdf.

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

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

Working Paper No. 571

Housing wealth represents more than 60 percent of the average net wealth of U.S. households and is a key variable in decisions regarding retirement, consumption, savings, and debt composition. However, housing wealth is typically self-reported in household surveys, and is therefore prone to measurement error. This new study by Hugo Benítez-Silva, State University of New York–Stony Brook; Research Scholar Selcuk Eren; Frank Heiland, Florida State University; and Sergi Jiménez-Martín, Universitat Pompeu Fabra and FEDEA, is the first to use an econometric framework to test the accuracy of this important wealth measure.

Using sales data from the University of Michigan's biannual Health and Retirement Study, the authors compare self-reported housing values and sale prices for the period 1992–2006. Controlling for possible bias in the reported figures, they find that, on average, homeowners overestimate the value of their properties by 5–10 percent. They also find that the overestimation is primarily due to the large expected capital gains implicit in the self-reported home values, while owners tend to accurately translate the original price they paid for the house into its current market value—indicating a strong correlation between the accuracy of homeowners' estimates and the business cycle. In periods of high interest rates and declining incomes, buyers are likely to have lower expectations of appreciating home values and, on average, more accurately assess the value of their homes—in some cases, even underestimating the properties' value. Moreover, buyers tend to be better informed during downturns.

These results are consistent with the growing evidence that a not inconsiderable proportion of homeowners (many of them first-time buyers) who purchased their houses in the last decade with soft (and risky) mortgages had unrealistically high expectations that appreciating home values would rescue them in the case of rising interest rates, which then jeopardized their ability to meet their financial commitments.

For the complete text, go to www.levy.org/pubs/wp_571.pdf.

Levy Institute News

Conference

Gender and the Global Economic Order: 9th GEM-IWG International Conference on Gender, Macroeconomics, and International Economics

On July 13 and 14, 2009, The Levy Economics Institute and the International Working Group on Gender, Macroeconomics, and International Economics (GEM-IWG) sponsored a conference on "Gender and the Global Economic Order" at United Nations Headquarters in New York City. The conference immediately followed a two-week intensive seminar held June 29 – July 10 at the Institute's main research and conference facility in Annandale-on-Hudson, N.Y. Courses were designed to educate fellows from around the world on gender issues in development, and organized by fellows and instructors of GEM-IWG's global network.

This year's conference—organized in partnership with the Levy Institute's Gender, Equality, and the Economy program, with support from the Ford Foundation, the United Nations Development Programme, UNIFEM, and the International Development Research Centre—focused on the origins and consequences of the global economic downturn. The conference brought together a wide range of expertise on gender and the current crisis to continue its work of generating and sharing knowledge for the formulation of gender-equitable responses. In addition to theoretical papers, presentations included empirical contributions with regional and country-level emphasis, evaluations of government responses to the crisis, policy recommendations, and comparisons of the current crisis with earlier ones—including lessons learned. For additional information, visit www.genderandmacro.org.

New Program Director

The Levy Institute welcomes Ellen Condliffe Lagemann as senior scholar and director of our recently instituted Project on Equality of Educational Opportunity in the 21st Century. Lagemann is Levy Institute Research Professor at Bard College, Bard Center Distinguished Fellow at Bard College at Simon's Rock, and director of the Bard Center for Education and Democracy. The former dean of the Harvard Graduate School of Education, she is currently Charles Warren Professor of the History of American Education at Harvard, on leave.

A nationally known expert on the history of education and education research, Lagemann has lectured across the United States and in South Africa. She is the author or editor of nine books, as well as numerous articles, reports, reviews, and book chapters. A former president of the Spencer Foundation and past chair of the Social Science Research Council's Committee on Philanthropy and the Nonprofit Sector, she has served on a number of other boards and national commissions, including the boards of the Russell Sage, Markle, and Greenwall Foundations, and the Teaching Commission. She is currently a director of the Rennie Center for Education Research and Policy in Cambridge, Mass., and co-chair of the National Research Council's Committee on Teacher Preparation. Lagemann holds an A.B. (cum laude) from Smith College, an M.A. from Columbia University's Teachers College, and a Ph.D., with distinction, from Columbia.

Under Lagemann, the Project on Equality of Educational Opportunity in the 21st Century will serve as an umbrella for a variety of projects at the interface of demography, schooling, and labor markets. These include assessments of the Bard Prison Initiative and a seminar on Youth Education and Employment.

