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Summary

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To our readers:

We begin this issue with a working paper from Research Scholar Gennaro Zezza and Francesco Zezza under the State of the US and World Economies program in which they argue that while a simple benchmark stock-flow-consistent model can be a convenient starting point, when applied to an entire country's balance sheet it may produce misleading results. For more accurate models, they suggest beginning with an evaluation of the available data and building the model with a top-down approach that references the specific features of the economy under investigation.

In a public policy brief under the Monetary Policy and Financial Structure program, Senior Scholar and Director of Research Jan Kregel examines John Maynard Keynes's clearing union proposal alongside Keynes's alternative theory of money to highlight the flaws in the blueprint followed in the creation of the eurozone and its settlement and payment system. A policy note, also by Kregel, revisits the fall of Lehman Brothers and the collapse of the US financial system, asserting that the work of Distinguished Scholar Hyman Minsky should play a more central role in the debates around preventing the inherent instability of the financial system from turning into a prolonged crisis in the real economy. In the first of three working papers in the program, Research Associate Sunanda Sen investigates the role of social institutions in investment decisions in capitalist systems, noting that they are often neglected in mainstream economics, which is instead guided by optimization of stock market returns. Iván D. Velasquez discusses Lauchlin Currie's and Hyman Minsky's non-orthodox perspectives on monetary economics in the context of a November 1987 debate at the National University of Colombia in Bogotá in an attempt to determine their respective positions in these undocumented discussions. Using eight central banks' annual reports, Research Scholar Jörg Bibow explores the evolution of central bank profits as fiscal revenue before and in the aftermath of the global financial crisis to ascertain the impact of experimental policy on profits, profit distribution, and financial buffers, concluding that any final assessment will only be possible after such policies normalize.

Under the Gender Equality and the Economy program, a working paper by Research Scholar Martha Tepepa presents a theoretical analysis of two programs implemented to combat poverty in Latin America—Mexico's Prospera and Argentina's Asignación Universal por Hijo—assessing their scope, successes, and shortcomings with reference to social equity and their impact on the well-being of the population they are intended to serve.

A working paper by Research Scholar Lekha S. Chakraborty, Marian Ingrams, and Yadawendra Singh under the Employment Policy and Labor Markets program evaluates the impact of gender budgeting on gender equality and fiscal spending in Asia Pacific countries, highlighting its potential for increasing efficiency while promoting inclusive and equitable development.

As always, I welcome your comments and suggestions.

Dimitri B. Papadimitriou, *President*

INSTITUTE RESEARCH

Program: The State of the US and World Economies

On the Design of Empirical Stock-Flow-Consistent Models

GENNARO ZEZZA and FRANCESCO ZEZZA
Working Paper No. 919, January 2019

Amid growing interest in the stock-flow-consistent (SFC) approach to macroeconomics, Research Scholar Gennaro Zezza and Francesco Zezza, University of Siena, note that many new contributions are theoretical and do not attempt to fit model variables to data for an actual economy. Because the SFC approach can be useful in providing warnings about financial instability and produce more realistic projections compared to mainstream models, the authors detail a methodology for an individual country to illustrate how, in order to arrive at the most accurate conclusions, the models must be built after careful examination of the available data, with reference to specific features of the economy under investigation.

The authors lay out the main principles of stock-flow consistency—horizontal consistency, vertical consistency, flow-to-stock consistency, balance sheet consistency, and stock-to-flow feedbacks—suggesting that balance sheet consistency should guide model design. To achieve balance sheet consistency and establish the interconnections between balance sheets and flows of payments, the financial assets of a sector must match the liabilities of one or more sectors, keeping in mind that the stock of real and net financial assets for each sector must be connected to the flows of investment and the net lending/borrowing position, respectively, and the financial liabilities of one sector must imply payments to the sector holding the corresponding assets. Once a complete description of the balance sheet of all institutional sectors is formulated (for all the financial assets for which data is available), the model's degree of complexity is reduced according to the relevant research questions to be addressed and the specific features of the economy under investigation. At this point, the authors observe the importance of evaluating the data to assess how it has been manipulated—for example, whether assets and liabilities have been netted out or consolidated for each sector. Additionally, some information, such as measures of the stock of capital and net lending, are not often available and must be estimated from existing data. To ensure accounting consistency, the sum of the value of assets must match the sum of liabilities, which may require an additional step of "squaring" the matrix.

