Levy Economics Institute of Bard College

Report

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New Strategic Analysis

IS THE RECOVERY SUSTAINABLE?

DIMITRI B. PAPADIMITRIOU, GREG HANNSGEN, and GENNARO ZEZZA
Strategic Analysis, December 2011

President Dimitri B. Papadimitriou and Research Scholars Greg Hannsgen and Gennaro Zezza present their outlook for the US economy through 2016, finding that fears of a prolonged stagnation in growth and employment are well justified. To begin with, the authors tell us that US growth cannot expect any help from abroad. They look at figures from the International Monetary Fund (IMF) that predict only anemic growth in the developed world and a modest slowdown for economies in the developing world—and these predictions were made before the latest round of problems in the eurozone. Under such circumstances, the authors note, it will be difficult for the United States to transform its massive trade deficit into even a moderate one.

The authors run a simulation assuming a 10 percent devaluation of the dollar against a basket of world currencies in order to evaluate the impact of an export-led growth policy. In this scenario, the response in the current account balance never surpasses 1.5 percent of GDP, measured as a change from the baseline (in which the value of the dollar is held constant). This is far less than what would be needed to restore healthy growth rates, say the authors.

Turning to the domestic private sector, the authors find that, absent increased household borrowing, consumption can be expected to taper off as the effects of fiscal stimulus weaken and real disposable income stagnates. Given the recent profit surge in the nonfinancial industry, some growth can be expected from nonresidential investment. And while households continue to deleverage, the authors show that the cost of servicing household debt is still higher than it was in the aftermath of less severe recessions in the 1980s and 1990s.

The employment situation, as Papadimitriou, Hannsgen, and Zezza note, remains abysmal. If this is going to turn around, they argue, more fiscal stimulus will be needed. They recommend investments in repairing physical infrastructure and expanding access to care services by scaling up existing programs like Head Start and Medicaid-funded home-based care. These investments would create jobs while meeting urgent public needs.

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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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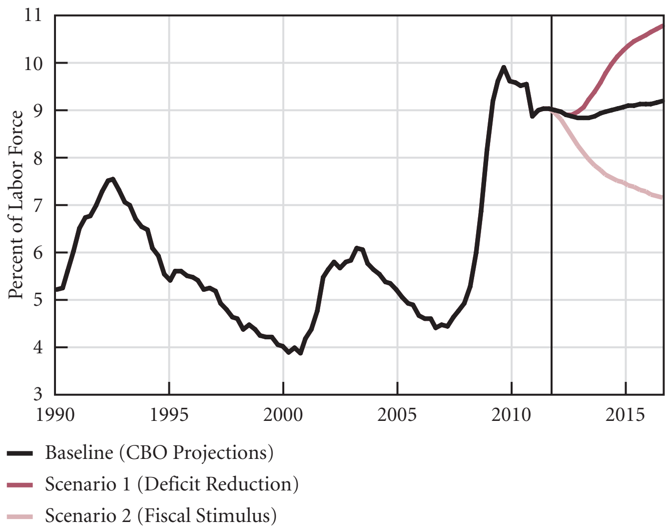
The authors lay out some alternative scenarios and contrast them with a baseline simulation that relies on the Congressional Budget Office's 2011 "no change" projections for the deficit. The baseline shows growth hovering around 1.5 to 2 percent throughout the 2012–16 simulation period, and unemployment rising above 9 percent. In scenario 1, the authors simulate the effects of budget cuts on the order of $1.5 trillion—an amount that approximates the automatic "trigger" spending cuts agreed to in the debt ceiling negotiations this past summer. In this austerity scenario, growth dips to a low of 0.06 percent in the second quarter of 2014 and unemployment worsens significantly, reaching 10.7 percent by the end of the simulation period (Figure 1).

In scenario 2, the authors simulate the effects of a modest stimulus package made up of (1) a 2 percent payroll tax cut extension, and (2) an increase in spending sufficient to reduce unemployment to 7 percent by 2016. In this scenario (see Figure 2), growth peaks at 4 percent in the first quarter of 2013 and levels off at 3 percent through the rest of the simulation period, while government debt rises to 97.4 percent of GDP, versus the baseline of 94.4 percent (and 91.1 percent in scenario 1).

The authors also evaluate how problems in the eurozone (either economic stagnation or a financial crisis) would affect their simulations. The euro area accounts for only about 16 percent of US exports, they point out, so a slowdown in the area would have limited impact on US growth and employment through this particular channel. By contrast, the authors note that a financial crisis would have a much more sizable and damaging effect on net financial wealth in the United States—which would in turn have a serious negative effect on private expenditure and growth, according to their model.

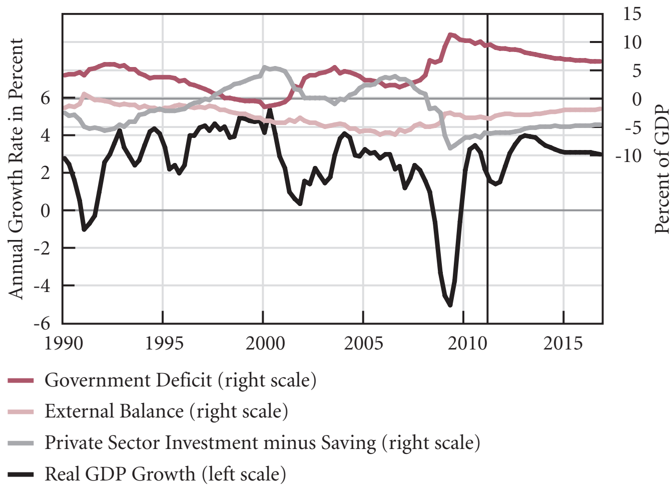
www.levyinstitute.org/pubs/sa_dec_11.pdf

Figure 1 **Unemployment Rate in Three Scenarios**



Sources: BLS; authors' calculations

Figure 2 **Scenario 2: US Main Sector Balances and Real GDP Growth**



Sources: BEA; authors' calculations

New Public Policy Briefs

Waiting for the Next Crash: The Minskyan Lessons We Failed to Learn

L. RANDALL WRAY

Public Policy Brief No. 120, 2011

Senior Scholar L. Randall Wray lays out the numerous and critical ways in which we have failed to learn from the latest global financial crisis (GFC), and identifies the underlying trends and structural vulnerabilities that make it likely a new crisis is right around the corner. To really understand the GFC, Wray argues, we need to look beyond subprime mortgages to Hyman P. Minsky's account of the long-run transformation of the economy toward instability. A central part of Minsky's account is the economy's "financialization," in which the financial sector captures a larger and larger share of GDP and financial layering proliferates. Wray draws connections between this metastasized financial sector and the stagnating "real" economy—the recent decoupling of economic growth from employment and wage gains. As households could not count on rising incomes to finance increased consumption, they eventually turned to indebtedness to help prop up living standards. The combination of debt-fueled consumption and a fraud-riddled real estate boom was crucial to the economy's ultimate collapse.

Among the lessons we ought to have learned from the GFC is that we cannot rely upon markets alone to ensure solid underwriting, according to Wray. In the face of a euphoric boom, underwriting standards deteriorated, and although it may seem like stricter standards have returned, this is just a temporary reaction to the crisis. The GFC dealt yet another blow to the "efficient markets hypothesis," as markets failed to discover the proper prices of securitized loans. It is also a mistake, says Wray, to regard the GFC as merely a liquidity crisis. Instead, it was a matter of mass insolvency among major financial institutions, a problem that may still be lurking. Finally, Wray argues that we cannot fully understand the GFC without appreciating the deep-seated and widespread role of fraud, up and down the financial food chain of securitized mortgage lending.

Wray suggests some policy changes that would shore up the financial system while reinvigorating the real economy. He recommends that we restructure our financial institutions with an eye toward placing limits around both size and function. Financial institutions must be forced to choose whether they will hold a bank charter or participate in speculative trading. Minsky's employer-of-last-resort policy, by encouraging full employment at all stages of the business cycle, would help reduce inequality and fuel consumption on the basis of growing incomes, rather than debt.

www.levyinstitute.org/pubs/ppb_120.pdf

Debtors' Crisis or Creditors' Crisis? Who Pays for the European Sovereign and Subprime Mortgage Losses?