New Research Associates

SANJAYA DESILVA has joined the Levy Institute as a research associate working in the programs on Immigration, Ethnicity, and Social Structure, and Economic Policy for the 21st Century. DeSilva is an assistant professor of economics at Bard College specializing in development economics and applied microeconomics. He is a former teaching fellow in the Department of Economics at Yale University and the author of *Labor Supervision and Institutional Conditions: Evidence from Bicol Rice Farms* (with R. E. Evenson and A. Kimhi), *American Journal of Agricultural Economics,* 2006; and "Country Case Studies: Brazil" (with A. F. D. Avila, R. E. Evenson, and F. A. de Almeida), in Evenson and D. Gollin, eds., *Crop Variety Improvement and Its Effect on Productivity: The Impact of International Agricultural Research*, 2003. He is currently engaged in research on the political economy of education policy, and race and immigration in the housing market.

DeSilva holds a B.A. from Macalester College, and an M.A., an M.Phil., and a Ph.D. (in economics) from Yale.

DANIEL KARPOWITZ has joined the Institute as a research associate in the Project on Equality of Educational Opportunity in the 21st Century. He is currently visiting assistant professor of political studies at Bard College. As a Fulbright Scholar in Nepal, he worked on constitutional and property rights, and later taught in the Rhetoric Department at the University of California, Berkeley. In 2003, Karpowitz received a Soros Justice Fellowship for his work with the Bard Prison Initiative, of which he is director of policy and academics.

Karpowitz holds a B.A. from the University of Pennsylvania and a J.D. from the University of Chicago Law School, where he studied on a public interest fellowship.

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

RANIA ANTONOPOULOS *Research Scholar*

Publication: *An Alternative Theory of Long-run Exchange Rate Determination*, Saarbrücken: VDM Verlag, 2009.

Presentations: "Policy Responses to the Economic Crisis: Gender Dimensions from a Developing Country Perspective," Third Congress of Feminist Economics, Universidad Pablo Olavide de Sevilla, Baeza, Spain, April 2–3; "The Current Global Financial Crisis: Gender Implications," Forum on Gender and the Economic Crisis: Opportunities for Equitable Responses. Carnegie Endowment for International Peace, Washington D.C., April 22; "Lessons Learned from South Africa's Public Job Creation Programme (EPWP): Impact on Gender Equality and Pro-poor Economic Development," "An International Conference on the Economic and Financial Crisis from a Gender Perspective: Understanding the Impacts on Poverty and Employment for Women," organized by the Ministry of Foreign Affairs and Institute for the Advancement of Women, Government of Mexico; the Economic Commission for Latin America and the Caribbean; United Nations Development Fund for Women; and United Nations International Research and Training Institute for the Advancement of Women, Mexico City, July 22–24.

PHILIP ARESTIS *Senior Scholar*

Publications: "The Consensus View on Interest Rates and Inflation: Reality or Innocent Fraud?" (with A. Angeriz), *Journal of Post Keynesian Economics*, Vol. 31, No. 4, Summer; "Financial Liberalization and the Geography of Poverty" (with A. Caner), *Cambridge Journal of Regions, Economy and Society*, Vol. 2, No. 2, July; "Ferguson's Conclusions Are Based on Ideology" (with M. Sawyer), Letter to the Editor, *Financial Times*, August 17.

Presentations: "Monetary and Fiscal Policies after the Financial Crisis" (with M. Sawyer), conference on "World Economic and

Financial Situation: Causes and Financial and Economic Policy Responses," sponsored by the Bank of Santander, Madrid, Spain, June 30; "Current Financial Crisis and Regulatory Implications," "Current Account Deficits in the EMU and the International Financial Crisis" (with J. P. Gutierrez), "Monetary and Fiscal Policies after the Financial Crisis" (with M. Sawyer), "On the UK Recent Macroeconomic Policy Experience" (with M. Sawyer), and "21st Century Keynesian Economic Policy" (with M. Sawyer), 6th International Conference on Developments in Economic Theory and Policy, Bilbao, Spain, July 2–3.

KIJONG KIM *Research Scholar*
Presentation: "Public Job Creation from a Gender Perspective: A Technical Note for the Case of South Africa," International Association for Feminist Economics Annual Conference, Boston, Mass., June 26–28.

JAN KREGEL *Senior Scholar*
Publications: "Minsky's 'Cushions of Safety,' Systemic Risk, and the Crisis in the Subprime Mortgage Market," *Finance and the Common Good*, No. 31–32, II–III, 2008; "Latin American Financial Crises and Recovery," in J. Ghosh and C. P. Chandrasekhar, eds., *After Crisis: Adjustment, Recovery, and Fragility in East Asia,* New Delhi: Tulika Books, 2009; "Why Don't the Bailouts Work? Design of a New Financial System versus a Return to Normalcy," *Cambridge Journal of Economics*, Vol. 33, No. 4, June.
Presentations: "The United Nations and the Commission on Reform of the International Monetary and Financial System," Universidad Nacional de Luján, Buenos Aires, Argentina, May 21; "The Economic Logic behind the Major Proposals of the Commission of Experts of the President of the UN General Assembly on Reform of the International Monetary and Financial System," workshop on "The Global Economy after the Crisis: Macroeconomic and Geopolitical Implications," hosted by the University of Trento at the Castello del Buonconsiglio, Trento, Italy, June 25–27; "What Do Financial Markets Trade?" 6th International Conference on Developments in Economic Theory and Policy, Bilbao, Spain, July 2–3; "The Global Financial Crisis and Regulation of the Financial System," seminar series, Department of Economics, University of País Vasco, Bilbao, June 6–8; "Natural Hedging and Regulation of Financial Institutions post-Basle II," Center of Economics and Finance for the Development of Argentina (CEFID-AR), Buenos Aires, July 27.

