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New Public Policy Brief

AN ALTERNATIVE PERSPECTIVE ON GLOBAL IMBALANCES AND INTERNATIONAL RESERVE CURRENCIES

JAN KREGEL

Public Policy Brief No. 116

The stability of the international reserve currency's purchasing power is less a question of what serves as that currency and more a question of the international adjustment mechanism, as well as the compatibility of export-led development strategies and international payment balances. According to Senior Scholar Jan Kregel, export-led growth and free capital flows are the real causes of sustained international imbalances. The only way out of this predicament is to shift to domestic demand–led development strategies—and capital flows will have to be part of the solution.

Kregel outlines the effects of the gold-exchange standard and the Bretton Woods system in resolving global imbalances. In terms of the gold standard, the international balance-of-payments adjustment mechanism based on arbitrage failed to solve the problem. To restore equilibrium, John Maynard Keynes recommended a clearing union, whereby the costs of adjustment would be borne equally by all countries, and by capital and labor. Bretton Woods instead preserved the asymmetric adjustment under the gold standard because it placed no constraint on the reserve balances of surplus countries or the size of the US external imbalance (and prevented global full employment).

Robert Triffin's paradox is that it is impossible to have the dollar as the source of global liquidity and to fix the dollar's value in terms of gold when there is a growing global economy that requires an expansion of international liquidity. An important corollary of this paradox is that the stability of the reserve currency's purchasing power is linked to an adjustment mechanism that eliminates international imbalances; it has little to do with what actually serves as the international currency.

Resolving Triffin's paradox meant abandoning the fixed-rate system that provided the constraints on global imbalances and moving to floating exchange rates and unregulated international capital flows. Instead of International Monetary Fund intervention and conditionality, a new, market-based adjustment mechanism came into play. Interest-rate differentials generated capital

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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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inflows, leading to higher foreign-exchange reserves and an appreciating exchange rate. The size of a country's deficit post–Bretton Woods is determined by investor confidence that a country can continue to increase its foreign borrowing in order to meet its debt-service commitments—what Hyman P. Minsky would have called a "Ponzi" scheme.

The successful pursuit of these policies requires a distortion of prices, exchange rates, or global demand, and of the purchasing power of the resulting surpluses. Changing the international currency is not a solution to the (declining) value of accumulated surpluses, says Kregel, because the problem is caused by the absence of an international adjustment mechanism that is compatible with the full utilization of global resources. China's surpluses would have been eliminated if an automatic price-adjustment process based on exchange-rate flexibility had been in place. Due to the Triffin paradox, China cannot escape the dollar losses of its foreign-exchange reserves any more than central banks could under Bretton Woods.
www.levyinstitute.org/pubs/ppb_116.pdf

New Public Policy Brief

What Should Banks Do? A Minskyan Analysis

L. RANDALL WRAY
Public Policy Brief No. 115

Senior Scholar L. Randall Wray examines the later works of Hyman P. Minsky, with a focus on Minsky's general approach to financial institutions and policy. Minsky insisted that the proper role of the financial system was to create a financial structure conducive to economic development that would improve living standards, broadly defined.

According to Minsky, a capitalist economy can be described as a set of interrelated balance sheets and income statements. All economic units—households, firms, financial institutions, and governments—take asset positions by issuing liabilities with margins of safety related to income, net worth, and liquidity. In terms of financial institutions, he distinguished between traditional commercial banking, investment banking, universal banking, and public holding company models.

The layering of financial commitments on top of income-producing real assets created a new kind of capitalism, one in which ownership positions need to be continually validated. That phase of capitalism—what Minsky called "finance capitalism"—imploded in the Great Depression. The government was too small to offset the collapse of gross capital income that followed the Great Crash of 1929. After World War II, a new stage of capitalism emerged—managerial welfare-state capitalism—with a government so large that its deficit could expand sufficiently in a downturn to offset the swing of investment. In addition, we had an array of New Deal reforms that strengthened the financial system, separating investment banks from commercial banks and putting in place government guarantees such as deposit insurance.

But, as Minsky observed, stability is destabilizing: the relatively high rate of economic growth, plus the relative stability of the financial system, encouraged innovations that subverted the New Deal constraints and led to the "money manager" phase of capitalism. Here, the real problem is the erosion of underwriting standards, combined with the government's endorsement of private obligations. Power was consolidated in a handful of huge firms that provided the four main financial services: commercial banking, payments services, investment banking, and mortgages. By the early 2000s, banking had strayed far from the (Minskyan) notion that it should promote "capital development" of the economy.

Minsky insisted that banking reforms account for accelerated innovation in both financial intermediation and the payments mechanism. He advocated government policies to support a network of small community development banks that would provide a full range of services. Policy should also move to make the payments system a profit center, so that banks can compete with money funds. Transaction taxes could be placed on payments made through managed funds, and banks could be offered lower, subsidized, fees for use of the Fed's clearing system. Opening the discount window to provide an elastic supply of reserve funding, to a broad spectrum of financial institutions, would ensure that banks could finance positions in as many assets as they desired, at the target funds rate. If the Fed had lent reserves without limit when the crisis hit, says Wray, it is probable that the liquidity crisis could have been resolved more quickly.
www.levyinstitute.org/pubs/ppb_115.pdf

New Policy Notes

Why the IMF Meetings Failed, and the Coming Capital Controls

MICHAEL HUDSON

Policy Note 2010 / 3

The competition in global credit creation has made finance the new mode of warfare, and the standoff between the United States and other countries at recent International Monetary Fund (IMF) meetings in Washington could result in the most serious rupture of the global financial system since 1933. This outlook by Research Associate Michael Hudson stems from the Federal Reserve's "quantitative easing" approach, which creates liquidity and reserves for the US financial system and reinflates US real estate and financial markets by keeping high (insolvent) debts from defaulting. This approach is driving the dollar down and other currencies up, creating (predatory) "capital inflows" that disrupt trade patterns and create enormous profits for large financial institutions and their customers. And the Federal Reserve's way of helping US banks enables currency speculators to reap enormous profits.

Hudson points out that the character of funding has been purely financial—extractive, not productive, since little of it has financed new capital formation. Furthermore, attempts by countries such as China to recycle trade surpluses and purchase US companies have been met with protectionist measures, leaving few options other than stabilizing currencies by purchasing US and European government bonds. The problem is that the global financial system rewards speculation and makes it difficult for central banks to maintain stability without recycling dollar inflows to the US government.

If nations take the path of capital controls similar to those adopted by Malaysia during the 1997 Asian crisis and by Brazil more recently, this would reverse the policy of open and unprotected capital markets adopted after World War II and threaten to lead to dual exchange rates—one for financial movements and another for trade. This means replacing the IMF, World Bank, and World Trade Organization with a new set of institutions with reduced representations from the United States, Britain, and the eurozone. In the meantime, the BRIC (Brazil, Russia, India, and China) countries are creating their own parallel system of direct trading based on their respective currencies.

www.levyinstitute.org/pubs/pn_3_10.pdf

A New "Teachable" Moment?

MARSHALL AUERBACK

Policy Note 2010 / 4

Those trying to justify the results of the recent midterm elections voiced a common refrain: that the government's fiscal stimulus to save the US economy from depression undermined growth, and that fiscal restraint is the key to growth. Research Associate Marshall Auerback maintains that this view stems from the failure to understand a fundamental reality of bookkeeping—that when the government runs a surplus (deficit), the nongovernment sector runs a deficit (surplus). If the new GOP Congress cuts government spending now, *deficits will go higher*, as growth slows, automatic stabilizers kick in, and tax revenues continue to fall.

Auerback sees little chance that President Obama's "negotiating strategy" will be successful. And if extending the Bush tax cuts faces congressional gridlock, taxes will rise in 2011, further draining aggregate demand. Moreover, there are potential solvency issues for the United States if the debt ceiling is reached and Congress does not raise it. These issues are based on our self-imposed legal constraints, not on our sovereign government's operational constraints in terms of spending money. It also means that approximately $80 billion in spending power will be withdrawn from the economy when the temporary extension of unemployment insurance expires.