JAN KREGEL

Public Policy Brief No. 121, 2011

In this brief, Senior Scholar Jan Kregel examines the question of how we ought to distribute losses in a debt resolution between debtors and creditors. In the context of the eurozone sovereign debt crisis and the US subprime crisis, Kregel takes apart a prominent approach to this question that, in his view, relies too much on individual behavioral factors or cultural caricatures and inevitably concludes that debtors ought to be required to shoulder the entire burden of debt repayment.

The problem with this approach, which attempts to pin the blame and therefore the losses on borrowers (the supposedly deceitful subprime mortgage borrower or profligate Greek), is that it fails to take into consideration the connections between debt and the balance sheets of other economic sectors and external partners. Kregel argues that once we take the balance sheets into account we will see that debtors are unlikely to be able to bear the losses in a debt resolution. Solving these crises requires that we pay just as much attention to the policies and behaviors of creditors.

Greece will only be able to repay its debts if it can rely on rising net exports—which in turn requires the cooperation of its external partners; most notably, Germany. Kregel illustrates that with both households and government attempting to cut back, Greek incomes will only be able to meet debt servicing costs and repay creditors if there is rising demand coming from outside the country. Since Greece cannot adjust its exchange rate and remain in the eurozone, it will not be able to shoulder its debt burden on the basis of internal policy alone—German

policy matters just as much. If Greece is going to behave more like a creditor country, then Germany—the creditor country par excellence—must act more like Greece. Kregel performs a similar analysis in the case of the US subprime morass, and notes that, given global economic conditions, the United States is unlikely to see rising net exports. Under such circumstances, either its private sector or the government sector must fail to achieve their goal of running a surplus.
www.levyinstitute.org/pubs/ppb_121.pdf

New Policy Notes

Resolving the Eurozone Crisis—without Debt Buyouts, National Guarantees, Mutual Insurance, or Fiscal Transfers

STUART HOLLAND
Policy Note 2011/5

Among the (many) obstacles to working out a solution to the crisis in the eurozone is resistance to schemes that involve debt buyouts, national guarantees, mutual insurance, and fiscal transfers between member-states. In this Policy Note, Stuart Holland, University of Coimbra, Portugal, tells us that there is a pair of potential solutions to the eurozone crisis—involving conversion of national bonds to European Union (EU) bonds and net issue of eurobonds—that can bypass all of the above.

The first strategy involves member-states with at-risk bonds converting a portion of them (up to the Maastricht limit of 60 percent of GDP) to EU bonds on an enhanced cooperation basis. This would allow countries like Germany, Austria, the Netherlands, and Finland to retain their bonds if they wished. The converted national bonds would not be traded but rather managed by the EU on its own account (held by the European Central Bank or the European Financial Stability Facility) in order to ring-fence these bonds from rating agencies. The converted bonds would be serviced by member-state tax revenues, alleviating the need for national guarantees or fiscal transfers.

The second strategy involves reviving the European Investment Fund's (EIF) originally intended role as issuer of eurobonds. The tradable eurobonds could finance a European Venture Capital Fund for small- and medium-size enterprises and cofund European Investment Bank (EIB) project finance. The EIB would advise on issues of bonds by the EIF, with decisions on net issues made by Ecofin. With the aid of these eurobonds, says Holland, EIB investment finance could finally make a reality of the European Economic Recovery Programme. Net issues of eurobonds could also secure the euro as a reserve currency and encourage global growth. According to Holland, one of the central advantages of this pair of strategies—the conversion of national government debt and the net issue of eurobonds by the EIF—is that they would require neither ratification by national parliaments nor an alteration of the EU treaty.
www.levyinstitute.org/pubs/pn_11_05.pdf

Toward a Workable Solution for the Eurozone

MARSHALL AUERBACK
Policy Note 2011/6

Research Associate Marshall Auerback pins the blame for the crisis in Europe on the shrinking of national fiscal policy space that accompanied the creation of the euro. The euro has deprived eurozone nations of their sovereign ability to use their fiscal powers to compensate for the type of external demand shock that occurred in 2008. And the crisis is being aggravated, says Auerback, by a refusal on the part of the "troika"—the European Union (EU), European Central Bank (ECB), and International Monetary Fund—to abandon austerity policies. The ECB, by buying the distressed debt of member-nations and exercising its monopoly rights to issue the eurozone's common currency, could come to Europe's rescue.

Auerback argues that discussions of how to solve the euro crisis often conflate two distinct issues: solvency and insufficient demand. While some are calling for the ECB to handle both of these issues, he writes, the ECB only needs to deal with the first. Fears of insolvency have isolated Portugal, Ireland, Italy, Greece, and Spain from the capital markets. Dealing with the solvency issue in a credible way would get the capital markets to open up again and give countries a better chance to refinance their debt, at more reasonable rates.

Auerback considers a proposal that would, by addressing national solvency, give member-states the space necessary to address the growth problem. The proposal (developed also by

Warren Mosler) calls for the ECB to make annual distributions of euros to national governments on a per capita basis. According to Auerback, this revenue-sharing proposal would not require treaty changes or a further surrender of national sovereignty. In contrast to targeted bailouts, these per capita distributions would avoid issues of moral hazard. They would also provide the ECB with a more effective policy lever—withholding of payments versus the status quo use of fines and penalties—to ensure member-state compliance with the Stability and Growth Pact (SGP). Concerns about inflation with respect to this plan are misplaced, says Auerback, since it is only actual spending that causes inflation, and these distributions would not change the actual government spending and taxation levels that are required by the SGP.
www.levyinstitute.org/pubs/pn_11_06.pdf

New Working Papers

Lessons We Should Have Learned from the Global Financial Crisis but Didn't

L. RANDALL WRAY
Working Paper No. 681, August 2011

This Working Paper formed the basis for Public Policy Brief No. 120 (see p. 4).
www.levyinstitute.org/pubs/wp_681.pdf

Infinite-variance, Alpha-stable Shocks in Monetary SVAR: Final Working Paper Version

GREG HANNSGEN
Working Paper No. 682, August 2011

Structural vector autoregressions (SVARs) are used by macroeconomists to answer questions such as: Do central banks cause recessions? Could contractionary monetary-policy shocks increase inflation? Is the business cycle driven mostly by technology shocks? What are the effects of fiscal-policy shocks? Research Scholar Greg Hannsgen updates Working Paper nos. 546 and 596 and answers skeptics by expanding the range of empirical evidence presented in support of his infinite-variance critique of SVAR analysis. The bulk of the evidence suggests that many VARs estimated by macroeconomists possess at least one error term with an infinite-variance distribution. Given that a reduced-form VAR estimate suffers from this problem, it cannot be used to identify any commonly used structural VAR model.

In addition to reviewing the literature and justifying the paper's methodology, the author provides background on stable distribution theory, presents an infinite-variance critique of SVARs, discusses the data and estimation procedures used in VARs from which he obtains his residuals, and presents estimates of stable parameters for the error terms in the full-sample VAR. Next, the author reports the results of new parametric-bootstrap tests of the null hypotheses that each error term has finite variance, given the assumption that the error term being examined has an alpha-stable unconditional distribution. He then extends his case to the error terms in VARs estimated for sample subperiods, uses a generalized autoregressive heteroskedasticity (GARCH) filtering technique to determine whether heteroskedasticity can account for the thick tails of his VAR residuals and compares the fits of his estimated stable distributions with the fits of normal distributions, t-distributions, and the estimated GARCH shock models.

Hannsgen adopts a classical hypothesis-testing approach to infer whether the stable-distribution parameter alpha—sometimes known as the index of stability— equals 2 in the error terms of a standard monetary SVAR model, modified to use stably distributed error terms. He finds that in his two full-sample VARs, alpha is less than two in most equations, and therefore, infinite variance is present. He also shows that his results are fairly robust to sample splits, changes in specification, and GARCH filtering. Diagnostics presented for the first time in this working paper show that the assumption of a stable distribution is generally appropriate for the VAR shocks, though Student's t-distributions also fit well in many cases. Hannsgen concludes that caution seems warranted in the use of SVARs.
www.levyinstitute.org/pubs/wp_682.pdf

Permanent and Selective Capital Account Management Regimes as an Alternative to Self-Insurance Strategies in Emerging-market Economies

JÖRG BIBOW

Working Paper No. 683, September 2011

Although the benefits of financial globalization—of opening emerging-market economies (EMEs) to unfettered capital flows—were widely touted, the results have been mixed (at best), according to Research Associate Jörg Bibow. The world, says Bibow, is not fundamentally an optimum currency area. Countries on the global periphery have been yoked to the monetary policies of those in the center while also losing control over their financial systems. Bibow argues that for EMEs facing large private capital inflows, capital account management (CAM) represents a compelling alternative strategy to currency market intervention ("self-insurance").