Once the data has been examined, Zezza and Zezza suggest using a top-down approach to model building, where one starts by comparing the research question to be answered with the available data, in contrast with bottom-up contributions that start with a simplified description of an economy and attempt to connect the theoretical structure to the data. They offer examples from three countries—Greece, Ecuador, and Italy—to illustrate how data availability and the particular features of a specific economy can influence the model design.

For Greece, data comes from two sources: the Bank of Greece and the Hellenic Statistical Authority. After reconciling the different ways small firms are allocated to sectors in the two datasets, the authors expect an SFC model that consolidates the private sector and focuses on a three-sector economy (private, government, and the rest of the world) to be sufficient for explaining the Greek economy. In the case of Ecuador, where the government is in a net positive financial position because of its participation in the capital of domestic business, the authors assert that the modeler must choose an unconventional approach to supply and demand of shares from domestic business, as well as to the portfolio management of the government. With respect to a model for Italy, the authors claim that real assets and public debt play a significant role in the Italian economy and therefore should drive model design.

Zezza and Zezza conclude that while a simple benchmark model that is applicable to any country at any time may be a convenient starting point, it could lead a researcher to misinterpret the specific institutional features of the country under study. Instead, they suggest model design should be guided by analysis of the balance sheets of institutional sectors at a recent point in time while also considering how the major assets and liabilities evolved over the period the researcher is investigating.

www.levyinstitute.org/pubs/wp_919.pdf

Program: Monetary Policy and Financial Structure

Globalization, Nationalism, and Clearing Systems

JAN KREGEL

Public Policy Brief No. 147, March 2019

As continued global market integration collides with growing demands for national political sovereignty over economic affairs, Senior Scholar and Director of Research Jan Kregel contrasts two approaches to managing the tensions between international financial coordination and national autonomy. Kregel's examination of John Maynard Keynes's clearing union—a proposal to reform the postwar international financial system that was ultimately abandoned in favor of what would become the Bretton Woods system—and his articulation of the alternative theory of money motivating Keynes's proposal highlight the flaws in the blueprint followed in the creation of the eurozone and its settlement and payment system. In this policy brief, the clearing union serves as a model for how to secure national policy autonomy while enabling a balanced adjustment process. More broadly, one of the central challenges facing continued international economic development, according to Kregel, is to reconcile global integration with divergent national policy objectives.

Keynes's critique of the gold standard as a global coordination system can help reveal some of the fundamental errors committed in the establishment of the European Economic and Monetary Union (EMU) and the development of its settlement system. The central problems Keynes identified were that the gold standard constrained national policy space and diversity—"everyone must conform to the average behaviour of everyone else," in Keynes's words—and the international adjustment mechanism operated in a manner that created imbalances that fell most heavily on those countries (that is, debtor countries) least able to bear them.

Keynes's proposed reform was centered on the creation of an international "clearinghouse" in which members would use a common unit of account to register debits and credits for the purpose of settlement. Kregel explains how Keynes's development of an alternative theory of money in the *Treatise* was central to his criticism of the gold standard and his formulation of the clearing union proposal. Kregel helps flesh out this theory of money with reference to Luigi Einaudi's concept of "imaginary" money that emerges from Einaudi's study of 17th- and 18th-century European financial practices. Keynes's challenge to the quantity theory of money, combined with the concept of offsetting debits and credits in a clearinghouse or on a common balance sheet (using "bank money"), yielded the theoretical foundation for the clearing union and its proposed unit of account, the "bancor." Unlike the gold standard, in which surpluses could be hoarded by national central banks, bancor surpluses would, within certain limits, automatically be lent to deficit countries. The adjustment mechanism would incorporate national limits on aggregate debits and credits and penalties for exceeding those limits. The chief virtue of the clearing union scheme, Kregel argues, is that it would maximize national policy autonomy within an integrated global or regional system while restoring the stabilizing role of capital flows.