This chain of events could cause a new financial crisis and effectively force the US government to default on its debt. The question is whether or not President Obama (and his economic advisers) will be enlightened enough to embrace this "teachable moment" about US main sector balances. Recent remarks to the press about deficit reduction suggest otherwise.

www.levyinstitute.org/pubs/pn_4_10.pdf

New Working Papers

Quality of Match for Statistical Matches Used in the 1999 and 2005 LIMEW Estimates for Canada

THOMAS MASTERSON

Working Paper No. 615

A Levy Institute project undertaken with support from the Sloan Foundation analyzes economic well-being at the international level. In association with Working Paper no. 618, Research Scholar Thomas Masterson describes the construction of synthetic datasets used in estimating the Levy Institute Measure of Economic Well-Being (LIMEW) for Canada in 1999 and 2005.

Since no single dataset has all of the required information, Masterson uses various Statistics Canada surveys. The Survey of Labour and Income Dynamics provides the base dataset for regional household information on demographics, income, transfers, and taxes. Wealth data are derived from the Survey of Financial Security, while time-use data come from the General Social Survey. The problem of missing values in the data is dealt with by using multiple imputations, with hot-decking or chained equations.

Masterson compares and aligns the distribution of households between datasets in order to minimize the difference between the source and match files, and is able to accurately preserve, at a detailed level, the distributions of household production and wealth in the matching process. The constructed database represents the equivalent of almost the entire population of Canada.

While households are the base unit for the wealth match, individuals are the base unit for the time-use match. In this case, more than 90 percent of the records were matched in the first round, ensuring a high-quality match within population subgroups. In sum, the reproduction of weekly hours of household production in the matched file is very good, and any remaining small differences will not greatly impact the final LIMEW estimates for Canada.

www.levyinstitute.org/pubs/wp_615.pdf

Product Complexity and Economic Development

ARNELYN ABDON, MARIFE BACATE, JESUS FELIPE, and UTSAV KUMAR

Working Paper No. 616

In association with Working Paper nos. 609, 611, and 613 (see the October 2010 *Report*), Arnelyn Abdon, Marife Bacate, Jesus Felipe, and Utsav Kumar, Asian Development Bank, Manila, Philippines, use César A. Hidalgo and Ricardo Hausmann's method of reflections and definitions of complexity to rank 5,107 products and 124 countries. They determine that the most complex products are related to machinery, chemicals, and metals, while the least complex products are raw materials and commodities, wood, textiles, and agricultural products. The most complex economies are Japan, Germany, and Sweden, while the least complex are Cambodia, Papua New Guinea, and Nigeria.

The significance of the complexity of an economy's productive structure for development suggests the need to implement policies that foster the accumulation of capabilities, and to diversify into new, more complex, products. According to the authors, policymakers need to understand that product consequences vary in terms of development, and that the effort to produce and export more complex products pays off.

The overall complexity of a country's productive structure is the key variable that explains growth and development. Capabilities are the set of human and physical capital needed to produce a product. A product's complexity is a function of the capabilities it requires, while a country's complexity is a function of the number of locally available capabilities, which are inferred by a country's exports.

The method of reflections is used to construct measures of product and economic complexity by examining trade data as a network that connects two mutually exclusive sets: the set of countries and the set of products exported with revealed comparative advantage. Diversification is the simplest measure of a country's complexity, while ubiquity is the simplest measure of a product's complexity—that is, a product produced by fewer countries (less ubiquitous) is more complex than a product exported by more countries.

The authors find that the more sophisticated products are located in the densely connected core. Moreover, high-income countries are the major exporters of the most complex

products—there is a positive relationship between income level and product complexity.
www.levyinstitute.org/pubs/wp_616.pdf

How to Sustain the Chinese Economic Miracle? The Risk of Unraveling the Global Rebalancing

JÖRG BIBOW
Working Paper No. 617

China, and the renminbi-dollar exchange rate, has been cited as the primary cause of global trade imbalances. According to Research Associate Jörg Bibow, this notion is misguided. China has led the global recovery by boosting domestic demand to offset the slump in exports, and it is rebalancing its economy without affecting the global economy. What remains in the Chinese rebalancing process is the redirection of domestic demand toward private consumption, using policies that boost household disposable income. Renminbi stability and capital-account management should continue, so that the government can implement heterodox macroeconomic policies for domestic growth and development.

Bibow notes that China's growth has been capital intensive rather than labor intensive, and that its growth strategy has been based on developing its industrial capabilities rather than focusing on prevailing comparative advantages. He singles out three factors behind China's fast-track development: industrial policies, controlled integration into the global economy, and heterodox macroeconomic management. The significance of China's export trade reflects its role as the foremost assembly hub in regional supply chains, where the final goods produced for export are destined for Europe and the United States.

The renminbi's peg to the dollar has provided the key external anchor in China's development strategy. Moreover, China's financial system has been tightly regulated, so that the authorities have been able to target credit controls in support of development. Furthermore, the country has defied the Washington Consensus's faith in unfettered market, while continuing to attract the international business community.

Bibow also notes that there has been long-term appreciation of China's real effective exchange rate, and that US exports to China have grown at a faster rate than US imports from China since 2005. And since more than 25 percent of US exports are destined for Europe, the United States is more dependent on the situation in Europe than on the renminbi's exchange rate.

Focusing on bilateral trade imbalances is misguided, says Bibow. In the context of the global crisis, countries such as Germany, Japan, the Netherlands, and Switzerland appear to be behind the reemergence of global imbalances. For example, China's growth has been sponsored exclusively by domestic demand, whereas Germany's growth is driven almost exclusively by net exports; that is, China is sponsoring Germany's recovery. Furthermore, Europe's sovereign debt crisis is causing the euro's slump, and the crisis is a consequence of Germany's competitive (underbidding) strategy since the euro's launch.

The collapse in global trade severely impacted China, but state authorities responded in terms of a (highly successful) macroeconomic stimulus package: local and government spending focused on infrastructure investment and social objectives (equivalent to 14 percent of GDP in 2008), in combination with a vast lending program by state-owned banks. The key point is that China is on track to rebalance its economy.

Bibow suggests a renminbi-currency peg to a currency basket that reflects competitiveness trends vis-à-vis China's main trading partners. Rebalancing trade and sustaining economic development should be driven by expenditures—that is, by growth-oriented macroeconomic policies.
www.levyinstitute.org/pubs/wp_617.pdf

Quality of Match for Statistical Matches Used in the 1992 and 2007 LIMEW Estimates for the United States

THOMAS MASTERSON
Working Paper No. 618

In association with Working Paper no. 615, Research Scholar Thomas Masterson describes the construction of synthetic datasets used in estimating the Levy Institute Measure of Economic Well-Being (LIMEW) for the United States in 1992 and 2007. The Bureau of Labor Statistics' Annual Demographic Supplement (ADS) provides the base dataset for regional household information on demographics, income, transfers, and taxes. Wealth data are derived from the Federal Reserve's Survey of Consumer Finances, while time-use data come from

the Americans' Use of Time Project (AUTP) and the American Time Use Survey (ATUS).

In order to perform a successful match, the datasets must be well aligned according to strata variables. Although there are differences between surveys in terms of the distribution of family type, race, and income, an examination of wealth match quality within population subgroups shows generally good results. While the quality of match has its limitations (especially in terms of race), the overall and subgroup distributions are transferred with remarkable accuracy.