In the absence of reform of global monetary and financial systems, EMEs attempting to deal with these vulnerabilities arising from financial globalization should look to CAM regimes rather than "self-insurance" approaches involving sterilized currency market interventions. CAM allows emerging-market economies to improve their macroeconomic and financial stability without the costs associated with self-insurance strategies.

Alongside the significant costs that accompany self-insurance (including a perverse transfer of resources from poor to rich), Bibow points to the fact that the payoffs end up being rather modest. EMEs relying on this approach still got hit hard by financial crises. While self-insurance helped some EMEs to avoid rescue by the International Monetary Fund (IMF), it only managed to secure them a fairly limited amount of space for pursuing countercyclical policies.

The goals of a CAM regime are threefold: (1) to ensure financial stability by limiting an EME's exposure to global finance; (2) to ensure macroeconomic stability by maintaining policy space; and (3) to reduce the costs normally associated with attempts to pursue the first two goals through self-insurance. The proposal Bibow has in mind would involve a *permanent* CAM regime focused on capital inflows in particular. Rather than a distortion of efficient markets, he says, this form of CAM would address market failure (a negative externality in the form of excessive systemic risk) arising from unfettered financial globalization.

At the level of practical implementation, while IMF regulations actually permit CAM, OECD and European Union regulations and bilateral agreements pose a bigger obstacle (to say nothing, adds Bibow, of vested interests and flawed doctrines). The author concludes by evaluating the specific CAM techniques used by the BRIC countries (Brazil, Russia, India, and China).
www.levyinstitute.org/pubs/wp_683.pdf

Central Banking in an Era of Quantitative Easing

ANDREW SHENG

Working Paper No. 684, September 2011

Andrew Sheng, Tsinghua University, Beijing, and University of Malaya, Kuala Lumpur, looks at the theory and practice of central banking in light of the global financial crisis (GFC) and compares the era of Bagehot's Rule to the current period of quantitative easing (QE) and zero (or near-zero) interest rate policies (ZIRP). Central banking during the GFC was rooted in a flawed methodology of partial analysis, argues Sheng. An entire generation of policymakers had been taught by neoclassical economic theory to assume that the system as a whole is stable if its parts are stable. But if we think of financial markets as networks, Sheng suggests, we will see that a linear, static, and partial analytic approach is inadequate to the task of uncovering systemic risks. Sheng provides some guidelines for emerging-market central banks to follow and suggests that a turn to systems thinking is in order.

According to Sheng, the primary emphasis in central banking over the last two decades has been monetary stability, and inflation targeting in particular. Leading central banks left the responsibility for financial stability to other agencies or simply assumed that in the presence of monetary stability, financial stability would take care of itself. The now-fashionable idea of macroprudential measures was neglected. The GFC has forced a reconsideration of this entire approach. One of the largest blind spots in recent history, according to Sheng, was the rise of shadow banking assets that were neither measured in monetary aggregates nor considered as potential systemic risks.

Sheng traces the turn to QE and ZIRP occasioned by the GFC. In the name of financial stability, central banks have effectively become (unelected) fiscal agents. This is problematic, says the author. In addition to a lack of clear guidelines over which institutions should be bailed out, purchases of sovereign debt mean that we have moved from the fiscalization to the monetization of debt. And debt monetization, according to Sheng, carries inflationary costs that hit the poor particularly hard.

Sheng argues that it was mainly the credit multiplier of shadow banks that drove down market interest rates and inflated the value of financial derivative products. Although financial engineering is partly to blame, the financial crisis was the inevitable result of a fiat money feedback loop without a hard budget constraint. The challenge for policymakers attempting to deal with this globalized monetary creation is to figure out how to impose a hard budget constraint on global shadow banking entities when the available policy tools are primarily national.
www.levyinstitute.org/pubs/wp_684.pdf

Quantitative Easing, Functional Finance, and the "Neutral" Interest Rate

ALFONSO PALACIO-VERA
Working Paper No. 685, September 2011

Once conventional monetary policy has been exhausted, what are the conditions under which, and the mechanisms through which, debt monetization creates expansionary economic effects? This is the theoretical question taken up by Alfonso Palacio-Vera, Universidad Complutense de Madrid, who develops a macroeconomic model with Keynesian features in order to explore the theoretical basis for the macroeconomic effects of large-scale purchases of public and private debt. The author finds that debt monetization spurs economic growth mainly through the mechanism of reducing the cost to the treasury of servicing public debt. The lighter financial burden resulting from reduced servicing costs frees up more space for expansionary fiscal policy.

The model developed by Palacio-Vera represents a closed economy composed of four sectors: creditor households, debtor households, businesses, and government (with the last broken down into treasury and central bank). The author also assumes, in accordance with the endogenous view of money, that an increase in bank reserves does not, in and of itself, increase banks' willingness to lend. Palacio-Vera finds that if the aggregate availability of reserves does not restrict bank lending, the expansionary effect of debt monetization operates mainly through the adoption of expansionary fiscal policy. And although purchases of securities on a large scale may also compress risk/term premiums, Palacio-Vera's model shows that the efficacy of this channel is uncertain with respect to its macroeconomic effects. His model predicts that a compression in the risk/term premium on government debt will be expansionary—but only if the government sets discretionary fiscal policy in such a way as to hit its target debt-to-capital ratio. Compression of the risk/term premium on debt issued by businesses and households, however, has ambiguous macroeconomic effects.

Finally, in accordance with Abba Lerner's "functional finance" approach, Palacio-Vera concludes that countries that issue their own currency and whose central banks are willing to fully monetize expansionary fiscal policy can avoid liquidity traps. From the perspective of public policy and practical implementation, however, the challenging upshot is that the macroeconomic payoff of debt monetization requires very tight coordination of fiscal and monetary policy—regarding the fiscal policy stance, the inflation target, and the extent of debt monetization—and therefore seamless cooperation between the central bank and treasury.
www.levyinstitute.org/pubs/wp_685.pdf

Estimating the Impact of the Recent Economic Crisis on Work Time in Turkey

EMEL MEMIS and S. A. KAYA BAHÇE
Working Paper No. 686, September 2011

Beyond the dramatic impacts on growth and employment, there are neglected dimensions to the fallout from financial crises and economic shocks, including the ways in which paid and unpaid work time, and the allocation of such time within a household, are affected. Research Associate Emel Memis and S. A. Kaya Bahçe of Ankara University look at the relationship between employment and time-use patterns to estimate the effects that the recent financial crisis has had on paid and unpaid work time in Turkey. Their results show that the economic shock reinforced preexisting gender inequalities.

Prior to the latest crisis, employed women in Turkey had a higher combined work burden compared to their male counterparts. The crisis was responsible for increasing women's paid and unpaid working hours to a greater extent than men's, such that the preexisting gender gap in total work time increased 26 percent (and 49 percent in urban areas). Married women in Turkey spend significantly more time on both paid and unpaid work when their husbands' unemployment risk increases. By contrast, married men do not spend significantly more time on paid work when their wives' unemployment risk increases (while men do spend more time on unpaid work, their increases are between one-fourth and one-fifth the size of the increases in women's unpaid work time). In other words, household members' job losses disproportionately affect women's work burdens.