Kregel contrasts the strengths of the clearing union and its theoretical underpinnings with the approach taken in the creation of the EMU. He explains that although it appears the eurozone has developed its own version of a clearinghouse-type system—the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET2) system—there are consequential differences between TARGET2 and Keynes's proposed scheme. Notably, the movement of capital would be closely regulated in the clearing union and limited to national net current account balances. By contrast, free capital flows are promoted within the eurozone—despite, as Kregel notes, the absence of a unified capital market or common, eurozone-wide debt instrument. Moreover, measures that might be thought to place limits on TARGET2 financing not only fail to effectively limit TARGET2 balances, they also exacerbate the flow of capital from deficit to surplus countries. These destabilizing flows constrain domestic policy space, creating a self-reinforcing loop that impairs growth and domestic financial conditions—ultimately worsening TARGET2 imbalances. Kregel also emphasizes that in Keynes's clearing union each country would retain its national "unit of account" and that this permits the creation of autonomous and divergent domestic economic policies—something that has been surrendered by the eurozone member-states.

www.levyinstitute.org/pubs/ppb_147.pdf

Preventing the Last Crisis: Minsky's Forgotten Lessons Ten Years after Lehman

JAN KREGEL

Policy Note 2018/5, November

Ten years after the fall of Lehman Brothers and the collapse of the US financial system, most commentaries remain overly focused on the proximate causes of the last crisis and the regulations put in place to prevent a repetition. According to Senior Scholar and Director of Research Jan Kregel, there is a broader set of lessons, which can be unearthed in the work of Distinguished Scholar Hyman Minsky, that need to play a more central role in these debates on the 10th anniversary of the crisis.

Kregel emphasizes that Minsky would have considered the 2008 global financial crisis the culmination of a process that began in the 1980s. This process was marked by a shift toward a more diminished role for government, including more restrictive fiscal policy and the rise of "monetarist" monetary policy—a shift that undermined what Minsky regarded as the automatic buffers provided by the "Big Government" and "Big Bank" (respectively, fiscal policy placing a floor under incomes and the Fed placing a floor under asset prices). Another central part of the undermining of government in the post-1980s period involved the deregulation of the financial system. Kregel places Minsky's view of financial regulation against the backdrop of his conceptualization of the operation of banks and banking in the capitalist system. Banks' pursuit of profit maximization is a key source of financial instability. What distinguishes banks is the manner in which they generate their profits: banks can "create money out of nothing" and the banking system as a whole faces no financing constraints. For the banking system, profit maximization leads to maximization of loan volume. From this perspective, if the role of prudential bank regulation is to place limits on volume, such regulation effectively functions as a constraint on bank profitability; that constraint in turn encourages financial "innovation," that is, seeking ways to create liquidity that are not constrained by prudential regulation.

This perspective allows us to understand the success—and undoing—of some key New Deal banking regulations, Kregel explains. Regulation Q supported commercial bank profits by granting a monopoly on a certain kind of liquidity creation. However, monetary policy changes undermined this "profit guarantee" for commercial banks, as higher policy rates led corporations to shift part of their business to lesser-regulated investment banks. The resulting decline of commercial bank profitability spurred innovations on the liability side of commercial banks' balance sheets (as their asset earnings declined). The era of financial deregulation was promoted in part by a perceived need to support bank profits. From this broader perspective, the subprime mortgage crisis was just "a relatively small bump on the inevitable path to crisis," as Kregel puts it.

The other key component to the process of increasing financial fragility can be understood through an examination of what Kregel describes as "the Lehman of its time": the Long-Term Capital Management (LTCM) crisis. LTCM was representative of a shift in modern finance, Kregel explains. The system was transformed from one in which the validation of debts depended on productivity gains generating income flows from the market success of business investment to one in which debt validation depends on a process of innovation in liquidity creation that drives up asset prices to generate capital gains income. Minsky labeled this new system "money manager capitalism"—a more fragile, crisis-prone system vulnerable to overconfident expectations. In this context, Kregel observes that the most prominent post-2008 regulatory changes have internally contradictory impacts. While the imposition of higher capital ratios addresses the higher risk and volatility of a system dependent on asset price appreciation, it also increases costs, which creates an incentive to further innovate to bypass regulation. Kregel argues that, ultimately, the largest financial institutions' practices have changed little from the pre-2008 period.