Households are the base unit for the wealth match, but individuals are the base unit for the time-use match. For the 1992 LIMEW estimates, the ADS and AUTP surveys were eight years apart, so there were differences in terms of the distribution of individuals by sex, employment, income, and labor force participation rate (reflecting different economic conditions and secular trends). For the 2007 LIMEW estimates, the ADS (now known as the Annual Social and Economic Supplement) and ATUS data were only a year apart, so the single concern was the difference in parental status.

In spite of differences between datasets, the quality of match within population subgroups shows generally good results, and the distribution of household production is well preserved in the matching process. The limitations in terms of the marital and employment status categories were small, so they did not affect the derivation of the LIMEW estimates.
www.levyinstitute.org/pubs/wp_618.pdf

Asia and the Global Crisis: Recovery Prospects and the Future

JESUS FELIPE
Working Paper No. 619

Jesus Felipe, Asian Development Bank (ADB), Manila, Philippines, finds that Asian countries are not decoupling from the rest of the world, and that countries such as China need to rebalance their economies. Policymakers must understand that long-term growth is a process of structural transformation and implement policies leading to full employment.

According to the International Labour Organization, the expected 2010 global recovery in output masks a net loss of 20 million jobs, in combination with 40 million jobs at risk. And despite the ADB's optimistic forecasts, the crisis spread to Asia in 2008 when exports collapsed, tourism fell, the demand for immigrant labor declined, and private external capital flows slowed sharply. The export-oriented Asian economies suffered the most. China and India continued to grow because trade represents a relatively smaller share of their economies and measures were taken to support domestic demand—for example, China's massive two-year fiscal stimulus package, in combination with substantial credit expansion.

The notion that Asia will shift to a domestic demand–led growth model is more myth than reality, says Felipe, because intra-Asian trade is driven by multinational corporations and consists of intermediate goods used in the production of exports destined for external markets. China as the center of intraregional trade in parts and components may benefit other developing countries in Asia, but it also means that China does not have the capacity to be a regional growth engine. Moreover, there is the risk of depressed consumption in response to the reduction in output, employment, and wages, and a fragile economic recovery. Thus, a premature exit from any stimulus measures would be counterproductive, and expensive, in the long run.

The only way for China to industrialize and achieve an annual growth rate above 10 percent is through very high rates of capital accumulation; that is, greater investment accompanied by declining capital productivity. China's spectacular economic boom is driven by massive productivity gains and higher (reinvested) profits in manufacturing. The growth in real income has translated into large annual wage-rate increases of 15 percent, but there has been a decline in the labor share of total income. It will be difficult to maintain these dynamics in the long run, since there is low employment elasticity and the economy will rebalance in favor of the service sector.

In Felipe's view, the key challenge for policymakers is to rebalance China's economy and maintain a growth model that generates employment and avoids an underconsumption crisis. This model includes more spending on social infrastructure, real wage increases for low-paid workers, and decreases in indirect taxation of essential goods. Moreover, a major shift from export-led to domestic demand–led growth will require the development of different sectors of the economy. Policies aimed at correcting supposed imbalances in trade and exchange rates are futile, and potentially harmful.
www.levyinstitute.org/pubs/wp_619.pdf

Measuring Poverty Using Both Income and Wealth: An Empirical Comparison of Multidimensional Approaches Using Data for the US and Spain

FRANCISCO AZPITARTE

Working Paper No. 620

Francisco Azpitarte, London School of Economics and Political Science, examines the implications of multidimensional approaches to measuring poverty based on income and wealth for the United States and Spain. He finds that the incidence of poverty varies depending on the definition of poverty and that poverty is greater in the United States than in Spain, regardless of the poverty measure or income-poverty line. Nevertheless, poverty profiles in the two countries are similar. He also finds that there is a high level of poverty misclassification between the measures.

Azpitarte uses two comparable wealth surveys: the 2001 US Survey of Consumer Finances and the 2002 Spanish Survey of Household Finances. He constructs measures of wealth based on net worth. The union criterion identifies poor households based on an insufficiency of either income or wealth, while the intersection criterion is based on an insufficiency of both income and wealth. The annuity-based indices represent an intermediate approach.

Using a logit model, Azpitarte assesses the impact of socioeconomic characteristics on the probability of poverty, and finds that the two countries have very similar profiles. He also finds that young households headed by individuals under 35 years of age are the most vulnerable group—particularly in the United States, where young adults settle for an independent lifestyle much earlier than in Spain. According to every age group, single and single-parent households are most likely to live in poverty.

The author's results highlight a very low level of overlap between the different poverty measures. The level of overlap in the United States is significantly greater than in Spain for all poverty-index combinations. The higher concentration of population in US regions characterized by low income and wealth accounts for more overlap and less misclassification in the United States.

www.levyinstitute.org/pubs/wp_620.pdf

Gendered Aspects of Globalization

SUNANDA SEN

Working Paper No. 621

Research Associate Sunanda Sen finds that sweeping economic reforms have contributed to the gender gap, and that prevailing stereotypes have to be confronted before the gender imbalance pervading official policies and social norms can be redressed. Women's contribution in terms of unpaid work in the (care) economy continues to be ignored, while gender gaps in employment, wages, and working conditions produce a vicious cycle of gender discrimination. There is no evidence, says Sen, that trade liberalization and foreign direct investment have reduced the gap.

The neoliberal view of gender status in society ignores or justifies gender disparities such as patriarchal households and discrimination against women in the labor market, along with the uneven sharing of household chores. Mainstream theory continues to overlook the contribution of women in terms of unpaid work, an oversight that applies to the national accounts from which official policies are set. By identifying "work" as formal jobs outside the home, the data exclude women's contributions both informally and domestically.

Trade and foreign direct investment create labor-intensive, low-wage, low-skill employment. Deregulation under globalization introduces labor market "flexibility" that leads to new forms of female-labor expropriation and weakens women's bargaining power. And women are dealt a double burden when they take these jobs, as public-spending cuts to the social sector add to their domestic chores.

The gender shift in labor-market processes in developing countries can be traced to three distinct channels: (1) globalization through cost-cutting competitiveness, subcontracting, and home-based manufacturing, which is at the bottom of a complex production chain; (2) downsizing of public sector employment and more (insecure) private-sector employment; and (3) an "additional work effect" at the household level when women must take underpaid jobs.

We need to recognize that the interrelation between the sexes—which includes hierarchy, dependence, and the power of patriarchy—has been outside the purview of economics, official statistics, and subsequent policies, says Sen.

www.levyinstitute.org/pubs/wp_621.pdf

Innocent Frauds Meet Goodhart's Law in Monetary Policy

DIRK BEZEMER and GEOFFREY GARDINER
Working Paper No. 622

According to John Kenneth Galbraith, "innocent fraud" is how economic and political systems cultivate their own versions of the truth (and no one is at fault). This is particularly true as it applies to monetary policy; for example, the notion that interest rate hikes will fight inflation, the need for taxation to fund government expenditures, or the assumed debt burden of current government deficits to our children.

Dirk Bezemer and Geoffrey Gardiner, University of Groningen, Netherlands, suggest that fraud persists because of a misrepresentation of the financial implementation of public policies. Lost in the public discourse is the accounting side of financial and monetary policy. The study of monetary policy should analyze the administration of financial accounting processes at the macroeconomic level and differentiate between different types of assets and liabilities. Otherwise, there are confused policy interventions.

The authors examine two recent innocent-fraud episodes in British monetary policy: the Royal Bank of Scotland (RBS) "bailout" and the UK government's decision to conduct "quantitative easing." In terms of these episodes, there were three innocent frauds: (1) money is a thing, not a relationship; (2) the government creates liquidity using taxpayers' money; and (3) what is possible for one bank is possible for all banks (a fallacy of composition).

Quantitative easing stems from the monetarist recipe ("printing money") promoted by Milton Friedman—increasing banks' reserves with the central bank and relying on the banks to lend to the economy. This idea is based on the theory of fractional-reserve banking, which is an unsatisfactory model of what banks do because banks lend against their total asset base.