The data for Memis and Bahçe's estimates is drawn from the only nationwide time-use survey (conducted by TurkStat in 2006) available in Turkey. The challenge for the authors is to find a way of comparing pre- and post-crisis working hours, given the paucity of Turkish time-use data. They develop a two-step method for estimating the marginal impact of an increase in spouses' unemployment risk (defined as the probability of being unemployed) on the time-use patterns of women and men living in nuclear family households. Using these marginal estimates, the authors then extrapolate from the actual increases in unemployment (both average increases and sector specific) in order to calculate the relative time-use changes wrought by the crisis for women and men. The method developed here by Memis and Baçhe can be used in comparable situations (often encountered in developing countries) in which there are gaps in longitudinal data.

www.levyinstitute.org/pubs/wp_686.pdf

Access to Markets and Farm Efficiency: A Study of Rice Farms in the Bicol Region, Philippines

SANJAYA DESILVA

Working Paper No. 687, September 2011

Research Associate Sanjaya DeSilva looks at the relationship between the spread of market institutions and improvements in the productivity and efficiency of farmers. DeSilva uses household-level data collected from rice farms in Camarines Sur, in the Bicol Region of the Philippines, over the period 1983–2003. He uses two variables as proxies for measuring market access: (1) distance from the village to the market core, and (2) village population density (as a measure of the level of market development in the village itself). He then compares these variables with farm yields (output per hectare), unit costs (cost per unit of output), and farm efficiency (technical and cost efficiency).

What DeSilva finds is that proximity to market centers and population density have delivered diminishing relative advantages over time. In 1983, yields and efficiency were lower in villages that were further from the market town and that had lower population densities. These relationships, however, became weaker in the two decades after 1983. Although yields and efficiency improved across the board, the improvements were more marked in the more remote and sparsely populated villages. The same relationship, and change, occurred in the case of farm efficiency: the efficiency gap between remote villages and those close to the core, as well as that between sparsely and densely populated villages, diminished from 1983 to 2003.

The changes in unit costs followed a slightly different pattern. The relationship between unit costs and population density exhibited the same patterns as those between yields and population density. But unit costs were not strongly correlated with distance in 1983, and in 2003 unit cost decreases were most manifest in villages *closer* to the market center (DeSilva suggests that this result can be accounted for by an evolution of factor prices that was unfavorable to more distant villages).

In addition to population growth, which resulted in a substantial decline in variation of population densities, DeSilva argues that public investments played a key role in developing market institutions in the periphery and connecting the periphery with the market centers. His research suggests that the more rapid relative improvements in remote villages are the result of advancements in transportation and communication infrastructure, improved institutional environments, and the availability of agricultural extension services. These improvements lessen the disadvantage of distance from the market town and promote market development.

www.levyinstitute.org/pubs/wp_687.pdf

An Unblinking Glance at a National Catastrophe and the Potential Dissolution of the Eurozone: Greece's Debt Crisis in Context

C. J. POLYCHRONIOU

Working Paper No. 688, September 2011

Research Associate and Policy Fellow C. J. Polychroniou traces the politico-economic background of Greece's current difficulties, from its entry into the European Union (EU) to the worsening of the debt crisis and the devastating and misguided austerity policies designed to address it. Polychroniou argues that Greece was unfit to join the EU in the first place. Its economy was marked by structural weaknesses, low competitiveness, inadequate infrastructure, limited productive capacity, and ineffective public institutions. It was simply not ready for intense competition in a unified market with a common currency, and gained entry to the eurozone only on the basis of fabricated information about the country's real fiscal condition and debt situation. Once part of the EU, matters only worsened, as Greek competitiveness fell. What economic growth there was in the last decade or so was based almost entirely on overconsumption, increasing indebtedness, and a process of capital accumulation that bore no relationship to the real economy.

Polychroniou argues that the eurozone crisis as a whole is ultimately a crisis of global neoliberal capitalism. He insists that Europe has fallen victim to a neoliberal project that threatens to dismantle the social market economy and reverse the advances in social rights secured by the working class over the last half century. Ideological distinctions have been rendered irrelevant, as ostensibly social democratic governments in Greece and Spain impose austerity and discard any pretense of progressive reform.

According to the author, the problems that EU leaders are having in getting a handle on the Greek crisis are due not to political incompetence, but to the constraints of the neoliberal economic regime in which these leaders operate. Both eurozone governance structures and the asymmetries of European integration limit the ability to impose swift and decisive fixes to the region's severely undercapitalized banking system and the debt crisis as a whole. Bailout policies have failed. For Greece, default is the most likely scenario, says Polychroniou. The question is whether it will be a soft default, with Greece remaining in the eurozone, or a hard one, forcing it out.

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Effects of Legal and Unauthorized Immigration on the US Social Security System

SELÇUK EREN, HUGO BENÍTEZ-SILVA, and EVA CÁRCELES-POVEDA

Working Paper No. 689, October 2011

Research Scholar Selçuk Eren and Hugo Benítez-Silva and Eva Cárceles-Poveda of SUNY Stony Brook analyze the effects that the legalization of undocumented immigrants would have on the economy and social insurance system in the United States. In order to tackle this multifaceted question, the authors develop a multiperiod overlapping generations model of legal and undocumented immigrants' decisions. This is a general equilibrium model focused on three key dimensions: (1) remittances, (2) social insurance benefit usage, and (3) labor productivity. As there is no single US data source for remittances, the authors rely on datasets from the Mexican Migration Project and the Latin American Migration Project. Their calculations show that legal immigrants send, on average, 40 percent of their savings out of the country as remittances, while undocumented immigrants send 62 percent of their savings. Although undocumented immigrants often pay Social Security taxes, they are ineligible for benefits, and those who receive unemployment insurance benefits do so at a lower replacement rate (a smaller fraction of the value of their wages) than natives and legal immigrants. Finally, the labor productivity of undocumented immigrants is lower (80 percent) than that of natives and legal immigrants, a consequence of inferior skill matching.

The key to evaluating policy changes in which undocumented immigrants are granted legal status is to compare two sets of effects. On the one hand, there are the positive effects of higher labor productivity and decreased remittances. Legalization, by decreasing remittances, increases the capital stock of the economy, which in turn leads to lower interest rates, an expanded tax base, and higher growth. On the other hand, there are the negative effects of an increased use of social insurance benefits (additional Social Security beneficiaries and higher unemployment insurance wage replacement rates).

Modeling scenarios in which 30 percent and 50 percent of undocumented immigrants are given legal status, the authors find that the positive effects outweigh the negatives in both scenarios, despite a slight increase in taxes (due to larger social insurance benefit payments to newly legal immigrants) and, in

the 50 percent legalization scenario, a decrease in wages and Social Security benefits. Legalizing some undocumented immigrants would, overall, have positive effects on economic aggregates (capital stock, output, consumption, and labor productivity) and welfare (largely a result of substantial welfare gains for the newly legalized), with a 50 percent legalization rate contributing roughly $36 billion to the economy. Although these overall effects are small in percentage terms, this is to be expected, given that legalization of even 50 percent of the undocumented population would mean a change in status for only 1.8 percent of the total US population.
www.levyinstitute.org/pubs/wp_689.pdf

The Measurement of Time and Income Poverty

AJIT ZACHARIAS
Working Paper No. 690, October 2011

The problem with many official measurements of poverty, says Senior Scholar Ajit Zacharias, is that they assume income-poor households have sufficient time to engage in any necessary household labor. In other words, the official measures ignore *time* poverty. Zacharias analyzes, within a unified framework, a number of alternative models that incorporate time deficits in their measurements of poverty while offering his own modification that accounts for disparities in the division of labor within households.

A "time deficit" refers to the excess of hours of income-generating activity in relation to "available time." The latter is defined as the time remaining to a household after subtracting (1) the minimum amount of time necessary for personal care, (2) the minimum of nonsubstitutable time for household production (which is to say, production that cannot be replaced by market alternatives), and (3) the amount of substitutable household production necessary for poverty-level subsistence.

One alternative measure analyzed by Zacharias, the "Vickery modification," represents time deficits as the value of any necessary household production that must be abandoned when hours of labor exceed available time. To surpass this modified poverty threshold, households with time deficits must have sufficient income to be able to purchase market substitutes for household production. This modification also allows us to identify those who face conditions in which they cannot work themselves out of poverty: when the value of the increase in wages from moving to full-time work is insufficient to purchase market substitutes for the foregone household production.