He concludes by stressing that financial fragility cannot be eliminated. We need to understand this fragility and resist calls for deregulation, but, as Kregel puts it, summarizing what he regards as Minsky's most important lesson: "crisis is inherent to capitalist finance." Appreciating this lesson, according to Kregel, should lead us to shore up those government institutions that can serve as bulwarks against the inherent instability of the financial system turning into a prolonged crisis in the real economy.

www.levyinstitute.org/pubs/pn_18_5.pdf

Investment Decisions under Uncertainty

SUNANDA SEN

Working Paper No. 918, December 2018

Research Associate Sunanda Sen investigates the role of social institutions in investment decisions in a capitalist system, asserting that the part played by these institutions is generally neglected in mainstream economics, which is guided by optimization of stock market returns based on imprecise estimations of probability.

With the proliferation of high finance failing to deliver proportionate growth rates in the real economy, Sen suggests it is useful to inquire as to how investment decisions are made by agents operating in deregulated global and domestic financial markets. Currently, mainstream economics employs call-put option pricing formulas—which assume "rational choice" on the part of economic agents and rule out uncertainty in the decision-making process—as a tool for making both short- and long-term investment decisions. Sen notes that the popular Black-Scholes-Merton model for call-put options that relies on an ergodic probability function using past events to determine future outcomes and assumes a normal distribution function over time has been questioned both in recent times and as far back as the 1920s. Beginning with Keynes's *Treatise on Probability* (1921), Sen cites his contention that probability was not the outcome of statistical frequencies, but a logical and rational-objective relation (where the degree of belief was a function of actual observations and knowledge) that marked a departure from the relative frequency theories of probability that were popular at the time. Claiming that the probability of an argument depends on the balance between favorable and unfavorable evidence and that additional knowledge does not necessarily lead to a better estimate of probability (and in fact may contribute to reduced levels of probability), Keynes emphasized that mathematical expectations are not always numerically measurable. By the 1930s, given the imponderables of unforeseen events (or "fundamental uncertainty"), Keynes's objective view had become a subjective one, leading to his alternative formulation of probability relations in *The General Theory of Employment, Interest, and Money* in 1936, again reflecting the idea that a higher number of observations over a wider time span does not always lead to a more accurate estimation of probabilities.

Because mainstream analysis is restricted by "bounded rationality," where the limits to human knowledge and computations prevent real-world actors from behaving according to predictions, Sen questions its usefulness in guiding investment decisions. Additionally, because the future itself keeps changing and is influenced by the actors' actions, Sen claims that investment decisions by individual agents are inevitably influenced by the prevailing sentiments in the market and shaped by the actions of others who operate in a similar manner. This results in the emergence of conventions, in a pattern akin to that described by Keynes's "beauty contest" metaphor, where opinions are formed on the basis of what one expects the average opinion to be.

Given this fundamental uncertainty and bounded rationality, Sen turns to examining how investment decisions are, in practice, made. Recently, shifting expectations have led to the use of financial innovations in the form of derivatives, such as asset-backed securities and credit default swaps, to manage risk. Though decisions to extend credit for financing these investments is largely still based on the mainstream Black-Scholes-Merton model, with probability calculated on an objective basis, it is here that Sen points to the role of institutions and the conventions they create in the form of contracts and regulatory authorities, contending that their perceived strength can increase or reduce confidence in the face of uncertainty. Sen cites the Roosevelt administration's implementation of the New Deal and Glass-Steagall regulations to separate banking and investment activity in the wake of the Great Depression as one example of social institutions providing stability in the face of uncertainty. However, she argues these changes were also undone by institutions, namely lobbies representing financial institutions, leading to the aforementioned financial innovations and increased uncertainty, which pushed up rates of return on financial assets to compensate for increased risk.

www.levyinstitute.org/pubs/wp_918.pdf

Two Harvard Economists on Monetary Economics: Lauchlin Currie and Hyman Minsky on Financial Systems and Crises

IVÁN D. VELASQUEZ

Working Paper No. 917, October 2018

Iván D. Velasquez, University of Missouri–Kansas City, considers the discussion that may have taken place during an undocumented debate in Bogotá, Colombia between Lauchlin Currie and Hyman Minsky. Providing an overview of the positions of both economists, the author examines their stances on monetary economics to speculate on what may have transpired during their meeting in November of 1987.