Confusion about the role of central bank reserves in determining bank lending has plagued the use of quantitative easing as a concept and as a policy tool. Quantitative easing increases investors', not spenders', deposits and causes banks to restrict deposit creation by other customers and make it more expensive to borrow. The net effect can be a shrinking deposit base.

A belief enshrined in the Lisbon Treaty is that central banks should not lend to their own governments. This belief limits the scope for monetary policy by restricting bank liquidity—an effect rationalized by the innocent fraud that government borrowing from a central bank is fiscally irresponsible. The fraud relies on a failure to understand that government debt is both a liability and an asset, with separate effects.

Bezemer and Gardiner conclude that the Bank of England was successful in increasing reserves at a rate never observed before and to levels unique in its history (unlike the RBS episode). The response in bank lending, however, is unclear. The authors observe "Goodhart's Law" in action—that any statistical regularity will tend to collapse once pressure is placed upon it for control purposes. For example, loans and reserves usually develop proportionally—that is, until policymakers purposely boost reserves. Thereafter, reserves do not cause loans in a systematic fashion. Thus, there is no evidence that quantitative easing works, and there is no logical case for quantitative easing as a boost to spending via the equity markets. In principle, the money supply is not under the discretionary control of the monetary authorities.

www.levyinstitute.org/pubs/wp_622.pdf

The Meltdown of the Global Economy: A Keynes-Minsky Episode?

SUNANDA SEN
Working Paper No. 623

We have witnessed the limits of financialization as a sustainable path of global economic sustenance, says Research Associate Sunanda Sen. There is a need to re-create the base for economic expansion by replacing speculation with real activity involving physical assets rather than financial assets.

In this paper, Sen focuses on some theoretical concerns relating to deregulated financial institutions and financial engineering. According to John Maynard Keynes, continuous purchases of an asset (new investment) require that the asset's "own rate of interest" (marginal efficiency of capital) exceed that of other assets. At some point, the own rate of interest on money equals that of other assets, as new investment causes the own rate of interest to fall due to a drop in yield (both actual and expected). Thus, the state of expectations shapes the level of confidence relating to yield and the movement in asset prices, along with the need for liquidity.

Hyman P. Minsky reformulated Keynes's analysis in terms of sourcing external finance by debt-financed credit, thus adding more uncertainty-related effects (e.g., borrower and lender risks associated with assets). In his characterization of deregulated financial markets and universal banking, Minsky includes nonbank credit as well as the "orginate and distribute" model. There is a symbiotic relationship between the globalization of financial structures and the securitization of financial instruments, and the change in the character of money diminishes the capacity of central banks to protect credit and financial stability. Subsequent innovations (financial engineering) also contributed to the global crisis as finance became increasingly removed from the real economy.

Sen describes the sequence behind the subprime crisis in the United States and outlines a stylized model of imbalances between the real and financial sectors of an economy. Given the state of financial engineering in a deregulated financial sector, it can be assumed that liquidity demand always adjusts to its supply, and that asset demand in the real sector always responds to liquidity demand. In the financial sector, however, uncertainty has a significant effect on the rate of return of financial assets, which in turn influences the liquidity demand for financial assets. When the total value of assets in the real and financial sectors turns negative, the economy collapses. When both the real and financial assets fail to perform, there is an overall catastrophe.
www.levyinstitute.org/pubs/wp_623.pdf

A Reassessment of the Use of Unit Labor Costs as a Tool for Competitiveness and Policy Analyses in India

JESUS FELIPE and UTSAV KUMAR
Working Paper No. 624

Unit labor costs (the cost of labor per unit of output) are used to ascertain the level of competitiveness; the policy implication is that higher unit labor costs harm the economy. Jesus Felipe and Utsav Kumar, Asian Development Bank, Manila, Philippines, reinterpret unit labor costs as the product of the labor share in output, times a price adjustment that embodies the functional distribution of income between labor and capital. Using data from India's manufacturing sector, they find that the upward trend in unit labor costs is exclusively the result of an increase in the price deflator. This means that labor costs have trended downward and real wages have increased minimally, while the profit rate and unit capital costs have increased substantially. Any real loss in the competitiveness of India's manufacturing sector is related to capital and the real profit rate rather than to labor costs.

There are three ways that a country can lower its unit labor cost and improve its competitiveness: by (1) keeping nominal wage rates as low as possible, (2) increasing labor productivity, and (3) using an undervalued exchange rate, which is particularly true for developing countries.

The authors find that the share of labor in gross value added in India fell by half between 1980 and 2007, and that capital has replaced labor as the major portion of total value added. Unit capital costs have increased ninefold due to an increase in both the share of capital in value added and the price index. This result differs from that observed when using the standard analysis. Compared to the United States, India's (relative) unit labor cost was 0.73 in 1980, 0.48 in 1990, and 0.30 in 2000. The unit labor cost remained constant after 2000, despite a declining labor share because the degree of undervaluation of the rupee continued to fall.

The results of Felipe and Kumar's analysis imply that unit capital costs will continue to increase as a result of further declines in capital productivity. The only way to contain this increase is to lower profit rates—an action that negatively affects the incentive to invest, which determines labor productivity and the standard of living. It is crucial, therefore, for policy to strike the right balance between improving labor productivity and containing unit capital costs through lower profit rates.
www.levyinstitute.org/pubs/wp_624.pdf

A Post Keynesian Perspective on the Rise of Central Bank Independence: A Dubious Success Story in Monetary Economics

JÖRG BIBOW
Working Paper No. 625

Central bank independence (CBI) pertains to the structure of monetary policy and the degree of freedom from political interference enjoyed by the central bank. Research Associate Jörg Bibow finds a lack of empirical evidence to support the New

Classical economists' perceived success of CBI. However, he does not completely reject CBI, in spite of Post Keynesian objections to the concept of money neutrality and the notion that CBI may conflict with fundamental democratic values. According to John Maynard Keynes's CBI model, the issue is not to maximize CBI but to find a balance that would be conducive to efficient policy and compatible with democratic values.

Bibow does not agree that CBI has guaranteed low inflation. Rather, CBI arose in an era of subdued global inflationary pressures and declining inflation rates, irrespective of reforms and strategies associated with neoliberalism and the "Washington Consensus." Moreover, Germany's influence in Europe with the advent of the Economic and Monetary Union and the Maastricht Treaty stemmed from peculiar historical circumstances: two supposed hyperinflation episodes (largely a myth nourished by central bankers) and the separation of the central bank from the German political authorities by the Allied occupation forces following World War II.

Bibow finds that the notion of rules-versus-discretion attained a new meaning under New Classicism, when CBI was seen as representing "rule" rather than "discretion" and labor market players were expected to discern that the optimal zero-inflation policy would be time inconsistent (i.e., no longer optimal after the settlement of wage contracts). The arguments for CBI as a solution to the alleged time-inconsistency problem are shallow, says Bibow. From a Keynesian perspective, the postulated behavior of policymakers reflects outright irrationality.

Post Keynesian criticisms of CBI concern policy coordination, democratic control, and accountability, as well as the assumed neutrality of monetary policy in mainstream thinking. According to Bibow, Keynes's CBI model addresses these concerns. Keynes envisaged a specific form of CBI based on checks and balances intended to constrain the technicians' scope for discretion, while establishing ultimate (indirect) democratic control over monetary policy. Keynes wanted the central bank to cooperate closely and equally with the treasury, while reserving ultimate responsibility over monetary policy for the government, which in turn is subject to parliamentary control. Keynes favored instrument, not goal, independence. In a managed currency system, price stability can only be anchored by the political will of those charged with economic policy.