Along with analyzing a number of other alternative approaches, Zacharias proposes a method for introducing intrahousehold disparities into such measures of poverty. He shows us how we can use the individual as the unit of analysis in the time dimension of poverty to account for cases of unequally shared work burdens within households. Using Zacharias' approach, a household would be considered time poor if hours of employment exceeded available time for at least one member of that household.

From a policy perspective, Vickery-modified poverty could, conceptually speaking, be addressed through income transfers—by transferring an amount equivalent to the market value of the missing household production time. In practice, however, an approach focused only on transfers will encounter difficulties, says Zacharias. The flaw in the transfers-only approach is that it ignores the barriers that households may face in obtaining market substitutes (missing or imperfect markets, for example). This last point is especially germane to rural areas in the developing world and certain socially excluded, segregated areas in the developed world. According to Zacharias, direct provision of household production substitutes—that is, publicly-financed, community-provided substitutes—would be more effective in these contexts.
www.levyinstitute.org/pubs/wp_690.pdf

Unpaid and Paid Care: The Effects of Child Care and Elder Care on the Standard of Living

KIJONG KIM and RANIA ANTONOPOULOS
Working Paper No. 691, October 2011

Research Scholar Kijong Kim and Senior Scholar Rania Antonopoulos argue that expanding access to social care, in the form of care services for children, the elderly, and the disabled and chronically ill, produces significant socioeconomic payoffs.

High quality, intensive early childhood education (ECE) has been shown to provide long-term benefits to care recipients in the form of enhanced cognitive and noncognitive development persisting into adulthood, improved labor market outcomes and asset ownership, increases in the stock of human capital leading to higher GDP and household income, and lower law enforcement costs for society as a whole. Home-based health care services for the elderly and for individuals living with disabilities and chronic maladies also has significant payoffs for care recipients, say the authors, including better medical outcomes and improved quality of life. For caregivers, ECE programs improve mothers' labor force participation (resulting in higher lifetime income) by lightening care burdens. The authors point to evidence showing that universal ECE may even reduce the wage penalty for women. Home-based care services relieve both psychological and physical strain for caregivers and result in less conflict between unpaid and paid work, which in turn reduces the costs of absenteeism for employers.

The authors argue that the United States suffers from insufficient child care services, with over a third of young children from poor families not enrolled in any center-based care program. A substantial portion of the demand for ECE, they say, is "hidden." Demand for home-based care is also rising due to an ageing population and extended life expectancy for persons with disabilities and chronic illnesses. According to Kim and Antonopoulos, we don't need to start from scratch when it comes to expanding access to care services. We can work through existing programs such as Head Start / Early Head Start and home-based care organizations that already qualify for Medicare and Medicaid reimbursement. Scaling up federal funding and expanding coverage in these areas, they argue, would not overwhelm the delivery system.

The authors also point to their research comparing social care investments and investments in physical infrastructure, finding that the former produce more than twice the number of jobs per dollar invested, with the benefits flowing largely to women, the less educated, and the poor. Their research (see Working Paper No. 671, summarized in the October 2011 *Report*), involved modeling a $50 billion expansion in ECE and home-based care. Although an investment of this magnitude would represent a 50 percent expansion of these two sectors, it would not be sufficient to make social care an entitlement, according to Kim and Antonopoulos.

www.levyinstitute.org/pubs/wp_691.pdf

Quality of Match for Statistical Matches Used in the Development of the Levy Institute Measure of Time and Income Poverty (LIMTIP) for Argentina, Chile, and Mexico

THOMAS MASTERSON

Working Paper No. 692, October 2011

This paper is part of a project supported by the United Nations Development Programme and the International Labour Organization to develop alternatives to conventional income poverty thresholds. Research Scholar Thomas Masterson describes the construction of synthetic datasets to estimate the Levy Institute Measure of Time and Income Poverty (LIMTIP) for Argentina, Chile, and Mexico. Since no single dataset includes all the required data, he creates a synthetic data file for each country by combining various sources of information about demographics, income, transfers, taxes, and time use.

The source datasets for Argentina are the 2005 Dirección General de Estadística y Censos' Encuesta Anual de Hogares and time-use module for Buenos Aires. The time-income poverty measure is estimated by constructing thresholds for the time spent on household production; that is, the average values of time spent on household production differentiated by the number of adults and children. In principle, this represents the average amount of household production required for subsistence at the poverty income level. The source datasets for Chile are the 2006 Encuesta Caracterización Socioeconómica Nacional and the 2007 Encuesta Experimental sobre Uso del Tiempo en el Gran Santiago, which only covers greater Santiago. The source datasets for Mexico—the 2008 Encuesta Nacional de Ingresos y Gastos de los Hogares and the 2009 Encuesta Nacional sobre Uso del Tiempo—cover the entire country.

Masterson finds that the quality of his statistical matching is very good on the whole, given the nature of the source datasets. The overall distribution of time use is transferred with reasonable accuracy and the distributions within small subgroups are transferred with good precision. Therefore, the LIMTIP is able to adequately portray the distribution of household production, given the data limitations.

www.levyinstitute.org/pubs/wp_692.pdf

Euroland in Crisis as the Global Meltdown Picks Up Speed

DIMITRI B. PAPADIMITRIOU and L. RANDALL WRAY
Working Paper No. 693, October 2011

President Dimitri B. Papadimitriou and Senior Scholar L. Randall Wray survey the mess in the eurozone alongside the fragility of the US financial system and conclude that a new global financial crisis is likely. Beginning with the eurozone, the authors argue that there is a widespread failure to understand the nature of the problems there. The central issue is not profligate spending by debtor-nation governments but rather the very setup of the European Monetary Union (EMU). The real problem, they say, lies in current account imbalances within the eurozone. The solution favored by many EMU leaders—austerity on the periphery—will not improve deficit ratios in the private and government sectors unless these imbalances improve. Debt relief is the only way that Greece, Ireland, Portugal, and perhaps even Spain and Italy can remain in the EMU.

The authors evaluate a number of proposed solutions, including one offered by their colleagues Yanis Varoufakis and Stuart Holland (see Policy Note 2011/3) that involves the European Central Bank (ECB) purchasing a portion of member-state sovereign debt and holding it as eurobonds. They argue that if the EMU is going to stay together, it must be reformulated. This would involve expanding the fiscal policy space of the European Parliament and having the ECB stand behind national debt. Although there are many economically sound solutions, say the authors, the obstacles are primarily political.

For the US financial system, Papadimitriou and Wray see troubled times ahead. The speculative bubble in commodities is slowly deflating. The authors run through the reasons to believe that the biggest US banks are already insolvent, including the observation that there is still a significant amount of debt linked to a declining real estate market that is either held directly by US financial institutions or will affect them due to extensive debt layering across the financial system. A new collapse, whether triggered by events in Europe or in the United States, is likely. In the event of a European banking crisis, US money market mutual funds would be at risk, as roughly half of their $3 trillion in funds is invested in European banks. After adding in US banks' exposure to Europe, we are looking at a potential $3 trillion at risk for US finance. The United States needs to adopt a three-pronged approach, say the authors: direct job creation, debt relief (involving a process for writing down mortgage debt), and the resolution of insolvent financial institutions.
www.levyinstitute.org/pubs/wp_693.pdf

Reducing Economic Imbalances in the Euro Area

GREGOR SEMIENIUK, TILL VAN TREECK, and ACHIM TRUGER
Working Paper No. 694, October 2011

In accordance with the Stability and Growth Pact (SGP), members of the European Monetary Union (EMU) must submit national Stability Programmes (SPs) projecting macroeconomic developments and government plans for achieving stability. Gregor Semieniuk, Till van Treeck, and Achim Truger of the Macroeconomic Policy Institute (IMK), Hans Böckler Foundation, Berlin, evaluate the April 2011 SPs, which make forecasts for the period 2011–14. Using an analysis that relies on accounting identities (the public, private, and foreign financial balances), the authors find that the SPs are overly optimistic, largely because they neglect current account imbalances within the EMU and require growing demand from outside the Union.