THOMAS MASTERSON *Research Scholar*
Presentations: "Measuring Household Economic Well-Being in Developing Countries: Toward Broader Measures," XXVIII International Congress of the Latin American Studies Association, Rio de Janeiro, Brazil, June 11–14; "Obama's Stimulus Package: Who Gains and How Much?" conference on "Economic Crises: Opportunities for Radical Change," Union for Radical Political Economics, Pine Bush, N.Y., August 15–18.

DIMITRI B. PAPADIMITRIOU *President*
Presentations: "Global Imbalances and Economic Growth," XXI Villa Mondragone International Economic Seminar on "Global Crisis and Long-Term Growth: A New Capitalism Ahead," Frascati, Italy, June 24–25; interview regarding banking industry expectations that unemployment will peak at 10 percent with Paul Davis, *American Banker*, July 23; interview regarding the sustainability of the decline in early stage delinquencies with Paul Davis, *American Banker*, July 28; "Time of Upheaval," HSBC Emerging Markets Conference on "Realities and Opportunities in 2009 and Beyond," Zurich, Switzerland, September 8.

EDWARD N. WOLFF *Senior Scholar*
Publications: "Are Computers Driving Real Wages Down?" *Information Economics and Policy,* Vol. 21, No. 3, August; "A New Look at the Economic Well-Being of the Elderly in the United States, 1989–2001" (with W. J. Baumol, M. A. Schilling, and A. Zacharias), *Journal of Income Distribution,* Vol. 18, No. 1, March; "The Superstar Inventors and Entrepreneurs: How Were They Educated?" (with W. J. Baumol and M. A. Schilling), *Journal of Economics and Management Strategy,* Vol. 18, No. 3, Fall.
Presentation: "The Plunge in Pension Wealth in the United States during the 2000s," W. E. Upjohn Institute, Kalamazoo, Mich., June 24.

AJIT ZACHARIAS *Senior Scholar*
Publications: "A New Look at the Economic Well-Being of the Elderly in the United States, 1989–2001" (with W. J. Baumol, M. A. Schilling, and E. N. Wolff), *Journal of Income Distribution*, Vol. 18, No. 1, March; "Do Gender Disparities in Employment Increase Profitability? Evidence from the United States" (with M. Mahoney), *Feminist Economics*, Vol. 15, No. 3, July.
Presentation: "Distributional Impact of the American Recovery and Reinvestment Act: A Microsimulation Approach," University of Vigo, Vigo, Spain, July 2.

GENNARO ZEZZA *Research Scholar*

Presentations: "Stock-flow Consistent Post-Keynesian Models as Tools for Short- and Long-period Analysis," Centro Sraffa, Rome, Italy, May 8; "Stock-flow Consistent Post-Keynesian Models in Theory and Practice," workshop on "Non-equilibrium Monetary Dynamics," Trento, Italy, May 28; "Measuring Life Satisfaction in Italy," conference on "Monitoring Italy," Rome, Italy, June 3-4; "The Current Crisis through the Lens of a New 'New Cambridge' Model," conference on "Global Crisis and Long-Term Growth: A New Capitalism Ahead?" Villa Mondragone, Rome, June 25–26; "Consumption, Distribution of Income, and the Crisis," 6th International Conference on Developments in Economic Theory and Policy, Bilbao, Spain, July 2–3.

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DIMITRI B. PAPADIMITRIOU and GREG HANNSGEN
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Financial and Monetary Issues as the Crisis Unfolds
JAMES K. GALBRAITH
No. 103, 2009 (Highlights, No. 103A)

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AJIT ZACHARIAS, THOMAS MASTERSON, and KIJONG KIM
Special Report, June 12, 2009

Some Simple Observations on the Reform of the International Monetary System
JAN KREGEL
2009/8

Working Papers

How Well Do Individuals Predict the Selling Prices of Their Homes?
HUGO BENÍTEZ-SILVA, SELCUK EREN, FRANK HEILAND, and SERGI JIMÉNEZ-MARTÍN
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