The German CBI model may be operationally inefficient, leading to persistently high unemployment and slow growth. Moreover, the German government shares the beliefs of the Bundesbank, and this can affect the choice of central bankers. Thus, it is difficult to see any benefits from CBI if the neutrality postulate and other fundamental factors stay the same.
www.levyinstitute.org/pubs/wp_625.pdf

Technical Change in India's Organized Manufacturing Sector

JESUS FELIPE and UTSAV KUMAR
Working Paper No. 626

The real wage–profit rate schedule allows one to analyze technical change through changes in the productivity parameters (labor and capital) and factor rewards (real wage and profit rates). Jesus Felipe and Utsav Kumar, Asian Development Bank, Manila, Philippines, examine the direction of technical change in India's organized manufacturing sector for the 1980–2007 period using the real wage–profit rate schedule (see also Working Paper no. 624). They find that the degree of technical change conformed to the international norm and was Marx biased (declining capital productivity with increasing labor productivity) until 2000, before becoming Hicks neutral (increasing capital and labor productivities). The finding suggests that the Hicks-neutral technical change is a temporary phase that is part of a long-term trend of Marx-biased technical change. The puzzling aspect of technical change in India is that there has not yet been an expected phase of steady decline in the profit rate.

The authors use a real wage–profit rate schedule that is flexible and consistent with both neoclassical and non-neoclassical models. This schedule allows them to analyze technical change through shifts in the productivity parameters and in the factor rewards. Their methodology shows that, given labor and capital productivities, there is a trade-off between real wage rates and real profit rates. This in turn allows them to analyze the direction of technical change, which is a combination of changes in labor productivity, capital productivity, and the capital-labor ratio.

The long-term pattern of technical change (increasing labor productivity and decreasing capital productivity) can be explained by two alternative hypotheses based on the neoclassical growth model (the result of a stable production function) and the classical Marxian view (the result of bias caused by the incentive structure [driven by profitability] in a capitalist economy). In

India, the share of profits in real value added increased between 1980 and 2007, while capital productivity declined, except during the post-2000 period. The organized manufacturing sector experienced an increased profit rate, while the real wage rate rose marginally and was outpaced by gains in labor productivity. Whereas rapid capital accumulation led to a steady decline in the profit rate in most countries, this is not the case in India's manufacturing sector, which continues to exhibit a high profit rate that has increased to 45 percent since 1980. Technical change and the distribution of income have clearly favored capital.
www.levyinstitute.org/pubs/wp_626.pdf

The Transition from Industrial Capitalism to a Financialized Bubble Economy

MICHAEL HUDSON
Working Paper No. 627

The tragedy of the US financial system is that the tax code favors replacing equity with debt, so that asset-price inflation becomes the prime avenue for "wealth creation." Debt-leveraged buying and selling of real estate, stocks, and bonds distort markets and deindustrialize the economy. These effects stem from shifting the tax burden away from property and finance.

Michael Hudson, University of Missouri–Kansas City, proposes a policy of higher taxes on property rental values. This would reduce interest charges by an equal amount and make real estate more affordable (interest would be directed toward lowering the income- and sales-tax burden). Fiscal policy should recapture the land's site value in response to spending on public infrastructure and the general level of prosperity. In this scenario, the economy's debt pyramid would be much lower, as savings are directed toward equity investment. In addition, slower growth of debt and housing and office prices, as well as lower taxes on income and sales, would make the US economy more competitive globally.

Hudson notes that the main economic feature causing higher land prices is mortgage credit. The irony is that the "democratization" of housing is really a regression to debt peonage. A policy of asset-price inflation supports a bubble economy by enabling debtors to refinance their loans. Thus, the FIRE (finance, insurance, and real estate) sector is at the core of the bubble economy (and government has become the property bubble's ultimate enabler). He also notes that the National Income and Product Accounts do not recognize real estate capital gains. In opposition to the Progressive era a century ago, when taxes focused on rent and other property returns, governments have lowered property taxes, avoided a resource-rent tax, deregulated monopoly prices, and cut capital-gains taxes. Income is spent on creditors rather than production and consumption. The US financial sector has favored real estate (not industry and foreign trade) and supported efforts to shift the tax burden away from property.

The fiscal favoritism toward property is a major factor polarizing wealth ownership, and depreciation allowances shelter rental income from taxation at the same time that real estate accrues capital gains. The deception that buildings are depreciating, in combination with the land-residual methodology (which undervalues land relative to buildings), yields a fictitiously high valuation-to-land ratio.

The economic benefit to home buyers of tax-deductible interest payments is largely illusory, says Hudson, since the subsidy is passed on to the banks by replacing the cost of tax payments with interest payments. Tax-deductible interest payments encourage debt pyramiding, which leads to political pressure for tax cuts when investors suffer the inevitable debt squeeze as the economy shrinks in response to debt deflation.
www.levyinstitute.org/pubs/wp_627.pdf

The Role of Trade Facilitation in Central Asia: A Gravity Model

JESUS FELIPE and UTSAV KUMAR
Working Paper No. 628

Jesus Felipe and Utsav Kumar, Asian Development Bank, Manila, Philippines, examine the relationship between bilateral trade flows and trade facilitation (the ease of moving goods across borders) in Central Asia. Using a gravity model, they find that improving trade facilitation resulted in significant trade gains. The challenge for Central Asian countries is to generate sustained economic growth through a process of structural transformation and to reduce their reliance on natural resources.

The results of the analysis are in line with those found in the literature: a decrease in distance by 1 percent increases trade by 1.56 percent; the size of trading partners positively impacts trade

flows; GDP per capita of the exporter has a positive impact on trade flows, while that of the importer has no impact; landlocked exporters (importers) trade 25 percent (38 percent) less than coastal exporters (importers). In addition, countries with common borders trade 2.4 times more than countries without a common border. Furthermore, an improvement in trade facilitation of 1 percent by the exporting (importing) country increases exports (imports) by 5.5 percent (2.8 percent).

Resource exports cause currency appreciation, leading to uncompetitive manufacturing activities (the so-called "Dutch disease"), while countries with a more sophisticated export basket tend to grow faster. For an exporter in Central Asia, infrastructure has the greatest impact on trade flows, followed by logistics. For an importer, customs efficiency matters. The authors note that improvements in customs efficiency are easier and cheaper to implement than infrastructure. Nevertheless, infrastructure is very important because of the landlocked nature of most Central Asian countries.

The authors find that trade facilitation in Central Asia is far below average and among the poorest in the world. They also find that the largest gains in trade come from improvements in infrastructure, followed by logistics and customs efficiency. Improving an exporting country's trade facilitation leads to a greater increase in bilateral trade associated with sophisticated goods, high-tech products, and more differentiated commodities.
www.levyinstitute.org/pubs/wp_628.pdf

The Impact of Geography and Natural Resource Abundance on Growth in Central Asia

JESUS FELIPE and UTSAV KUMAR
Working Paper No. 629

The Central Asian countries are landlocked, rich in natural resources, and critically dependent on natural-resource exports. In association with Working Paper no. 628, Jesus Felipe and Utsav Kumar, Asian Development Bank, Manila, Philippines, document Central Asian growth in the context of other landlocked and resource-rich countries. They recommend that Central Asian countries take a more aggressive stance in diversifying their export basket toward more sophisticated (manufactured) goods, and avoid the "Dutch disease" and deterioration of institutional quality. The resource-rich economies of Central Asia should accelerate their rate of structural transformation, while the landlocked economies should strive for further development of their service sectors and regional integration.

The globalization of supply chains highlights the importance of foreign trade, so landlocked countries must develop regional infrastructure networks to gain access to outside markets. The perennial challenge is to reduce dependence on natural resources and generate sustainable economic growth through structural transformation.

Felipe and Kumar divide a sample of 135 developing countries into four groups: landlocked resource-poor, coastal resource-poor, coastal resource-rich, and landlocked resource-rich. They examine growth from 1994 to 2006, a period characterized by rising commodity prices, benign global conditions, and easy access to credit. They find that a one-percentage-point increase in growth generates a spillover effect of 0.2 percentage points in a neighboring country and that the effect is stronger for Central Asian countries (0.7 percentage points). Thus, these countries could benefit from regional integration through lower trade barriers and better trade facilitation.