After encapsulating the financial balances approach, the authors discuss the importance of looking at private sector financial balances when declaring government deficits to be "sustainable" or "unsustainable." A government's financial position cannot be considered "sustainable" without also taking into account the balance in the private sector. Large private deficits can lead to solvency crises, which, through automatic stabilizers and discretionary interventions, result in ballooning public deficits. The authors point to the examples of Ireland and Spain, both of which had very low public debt and deficits but large private sector deficits prior to the recent crisis. The SGP is flawed, they say, because it focuses exclusively on government deficits and ignores private balances.

Looking at the SPs as a whole, Semieniuk, van Treeck, and Truger note that the projections require an improvement in the eurozone's current account with the rest of the world. With the government and private sectors cutting back, the foreign balance would have to act as a buffer to prevent a collapse in growth. However, given the risks and adjustments facing the global economy, an assumption of rising global export demand

is shaky at best—making the SP growth and fiscal consolidation projections overly optimistic. The projections derived from the SPs also show current account imbalances continuing to grow within the eurozone, with an improvement in the current accounts of Greece, Portugal, and Spain (largely through depressed growth), an increase in German and Dutch surpluses, and growing current account deficits in Italy and France. In the absence of rising demand from outside of the euro area, a coordinated, "symmetric" effort aimed at rebalancing current accounts within the eurozone would delay fiscal consolidation—since it would require surplus countries like Germany to willingly run bigger government deficits—but would avoid a collapse in growth rates and ultimately encourage EMU stability.
www.levyinstitute.org/pubs/wp_694.pdf

Orthodox versus Heterodox (Minskyan) Perspectives of Financial Crises: Explosion in the 1990s versus Implosion in the 2000s

JESÚS MUÑOZ
Working Paper No. 695, November 2011

Researcher, Jesús Muñoz compares and traces the origins of orthodox and heterodox theories of financial crises. Muñoz uses "fourth-generation" models as stand-ins for the orthodox approach, while Hyman P. Minsky's theories represent the heterodox model in his comparison. Muñoz concludes that Minsky's heterodox approach, in part because it considers the causes of financial crises to be endogenous to the system, produces a more coherent and timely analysis. While orthodox models constructed to explain the financial crises of the 1990s have some relevance, says Muñoz, Minsky's insights are better at explaining, and providing policy solutions for, the latest, more complex crises.

Fourth-generation models embody a neoclassical vision in which crises are isolated, exceptional episodes. In these models, the causes of crises are represented as external shocks. In addition, says Muñoz, they ignore the fact that productive investment is endogenously determined in the financial sector—one of John Maynard Keynes's central insights regarding the operation of modern economies. As for the policy implications, since crisis triggers are viewed as exogenous, the prescribed measures—raising interest rates, imposing capital controls, and providing emergency credit—are primarily "palliative." The orthodox models are, for the most part, silent about pursuing preventive financial structure reforms, says the author.

Extending concepts from Keynes, Minsky places the financial sector at the heart of financial crises, with financial innovation paving the way and the accumulation of private debt pushing the economy toward crisis. Booms generate busts amid speculative bubbles in asset prices. Fragility is not the result of an underdeveloped financial system but rather a normal part of capitalism in these heterodox models. In contrast to the orthodox approach, crises are endogenous. In Minskyan models, money has an impact on the real sector and ignites crises, in contrast to the neglect of money in neoclassical theory. Muñoz contends that a progression through Minsky's three borrowing stages—hedge, speculative, and Ponzi—can be discerned in the subprime mortgage crisis.

As for policy, recommended heterodox measures evolve in response to interactions between institutions and endogenous forces, and include restructuring and simplification of the financial system. Government intervention in the form of countercyclical fiscal policy and the lender-of-last-resort function can also mitigate instability by setting upper and lower limits that constrain the unstable dynamics of the system. According to Muñoz, heterodox policy is preventive rather than palliative.
www.levyinstitute.org/pubs/wp_695.pdf

Time Use of Mothers and Fathers in Hard Times and Better Times: The US Business Cycle of 2003–10

GUNSELI BERIK and EBRU KONGAR
Working Paper No. 696, November 2011

Over the course of the latest financial crisis and ensuing 2007–09 recession, we witnessed a convergence in the employment rates of men and women, observe Gunseli Berik, University of Utah, and Research Associate Ebru Kongar. The authors turn to data from the American Time Use Survey (ATUS) covering the period 2003–10 in order to figure out whether this narrowing of differences between men and women was also reflected in unpaid work, personal care, and leisure time. They find that the gap in unpaid work narrowed during the recession but widened thereafter, while differences in leisure time grew more unequal.

While the recession took a severe toll on male employment rates, the authors point to evidence that women's employment participation actually increased—likely as a means of bolstering household incomes. The question is whether disparities in unpaid work hours, where women have borne a disproportionate share of the burden, similarly shrank. The authors' sample was composed of ATUS respondents between 18 and 65 years of age who resided in the same household with a spouse and at least one child. What they discover is a "U-shaped" development in women's unpaid work hours over the course of the recession, with the number of hours dropping initially, then rising in the postrecession period. Convergence in the unpaid work hours of men and women during the recession was driven entirely by this decline in women's hours. Men's unpaid work hours remained unchanged, although the composition of these hours shifted from housework to child care. Men reallocated their decline in paid work hours to leisure rather than unpaid work, widening the gender inequality in leisure (women's time for leisure and personal care declined over the 2003–10 cycle). According to the authors, their research shows that the trade-off between paid and unpaid work (or market versus home provisioning) is stronger for women than for men.

In order to tell a more detailed story about the progression in women's unpaid working hours, the authors break down unpaid work tasks to look at gender segregation in housework and child care. Overall, they find that housework is more gender segregated than child care. However, changes in the hours devoted to housework followed the U-shaped pattern described above for women, while segregation in child care continued to fall throughout the recession. The authors conclude that, while a modest desegregation of child care is under way, housework has been resistant to any steady erosion of gender-based inequalities in unpaid work burdens. Although some of these changes in the gender disparity in unpaid work over the business cycle were due to changes in employment status, the authors show that the narrowing gender gap in unpaid work hours during the recession, as well as the widening gap during the recovery, were largely a result of changes within employment categories.
www.levyinstitute.org/pubs/wp_696.pdf

Distribution and Growth: A Dynamic Kaleckian Approach

F. PATRIARCA and C. SARDONI
Working Paper No. 697, November 2011

In the event of a nominal increase in wages, what are the effects on growth, profits, and output? This is the question taken up by F. Patriarca and C. Sardoni, Sapienza University of Rome, who present their working paper as an extension of a posthumously published article by Michal Kalecki. The authors proceed with a dynamic analysis carried out within a Post-Keynesian/Kaleckian framework to determine the effects of a wage increase in an imperfectly competitive economy with unemployment of labor.

Kalecki argued that, contrary to the predictions of mainstream economics, an exogenous increase in nominal wages does not necessarily produce a fall in aggregate profits. However, even if such a distributional shock in favor of wages does not negatively affect profits in the same period that the shock occurs, the authors say, the increase in wages may affect capitalists' expenditure decisions in future periods. In order to deal with this possibility, Patriarca and Sardoni develop a dynamic model that takes into consideration the expenditure decisions following the wage rise as well as the pricing policies enacted to restore the initial level of markups. Focusing on investment decisions, the authors look at the two contrasting effects of a wage increase: (1) a boost in demand generated by higher wages, and (2) a negative profit effect due to an initial decline in markups. Their model shows that under certain conditions the first effect can be dominant, such that a wage increase can set off a process that leads to the economy settling on a new equilibrium marked by higher output and employment. However, the authors note that the income distribution remains unchanged throughout this process, due to price increases over time.

The conditions under which this new equilibrium can be reached following an exogenous wage increase are: (1) capitalists must react by increasing net investment and refraining from contracting their consumption, and (2) the latter will be possible even in the face of reduced markups if the financial sector as a whole provides additional credit and financial resources. As a consequence, Patriarca and Sardoni explain, the policy implications of their analysis diverge from mainstream recommendations. While orthodox analysis calls for tighter monetary policy to fight inflation in the event of an exogenous wage

increase, the authors' model suggests that expansionary monetary policy (availability of credit) can enable a higher, more socially satisfactory equilibrium.
www.levyinstitute.org/pubs/wp_697.pdf

INSTITUTE NEWS

Upcoming Events

21st Annual Hyman P. Minsky Conference

Debt, Deficits, and Financial Instability
Ford Foundation, New York City
April 11–12, 2012

In April 2012, leading policymakers, economists, and analysts will gather in New York at the Ford Foundation to take part in the Levy Institute's 21st Annual Hyman P. Minsky Conference. This conference will address, among other issues, the challenge to global growth represented by the eurozone debt crisis; the impact of the credit crunch on the economic and financial markets outlook; the sustainability of the US economic recovery; reregulation of the financial system; and the larger implications of the debt crisis for US economic policy, and for the international financial and monetary system as a whole.

Additional information will be posted on our website (www.levyinstitute.org) as it becomes available.

The Hyman P. Minsky Summer Seminar

Blithewood, Annandale-on-Hudson, N.Y.
June 16–24, 2012

The Levy Economics Institute of Bard College will hold its third Minsky Summer Seminar in June 2012. The Summer Seminar provides a rigorous discussion of the theoretical and applied aspects of Minsky's economics, with an examination of prescriptive policies relevant to the current economic crisis. It is of particular interest to graduate students, recent graduates, and those at the beginning of their academic or professional career. For more information, visit www.levyinstitute.org.

Levy Institute Launches Greek Website

Policy coordination and information exchange are critical to resolving the eurozone's sovereign debt crisis. With this in mind, the Levy Institute is making selected publications that address specific aspects of the crisis—including policy briefs, one-pagers, and working papers—available online in Greek translation. A list of our current titles is available at www.levyinstitute.org, and more will be added weekly.

1967 Israeli Census Now Available Online

In the summer of 1967, just after the Six-Day War brought the West Bank and Gaza Strip under Israel's control, the Israeli Central Bureau of Statistics conducted a census of the occupied territories. The resulting seven volumes of reports provide a snapshot of this population at a critical historical moment, and 30 years prior to the next census benchmark in 1997. As an aid to researchers, the Levy Economics Institute is making these volumes available in digital format for the first time. To access the Census database, go to www.levyinstitute.org, and click on the Immigration, Ethnicity, and Social Structure program link.

New Research Associate and Policy Fellow

Research Associate and Policy Fellow C. J. Polychroniou is a political economist / political scientist whose primary expertise is in international political economy. His research focuses on globalization, the political economy of the United States, European economic integration, and the deconstruction of neoliberalism's political project. He has taught in universities in Greece and the United States, and was founder and director of the Center for the Study of Globalization in Athens. He has published five books, including *Marxist Perspectives on Imperialism: A Theoretical Analysis* (1991), *Perspectives and Issues in International Political Economy* (ed., 1992), and *Discourse on Globalization and Democracy: Interviews with Leading Thinkers of Our Time* (in Greek; 2002). His articles have appeared in a variety of journals and magazines, including *New Politics*, *New Political Science*, *Socialism and Democracy*, *Theseis*, and *Kyklos*.

Polychroniou holds a Ph.D. from the University of Delaware.

New Research Associate

Ebru Kongar is chair and associate professor of economics at Dickinson College. She is an associate editor of the journal *Feminist Economics* (2008 to present), and also guest edited, with Elora Shehabuddin and Jennifer Olmsted, its forthcoming Special Issue on Gender and Economics in Muslim Communities. She served on the International Association for Feminist Economics Travel Fund Scholarship Selection Committee from 2006 to 2007, and as committee co-chair in 2008. Her research focuses on the two-way relationship between gender inequalities and macroeconomic developments (economic crises, globalization, trade expansion in manufacturing, and services and deindustrialization) in the US economy.

Kongar received a BS in economics from Bogazici University (Istanbul, Turkey) and a Ph.D. in economics from the University of Utah.

PUBLICATIONS AND PRESENTATIONS

Publications and Presentations by Levy Institute Scholars

PHILIP ARESTIS *Senior Scholar*

Publications: "Malcolm Sawyer: An Appreciation" and "A Critical Appraisal of the New Consensus Macroeconomics," in P. Arestis, ed., *Microeconomics, Macroeconomics and Economic Policy: Essays in Honour of Malcolm Sawyer*, Palgrave Macmillan, 2011; "An Analysis of the Causes of the 'Great Recession' and Some Policy Implications" (with E. Karakitsos), in T. Niechoj et al., eds., *Stabilising an Unequal Economy? Public Debt, Financial Regulation, and Income Distribution*, Metropolis-Verlag, 2011; "Classifying Monetary Economics: Fields and Methods from Past to Future" (with A. Mihailov), *Journal of Economic Surveys*, Vol. 25, No. 4 (September); "Current Financial Crisis and Regulatory Implications" (with E. Karakitsos), *History of Economic Ideas*, Vol. 19, No. 2 (Autumn); "Trade Flows Revisited: Further Evidence on Globalisation" (with G. Chortareas, E. Desli, and T. Pelagidis), *Cambridge Journal of Economics*, Vol. 35, No. 6 (November); "Eurobonds Will Need a Form of Political Union: Letter to the Editor" (with M. Sawyer), *Financial Times*, August 18; "Economic Policy Implications of the 'Great Recession' (with E. Karakitsos), in H. Herr et al., eds., *From Crisis to Growth? The Challenge of Imbalances and Debt*, Metropolis-Verlag, 2012.

Presentations: "Fiscal Policy: Time for the Renaissance of Keynesianism," conference in honor of the 75th anniversary of John Maynard Keynes's *The General Theory of Employment, Interest and Money*, Austrian Chamber of Labour, Vienna, Austria, September 29, 2011; "Economic Policy Implications of the 'Great Recession,'" and "Modelling Accumulation: An Empirical Application of the Accelerator Principle Under Uncertainty" (with A. R. Conzalez Martinez and O. Dejuan), 15th annual conference of The Research Network Macroeconomics and Macroeconomic Policies, "From Crisis to Growth? The Challenge of Imbalances, Debt, and Limited Resources," Macroeconomic Policy Institute (IMK), Berlin, Germany, October 28–29; "The Dysfunctional Nature of the Economic and Monetary Union" (with M. Sawyer and G. Fontana) conference on "The European Union's Economic and Social Model—Still Viable in a Global Crisis?" School of Law, University of Leeds, England, December 8–9.

JAMES K. GALBRAITH *Senior Scholar*

Publications: "Four Crisis Books: A Review Essay," a review of *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System* by Henry M. Paulson Jr., *This Time Is Different: Eight Centuries of Financial Folly* by Carmen M. Reinhart and Kenneth S. Rogoff, *Fault Lines: How Hidden Fractures Still Threaten the World Economy* by Raghuram G. Rajan, and "The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States," *International Finance*, Volume 14, No. 2 (Summer); "Stop Panicking About Our Long-Term Deficit Problem: We Don't Have One," *The New Republic*, August 9, 2011; "Fixing the Economy: We Got It Wrong," *Los Angeles Times*, August 15; "Economist Argues Deficit Helps Economic Crisis Mend," NPR.org, August 18; "Reducing Poverty—What Might We Learn?" *European Journal of Development Research*, Vol. 23, No. 4 (September 2011); "WWKD: He Wouldn't Use Debt As an Excuse," in "What Would Keynes Do? A Forum," *The Nation*, October 6; "Economist Blames Credit Markets," *San Antonio Express-News*, October 20; "Is Income Inequality Rising in the USA?" WOAI 1200 News Radio, San Antonio, Texas, October 21.

Presentations: "Economic Policy: Undermining the American Dream?" Cambridge Forum, Cambridge Mass., September 8, 2011; remarks on technology and development and the European crisis, SAP World Tour 2011, Athens, Greece, October 4; keynote speech, Alpbacher Finanzsymposium, Alpbach, Austria, October 5; panelist, "Poverty and Inequality—Lessons to be Learnt," Graduate Institute of International and Development Studies, Geneva, Switzerland, October 12; keynote address, 2011 FEPS/TASC Autumn Conference, Dublin, Ireland, October 15; "The Ethics and Economics of Inequality," Frank Bryant, Jr. Memorial Lecture series, The University of Texas Health Science Center at San Antonio, October 20.

JAN KREGEL *Senior Scholar and Program Director*

Publication: "Will Restricting Proprietary Trading and Stricter Derivatives Regulation Make the US Financial System More Stable?" *PSL Quarterly Review*, Vol. 64, no. 258 (2011).