The authors note that resource-rich countries tend to underperform other countries in the long run. Moreover, output increases disappear, leaving the resource-rich countries worse off than they otherwise would have been. Their analysis of export structures finds that countries with a higher GDP share of manufacturing exports grow faster. Likewise, a higher share of primary exports has an insignificant effect on growth.
www.levyinstitute.org/pubs/wp_629.pdf

Managing Finance in Emerging Economies: The Case of India

SUNANDA SEN
Working Paper No. 630

According to pundits such as Nobel Laureate Joseph Stiglitz, India has managed its monetary policy successfully and withstood some of the negative effects of the global economic crisis. According to Research Associate Sunanda Sen, such notions underestimate the systemic risks and social costs embedded in India's liberalized financial sector. Monetary management has

not kept up with the need to control inflows of short-term capital, sterilize capital inflows, prevent appreciation in the rupee's real exchange rate, limit cuts in public expenditure, fix interest rates at an acceptable level, and control the financialization of the commodity markets.

Sen outlines the pattern of India's integration with the global financial market since 1991 and the hurdles faced in managing the country's financial sector. She notes the competing demands between maintaining price stability, achieving competitive real exchange rates, and ensuring free capital flows from abroad (i.e., the "impossible trinity"). Two often overlooked concerns are the fiscal implications of monetary management that inflict social costs, and the spillover of futures trading to the commodity markets when deregulated markets are financialized. Successive rounds of liberalization have changed the pattern and volatility of the financial sector—for example, greater inflows of foreign institutional investments, more derivatives trading, and a rise in stock price/earnings ratios.

Short-term capital flows create problems for the monetary authorities in achieving the twin goals of managing a competitive real exchange rate and maintaining autonomy in order to meet the domestic economic goals. Policies to deregulate and reform the financial sector initiated large inflows of foreign institutional investment, which traded in India's secondary equity markets. Liberalizing the financial sector created a "trap," as domestic monetary policy became captive to external economic developments that thwarted autonomous policy and affected official goals related to domestic output, employment, and the distribution of credit.

Measures to arrest the volatility in interest rates, exchange rates, and stock prices, and to ease liquidity following the 2008 crisis, did not meet the desires of policymakers. And when attempts to manage speculative short-term capital inflows were unable to arrest the spillover to the commodity markets, there was inflation in food prices that affected the survival of a large proportion of India's population. Moreover, there was a rising share of interest-rate charges and debt-servicing costs as a proportion of nonplan expenditures, but food subsidies remained at a relatively low share of expenditures. The benefits of financial deregulation have been confined to market speculators, while the costs are borne by people who are affected by commodity price speculation and government cuts in social-sector spending.
www.levyinstitute.org/pubs/wp_630.pdf

Exploring the Philippine Economic Landscape and Structural Change Using the Input-Output Framework

NEDELYN MAGTIBAY-RAMOS, GEMMA ESTRADA, and JESUS FELIPE
Working Paper No. 631

Since the 1970s, the Philippines has experienced slower structural transformation and growth than the Republic of Korea and Malaysia. Nedelyn Magtibay-Ramos, Gemma Estrada, and Jesus Felipe, Asian Development Bank, Manila, Philippines, analyze the structural transformation of the Philippine economy and find that the industrial sector has been stagnant, while the service sector has accounted for most of the growth. They recommend policy reforms that target industry, since manufacturing, with its high intersectoral linkages, is the key economic sector (the service sector has low intersectoral linkages).

Using the input-output framework for the period 1979–2000, the authors create forward and backward linkage indices in order to identify the key economic sectors. They also create an input-output multiplier product matrix to evaluate how the Philippines' economic structure has varied over time. The authors find that the manufacturing sector has the highest linkages and is the only sector that has maintained its key importance. The resource-intensive and scale-intensive subsectors are the most important in terms of economic interdependence, but their capacity to stimulate growth has diminished in favor of the differentiated-goods and labor-intensive subsectors.

The authors also find that science-based manufacturing has a strong backward linkage, meaning that this subsector is a significant purchaser of inputs: any increase in final demand boosts overall production. Another finding is that the agriculture, fishery, and forestry sector has a relatively high forward linkage, but this sector's importance as an input provider to the rest of the economy has been supplanted by the private services sector.

Using multiplier product matrices, the authors determine that economic policies have failed to ensure that manufacturing would continue as the engine of growth. The government has implemented policies that support liberalization, privatization, and investment reforms, but its industrial policy is unclear. As a result, the industrial sector has not expanded at a rate comparable to that of neighboring countries.

The authors note that the Philippines has gained significant comparative advantage in electronic microcircuits as well as other exports. Thus, the country is able to develop a "capability set" and become a significant player internationally. The challenge is to develop activities where it already has a significant presence, and with a higher level of sophistication. This approach should be undertaken jointly by the private and public sectors, and identify product-specific inputs. Moreover, the development of new exports with comparative advantage requires an analysis of constraints at the product level.
www.levyinstitute.org/pubs/wp_631.pdf

The Household Sector Financial Balance, Financing Gap, Financial Markets, and Economic Cycles in the US Economy: A Structural VAR Analysis

PAOLO CASADIO and ANTONIO PARADISO
Working Paper No. 632

Paolo Casadio, Intesa Sanpaolo Bank, and Antonio Paradiso, Institute for Studies and Economic Analyses, and University of Rome La Sapienza, Italy, investigate the impact of private net saving (PNS) on the GDP cycle in the United States. They estimate a structural vector autoregression (VAR) to test whether financial markets have a role to play in the cyclical dynamic of household and nonfinancial corporate balances, and if these balances explain the economic cycle. They find that the balances react to financial markets in a way that is consistent with their theoretical expectations. They also find that economic cycles react positively to the financing gap according to their interpretation of the relationship between GDP growth and the PNS cycle, and to Hyman P. Minsky's theory of financial instability and financial cycles.

The authors focus on PNS because it has a close relationship with the economic cycle and is comprised of households and firms—the key private-agent groups in the US economy. Household and nonfinancial corporate balances were selected because they reflect different decisions and may show different patterns over time. Moreover, the nonfinancial corporate balance variable (corporate profits minus business investments) determines the financial imbalance and summarizes Minsky's theory. Furthermore, the authors use financial variables such as long-term interest rates, equity prices, and the BAA spread (the spread between BAA corporate bond yields and 10-year Treasury note yields) to estimate the cyclical pattern of the balances.

Casadio and Paradiso estimate an unrestricted VAR and identify the structural shocks using sample observations for the period from 1980 to mid-2010. They determine that households and nonfinancial corporate balances react as expected—the effect of the two financial balances on GDP growth are positive, and the financing gap is a leading component of the cycle.
www.levyinstitute.org/pubs/wp_632.pdf

Immigrant Parents' Attributes versus Discrimination: New Evidence in the Debate about the Creation of Second Generation Educational Outcomes in Israel

JOEL PERLMANN and YUVAL ELMELECH
Working Paper No. 633

Premigration parental characteristics and discrimination are factors that impact the educational attainment of second-generation immigrants. According to Yaakov Nahon (1987), *Patterns of Educational Expansion and the Structure of Occupational Opportunity—the Ethnic Dimension*, parental characteristics were not a factor in the ethnic educational dichotomy among the second generation in Israel. Rather, differences were the product of social realities in the new state.

Senior Scholar Joel Perlmann and Research Associate Yuval Elmelech revisit Nahon's hypothesis. Using the 1961 Israel census public-use dataset, they limit Nahon's dataset to immigrant men with children. They find striking downward revisions in schooling for the Iranians, Egyptians, and Iraqis in the Mizrahi group, and a less consequential downward revision for the Romanians in the Ashkenazi group. The reasons are twofold: the relationship between a father's educational attainment and the number of children, and the wide age range among fathers. The revised figures are more suggestive of an Ashkenazi-Mizrahi ethnic dichotomy that is clearly evident in both generations. As a result, premigration parental characteristics cannot be ignored and must be part of the explanation for the gap in educational attainment.

The authors note several processes other than discrimination that explain second-generation outcomes and the decline in

heterogeneity within categories: (1) a general rise in educational attainment across the two generations; (2) parental transfer of characteristics that encourage or discourage educational attainment; and (3) institutional mechanisms unrelated to discrimination, such as universal schooling and compulsory school laws.
www.levyinstitute.org/pubs/wp_633.pdf

How Brazil Can Defend Against Financialization and Keep Its Economic Surplus for Itself

MICHAEL HUDSON
Working Paper No. 634

In a presentation to the Brazilian Economic and Social Development Council in September 2010, Research Associate Michael Hudson urges the BRIC (Brazil, Russia, India, and China) countries to isolate themselves from global debt creation. According to Hudson, privatizing the public domain and financializing the economy is akin to military defeat by neoliberal finance-backed politicians in the North. Moreover, no nation needs credit from abroad for domestic currency spending at home. The tragedy of our epoch is that most credit is used for extracting rent rather than for productive capital formation.

Financial maneuvering and debt leverage aim to control land, infrastructure, the economic surplus, national savings, commercial banking, and central bank policy. When surpluses are transferred abroad, countries lose sovereignty over their financial, economic, and tax policies. And such pro-rentier policy is supported by the Washington Consensus. The key to a country's international competitiveness, however, is to raise wages and living standards, and to tax potential rentier charges. But there is no discussion of transferring the tax burden from labor and industry, and onto economic rent and debt leveraging. The Treasury-bill standard's (self-destructive) legacy is that the US economy has been able to use the dollar standard's free ride (and low interest rates) to burden itself with an unprecedented debt overhead.

Hudson believes that the World Bank and the International Monetary Fund are committed to a destructive economic philosophy under the banners of "free trade" and "open capital markets." Foreign-currency loans aim to increase exports, not develop the local economies, while interdependence implies acquiescence in globalization and dependency that has bolstered US financial and military hegemony. Furthermore, the demand that countries "balance their budgets" means selling off the public domain and slashing pensions and public spending as preconditions for raising labor productivity.

What is ironic, says Hudson, is that the tax philosophy favoring debt leveraging rather than equity investment is destroying the creditor economies as well as the peripheral financialized economies. The move by BRIC countries to create an alternative financial system as well as their own trade and development philosophy is a reaction against the neo-rentier drive to undermine classical economic reform.

Hudson recommends (1) that governments avoid using revenues to pay debt service, bail-out banks, or subsidize the FIRE (finance, insurance, and real estate) sector; (2) new development indicators to replace the GDP-accounting format with one that reflects a nation's ability to pay foreign debts; (3) pay-as-you-go plans paid out of current taxation to avoid financial liabilities; and (4) global governance rules to write down mortgages and other debts in order to avoid debt deflation, shrinking employment, and declining national output.
www.levyinstitute.org/pubs/wp_634.pdf

INSTITUTE NEWS

New Research Associates

Michael Hudson is a financial analyst and president of the Institute for the Study of Long Term Economic Trends (ISLET). He is distinguished research professor of economics at the University of Missouri–Kansas City and an honorary professor of economics at Huazhong University of Science and Technology, Wuhan, China. Hudson has served as an economic adviser to the US, Canadian, Mexican, and Latvian governments, and as a consultant to UNITAR, the Institute for Research on Public Policy, and other organizations. While at the Hudson Institute, he published studies on world monetary reform (with Herman Kahn), the balance-of-payments implications of the energy crisis, technology transfer, and related topics for the Energy Research Development Agency, the National Endowment for the Humanities, and other US agencies. He is

a past director of economic research at the Riga Graduate School of Law and has served on the graduate faculty of The New School for Social Research.

Hudson has written or edited more than 10 books on the politics of international finance, economic history, and the history of economic thought. His trade books have been translated into Japanese, Chinese, Spanish, and Russian. He sits on the editorial board of *Lapham's Quarterly* and has written for the *Journal of International Affairs*, *Commonweal*, *International Economy*, *Financial Times*, and *Harper's*, and is a regular contributor to *CounterPunch*.

Hudson holds a BA from the University of Chicago and an MA and a Ph.D. in economics from New York University.

Marshall Auerback is a senior fellow at the Roosevelt Institute and a fellow of Economists for Peace and Security. A global portfolio strategist for Madison Street Partners, LLC, he has over 28 years' experience in investment management. Since 2003, he has been a consulting economist for PIMCO, and until July 2010 was a global portfolio strategist for fund manager RAB Capital PLC. From 1983 to 1987, Auerback was an investment manager at GT Management (Asia) Limited in Hong Kong, where he focused on the markets of Hong Kong, the ASEAN countries (Singapore, Malaysia, the Philippines, Indonesia, and Thailand), New Zealand, and Australia. From 1988 to 1991, he was based in Tokyo, where his Pacific Rim expertise was broadened to include the Japanese stock market. He subsequently managed an emerging markets' hedge fund for the Tiedemann Investment Group in New York (1992–95) and as an international economics strategist for Veneroso Associates (1996–99). From 1999 to 2002, he managed the Prudent Global Fixed Income Fund for David W. Tice & Associates, a USVI-based investment management firm.

Auerback graduated in English and philosophy from Queen's University and received a law degree from Corpus Christi College, University of Oxford.

Upcoming Events

20th Annual Hyman P. Minsky Conference

Ford Foundation, New York City
April 13–15, 2011

The 20th Annual Minsky Conference will address the ongoing effects of the global financial crisis on the real economy, and examine proposed and recently enacted policy responses. Should ending too-big-to-fail be the cornerstone of reform? Do the markets' pursuit of self-interest generate real societal benefits? Will the recently passed US financial reform bill make the entire financial system, not only the banks, safer?

This conference is organized by the Levy Economics Institute of Bard College with support from the Ford Foundation. Additional information will be posted to our website, www.levyinstitute.org, as it becomes available.

The 2011 Hyman P. Minsky Summer Seminar

Levy Economics Institute of Bard College
Annandale-on-Hudson, New York
June 18–26, 2011

The Levy Institute will hold the second annual Minsky Summer Seminar in 2011. The Seminar will provide a rigorous discussion of both the theoretical and applied aspects of Minsky's economics, with an examination of meaningful prescriptive policies relevant to the current economic and financial crisis. The Seminar program will be organized by Jan Kregel, Dimitri B. Papadimitriou, and L. Randall Wray, and will be of particular interest to recent graduates, graduate students, and those at the beginning of their academic or professional careers. Teaching staff will include well-known economists concentrating on and expanding Minsky's work.

Applications may be made to Susan Howard at the Levy Institute (howard@levy.org), and should include a current curriculum vitae. Admission includes provision of room and board on the Bard College campus, and a small number of travel reimbursements ($100 for US fellows and $300 for foreign fellows) will be available to participants. Due to limited space availability, the deadline for applications is March 31, 2011. For additional information, visit our website.

New Levy Institute Book

The Elgar Companion to Hyman Minsky

Edited by Dimitri B. Papadimitriou and L. Randall Wray
Edward Elgar, 2010

Hyman Minsky's analysis, in the early 1990s, of the capitalist economy's transformation in the postwar period accurately predicted the global financial meltdown that began in late 2007. With the republication in 2008 of his seminal books *John Maynard Keynes* (1975) and *Stabilizing an Unstable Economy* (1986), his ideas have seen an unprecedented resurgence, and the essays collected in this companion volume demonstrate why both economists and policymakers have turned to Minsky's works for guidance in understanding and addressing the current crisis. Beginning with Minsky's ideas on money, banking, and finance—including his influential financial instability hypothesis—subjects range from the psychology of financial markets to financial innovation and disequilibrium, to the role of Big Government in constraining endogenous instability, to a Minskyan approach to international relations theory.