Presentations: "Debtors' Crisis or Creditors' Crisis? Who Pays for the European Sovereign and Sub-prime Mortgage Losses?" workshop on "Is the Debt Crisis Over?" Universidad Autónoma Metropolitana (UAM), Unidad Xochimilco, Mexico City, Mexico, July 12, 2011; "The Case for Global Collective Action in Financial Regulation," workshop on "A Global Architecture for Effective Financial Regulation," Global Economic Governance Programme, University College, Oxford, England, June 30; "Strategies for Growth after the Crisis," IV Annual Meeting of the Associação Keynesiana Brasileira, Rio de Janiero, Brazil, August 3–4; "The State of International Regulation since the Financial Crisis—Reregulation in the US: The Dodd-Frank Act," conference on "Managing the Capital Account and Regulating the Financial Sector: A Developing Country Perspective," organized by the Initiative for Policy Dialogue, Instituto de Pesquisa Econômica Aplicada, and UN Department of Economic and Social Affairs, Brazilian Development Bank (BNDES), Rio de Janiero, August 22–24; "Heroes or Villains? Correct Forecasts of the Sub-Prime Financial Crisis," keynote lecture, 14th Annual Summer School on History of Economic Thought, Economic Philosophy and Economic History, Institute of Social Sciences, University of Lisbon, Portugal, September 1; "Too Big to Fail and the Gramm-Leach-Bliley Act: We Can't Solve the First without Reversing the Second," conference on "Too Big to Fail Financial Institutions? International Perspectives and Possible Remedies," Center for Interuniversity Research and Analysis on Organizations, Montreal, Canada, September 15; "Finance, Development and Democracy," Ford Foundation Conference on "Financial Institutions for Sustaining Broad-based Democratic Development," School of Oriental and African Studies, University of London, England, September 25; "Debtors' Crisis or Creditors' Crisis? Who Pays for the European Sovereign and Sub-prime Mortgage Losses?" conference on "Ponzi Finance, Public Debt and Financial Crisis: The European Case and How to Prevent It from Happening Again," Instituto Valenciano de Investigaciones Económicas, Valencia, Spain, September 29; three lectures on "Financial Crisis or Crisis in Economic Theory?" Semana de las Ciencias Economicas, UAM, Unidad Xochimilco, Mexico City, October 3–7; "A Critical Assessment of the Proposals to Resolve the Euro Crisis," Department of Public Administration, Tallinn Technical University, Estonia, October 26; "Embedding Monetary Production," Ford Foundation Conference on "Building Bridges: Keynes-Minsky-Polanyi," University of California, Berkeley, October 30–31; "Summing Up and Conclusions," workshop on the Ford Foundation Project "Research and Policy Dialogue Project on Improving Governance of the Government Safety Net in Financial Crises," Ford Foundation, New York, N.Y., November 4; panelist, "The BICs Strategies for Weathering the Crisis" and "From Weathering the Crisis to Re-Building Prosperity: New Policy Perspectives," Minds Conference on "New Economic Thinking, Teaching and Policy Perspectives—A Brazilian Perspective within a Global Dialogue," Rio de Janeiro, November 7–9; "Recent US Legislation: The Dodd-Frank Bill and Financial Instability," workshop on "New Directions in Financial Regulations," organized by the International Development Economic Associates and Centre for Banking Studies of the Central Bank of Sri Lanka, Colombo, November 22–26; "How Reformed Is International Finance?" Central Bank of Sri Lanka Public Lecture Series, Colombo, November 22.

ELLEN CONDLIFFE LAGEMANN *Senior Scholar and Program Director*

Publications: *What Is College For? The Public Purpose of Higher Education* (edited with H. Lewis), Teachers College Press, 2011; "What College Can Mean: Lessons from the Bard Prison Initiative," *Change* (November).

Presentation: "What is College for?" Harvard Club of New York City, October 2011; panel discussion on Oliver Zunz's *Philanthropy in America*, Bradley Center for Philanthropy and Civic Renewal, Hudson Institute, Washington, D.C., November 16.

THOMAS MASTERSON *Research Scholar*

Presentations: "Let's Talk Local," "Hello Etsy: A Summit on Small Business and Sustainability," Hudson, N.Y., September 18, 2011; "Living Standards in the United States in a Historical and Comparative Perspective: Some Results from the LIMEW Project," 3rd Triennial Research Conference of the International Confederation of Associations for Pluralism in Economics: "Rethinking Economics in a Time of Economic Distress," University of Massachusetts Amherst, November 12.

DIMITRI B. PAPADIMITRIOU *President*

Publications: "Fed's $1.2 Trillion in Financial Sector Loans 'A Classic Case of Moral Hazard,'" *The Huffington Post*, August 22, 2011; "Historically GDP Growth Is Off by 11.9% and Labor Markets Should've Already Bounced," *Forbes*, August 30; "The Die-Hard Recession Heads Off the Charts," *New Geography*, September 8; "Endgame for the Euro," *The Huffington Post*, September 18 (published in *Eleftherotypia* under the title "A Euro Skeptic," September 22); "The Achilles' Heel of the Eurozone," *Los Angeles Times*, November 2; "Greece and the Eurozone Crisis," *Kathimerini*, November 13; "The Future of the Eurozone and Greece's Place in It," *Eleftherotypia*, November 20; *Contributions in Stock-flow Modeling: Essays in Honor of Wynne Godley* (edited with G. Zezza), Palgrave Macmillan, 2012.

Presentations: Interview regarding the US unemployment rate with Marília Ávila, Agência Leia, September 1; interview regarding a Greek default and the eurozone with Ian Masters, *Background Briefing*, September 20; interview regarding Standard & Poor's rating downgrade of Italy with Paula Selmi, Agência Leia, September 21; interview regarding the European economy with Andrew Hiller, *Voice of Russia*, September 28; interview regarding lessons to be learned from other countries' experience as the United States tackles the jobs crisis, Catherine Hollander, *National Journal*, October 7; speaker, International Working Group on Gender, Macroeconomics and International Economics (GEM-IWG) Knowledge Networking Program on Engendering Macroeconomics and International Economics, 1st Regional European Workshop on "Monetary Policy in Historical Perspective: Changing Objectives of Monetary Policy—Gender Implications," Istanbul, Turkey, October 13; "The End of the Eurozone? Structural Imbalances, Fiscal Austerity and the Inadequacy of Current Responses to the Sovereign Debt Crisis," keynote address, symposium on "Gender Perspectives on the Current Economic Crisis in Europe and Beyond," organized by GEM-IWG, GEM-Europe, and GEM-Türkiye, Istanbul, Turkey, October 17; interview regarding the banking crisis in the United States and Greece with Nefeli Lygerou, *Pandora's Box* (Greek television), October 21; interview regarding the Greek crisis with Ian Masters, *Background Briefing*, October 23.

AJIT ZACHARIAS *Senior Scholar*

Presentations: "Measuring Poverty in Mexico: The Time–Income Dimension," Conferencia Internacional del 70 Aniversario de la Revista Investigación Económica, UNAM, Mexico City, Mexico, September 6-9, 2011; "Living Standards in the United States in a Historical and Comparative Perspective: Some Results from the LIMEW Project," conference on "A Brighter Future: Improving the Standard of Living Now and for the Next Generation," Colorado Policy Studies Center, University of Colorado, Colorado Springs, October 20–22; "Time–Income Poverty Nexus: A Neglected Dimension of Poverty in the Process of Economic Development," V Congreso Internacional de Economía Ética: BRICS en el Orden Económico Mundial, Universidad Santo Tomás, Bogota, Colombia, October 26–28.

GENNARO ZEZZA *Research Scholar*

Publication: *Contributions in Stock-flow Modeling: Essays in Honor of Wynne Godley* (edited with Dimitri B. Papadimitriou), Palgrave Macmillan, 2012.

Presentations: "Stock-Flow-Consistent Models: With Some Thoughts on the Eurozone Crisis," seminar, Università di Bergamo, October 4, 2011; "Is a New Bancor Feasible?" seminar, Università di Roma "La Sapienza," October 7.

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