PUBLICATIONS AND PRESENTATIONS

Publications and Presentations by Levy Institute Scholars

PHILIP ARESTIS *Senior Scholar*

Publications: "Economic Policies after the New Consensus Macroeconomics," in S. Dullien et al., eds., *The World Economy in Crisis—The Return of Keynesianism?* Metropolis-Verlag, 2010; "What Monetary Policy After the Crisis?" (with M. C. Sawyer), *Review of Political Economy*, Vol. 22, No. 4 (October); "Financial Globalisation and Crisis, Institutional Transformation and Equity" (with A. Singh), Working Paper Series No. 405, Centre for Business Research, University of Cambridge.

Presentations: "The 'Great Recession' and Economic Policy Implications," Fabian Society, London, England, September 30, 2010; "Current Crisis and Economic Policy Implications," 14th Conference of the Research Network Macroeconomics and Macroeconomic Policies, "Stabilising an Unequal Economy? Public Debt, Financial Regulation, and Income Distribution," Hans Böckler Stiftung, Berlin, Germany, October 29–30.

SELCUK EREN *Research Scholar*

Publication: "Using the Health and Retirement Study to Analyze Housing Decisions, Housing Values, and Housing Prices" (with H. Benítez-Silva, F. Heiland, and S. Jimenez-Martin), *Cityscape*, Vol. 12, No. 2 (September 2010).

JAMES K. GALBRAITH *Senior Scholar*

Publications: Ed., *Galbraith: The Affluent Society and Other Essential Works*, Library of America, 2010; *The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too*, German ed., RotPunkt; Foreword to John Kenneth Galbraith, *A Short History of Financial Euphoria*, Quatro Edições; "Inequality and Economic and Political Change: A Comparative Perspective," *Cambridge Journal of Regions, Economy and Society*, June 28; "Das G20-Debakel: Warum wir einen grünen New Deal brauchen," *Blätter für Deutsche und Internationale Politik*, August; "James K. Galbraith Champions the Beast Manifesto," *The Daily Beast*, August 2; "Thoughts on a Plan B," *New America Foundation Web Forum: The Plan B for Economic Recovery*, September 6; "On the Economics of Deficits," *The American Prospect*, Vol. 21, No. 9 (November).

Presentations: "The Great Crisis and the Financial Sector: What We Might Have Learned," presented at the American Sociological Association's 105th Annual Meeting, Atlanta, Ga., August 16; "The Social Dimension to a New Development Cycle in the World Economy," International Seminar on Global Governance, sponsored by the Secretariat of the Economic and Social Development Council (SEDES) and the Economic and Social Development Council (CDES), Brasilia, Brazil, September 16; keynote lecture, "Workers First! Challenge the Rules," biennial convention of the Communications, Energy and Paper Workers Union of Canada, Toronto, September 20; "The Future of the American Economy," Scholars' Strategy Network Conference, Harvard University, September 30; "A Strategic Policy: Investment, Social Security and Economic Recovery," sponsored by Economists for Peace and Security, Washington, DC, October 1; inaugural speaker, Anne Mayhew lecture series, University of Tennessee, October 5; "The Great

Crisis," sponsored by the County of Elgin Community and Cultural Services and Museum, Ontario, Canada, October 15; "Reexamining Premises in the Wake of the Great Crisis," New America Foundation, Washington, DC, October 26.

JAN KREGEL *Senior Scholar and Program Director*

Publications: "Is This the Minsky Moment for Reform of Financial Regulation?" in S. Dullien et al., eds., *The World Economy in Crisis—The Return of Keynesianism?* Metropolis-Verlag, 2010; "What Would Minsky Have Thought of the Mortgage Crisis?" in D. B. Papadimitriou and L. R. Wray, eds., *The Elgar Companion to Hyman Minsky*, Edward Elgar, 2010.

Presentations: "An Alternative Perspective on Global Imbalances and International Reserve Currencies," 2010 Money and Banking Conference, Central Bank of Argentina (BCRA), Buenos Aires, September 2–3, 2010; "Is the Economic System Self-adjusting?" conference on "Toward an Alternative Macroeconomic Analysis of Microfoundations, Finance–Real Economy Dynamics, and Crises," sponsored by the Initiative for New Economic Thinking Institute, Budapest, Hungary September 6–8; "Finances and Technologies: How to Make Them Work Together?" Global Policy Forum 2010, "The Modern State: Standards of Democracy and Criteria of Efficiency," Yaroslavl, Russia, September 9–11; "Credit Rating Agencies," meeting of the Ford Foundation Technical Expert Advisory Group, "Global with a Local Focus: Global Constraints to Domestic Democratic Governance," Bali, Indonesia, September 21–23; "Financial Reforms in the United States," IBASE conference on "Evaluating Recent Initiatives on Financial Reform and Changes in Global Financial Governance," Rio de Janeiro, Brazil, October 4–5; "Financial Reform in the US and Europe," seminar sponsored by the Departments of Economics and Public Administration, Tallinn University of Technology, Estonia, October 27.

THOMAS MASTERSON *Research Scholar*

Presentation: "Beyond the Economic Fright Fest: Building a Sustainable and Just Economy," Center for Popular Economics Fall Institute, New Market, Tenn., October 26–31, 2010.

DIMITRI B. PAPADIMITRIOU *President*

Publications: Ed. (with L. R. Wray), *The Elgar Companion to Hyman Minsky*, Edward Elgar, 2010; "Options for the Eurozone," *Kathimerini*, August 15; op-ed, "Compromise Is Poison," *The European*, November 17.

Presentations: Interview regarding the state of the Greek economy with C. J. Polychroniou, *Eleftherotypia*, September 1; discussion leader, ILO-IMF conference on "Challenges of Growth, Employment, and Social Cohesion," Oslo, Norway, September 13; interview regarding US gold holdings with Zahra Burton, Bloomberg Television, September 28; interview regarding the global economic crisis with C. J. Polychroniou, *Epsilon* (*Eleftherotypia Sunday Magazine*), October 5.

JOEL PERLMANN *Senior Scholar and Program Director*

Publication: "The Importance of Raising Mexican-American High School Graduation Rates," in G. Sonnert and G. Holton, eds., *Helping Young Refugees and Immigrants Succeed: Public Policy, Aid and Education*, Palgrave Macmillan 2010.

Presentations: "Views of European Races among the Research Staff of the US Immigration Commission and the Census Bureau ca. 1910" and "Descent and Intermarriage across Four Generations: The German-American Birth Cohort of 1866–80," 35th Annual Meeting of the Social Science History Association, Chicago, Ill., November 18–21, 2010.

EDWARD N. WOLFF *Senior Scholar*

Presentations: "Comparisons of Economic Well-Being in Canada and the United States in the 2000s," International Association for Research in Income and Wealth 31st General Conference, St. Gallen, Switzerland, August 22–28; "What Does It Mean to be a Middle Class American?" presented on "The Takeaway," WNYC Radio, September 27, 2010; "The Wealth Elites—Some Ideas," ISERP Elites Research Network, Columbia University, October 8–9; "Inheritances and the Distribution of Wealth; or, Whatever Happened to the Great Inheritance Boom?" seminar on "Distribution of Income and Wealth: What Do We Know?" Valencia, Spain, October 22.

L. RANDALL WRAY *Senior Scholar*

Publication: Ed. (with D. B. Papadimitriou), *The Elgar Companion to Hyman Minsky*, Edward Elgar, 2010; "The Global Financial Crisis and the Shift to Shadow Banking" (with Y. Nersisyan), *Intervention: European Journal of Economics and Economic Policies*, Vol. 7, No. 2.