Noting the respective influences for the two Harvard-educated economists (Allyn A. Young, Joseph Schumpeter, and Ralph Hawtrey for Currie, and Schumpeter, Alvin Hansen, and John H. Williams for Minsky), Velasquez suggests it is no surprise that both were invited to Colombia to debate their heterodox positions. For Currie, whose dissertation focused on the 1929 crisis, recessions were caused when the Federal Reserve did not act as lender of last resort to supply the quantity of money necessary for avoiding deflationary processes. In 1937, as the US economy fell into a severe recession, Currie concluded it was a result of a sharp decline in the government's net contribution, as higher taxes and lower levels of government expenditure reduced consumption, shrunk aggregate demand, and impacted negatively on business performance. Presenting the stages that lead the economy to this unstable position—a transition period, a period of sustained progress, and a speculative period that ultimately ends with an unstable equilibrium—Velasquez notes that Currie's prescription of increased government spending is in line with Minsky's concept of "Big Government" establishing floors and ceilings for the system by always being ready to use the government deficit as a tool to stabilize the economy. Describing the crisis of October 1987, Currie presented arguments of a post-Keynesian nature, highlighting the role of the financial sector in creating the deflationary process that led to the crisis in an argument that Velasquez describes as a less-fully articulated version of Minsky's financial instability hypothesis.

With respect to government spending and effective demand, Velasquez notes again the similarities between the two economists. For Currie, because "increased expenditures wait on increased demand, and increased demand waits on increased expenditures," government must be ready to step in to fill the gap with increased spending, similar to Minsky's "institutional thwarting system" of floors and ceilings to stabilize the economy. According to Velasquez, both Currie and Minsky held that the economy was not a self-equilibrating system and that well-timed federal spending would not cause crowding out or inflationary processes. Both also advocated for spending to come in the form of employment programs—for Minsky it was the employer of last resort, while Currie focused on the "leading sector" model, in which government directs the private sector to invest in areas with the greatest demand potential—to accelerate growth and increase employment by breaking bottlenecks in the system, translating latent demand into effective demand.

It is on the role of the central bank and the banking system that Velasquez contends Currie and Minsky disagreed. Though both saw monetary policy as a fundamental tool in constraining crises, they differed in their approach. Writing in the early 1930s, Currie advocated for the 100 percent reserve plan (or "Chicago Plan") as a way to gain greater control over the money supply, with all cash and demand deposits subject to transfer by check in commercial banks backed by 100 percent reserves. Recognizing the realities of the modern banking system, Minsky disagreed with these kinds of regulations for commercial banks. By the 1990s, Velasquez asserts that Currie, too, realized this and softened his stance, looking at the demand for money alongside the supply in a manner similar to Minsky's "two prices theory" of investment, to recognize the role that banks' carry costs play in determining the cost of credit for borrowers.

Velasquez concludes that although there are no records of their Colombian encounter, the two economists' insights are useful for understanding how the banking system and monetary policy can make the economy unstable and any disagreements they may have had on these issues were not as important as their points of agreement.

www.levyinstitute.org/pubs/wp_917.pdf

Unconventional Monetary Policies and Central Bank Profits: Seigniorage as Fiscal Revenue in the Aftermath of the Global Financial Crisis

JÖRG BIBOW

Working Paper No. 916, October 2018

As a result of nonstandard measures taken following the onset of the global financial crisis (GFC), central banks' balance sheets have changed in both their size and composition. Research Scholar Jörg Bibow investigates the evolution of central bank profits (seigniorage) as fiscal revenue before and in the aftermath of the GFC, focusing on a select group of central banks to ascertain the experimental policies' impact on central bank profits, profit distribution, and financial buffers. He also considers the outlook as these monetary policy measures "normalize." Using the annual reports from the Bank of England, the US Federal Reserve System, the Bank of Japan, the Swiss National Bank, the European Central Bank, and three central banks of the Eurosystem (i.e., Deutsche Bundesbank, Banca d'Italia, and Banco de España), Bibow undertakes an empirical investigation of actual developments within these banks to shed light on the interdependencies between monetary and fiscal policy with particular reference to the evolution of seigniorage in the post-GFC world.

Historically, seigniorage arises in two ways—as the difference between what new money buys and what it costs to mint/print it, or, in the banking approach, from the interest rate spread between earnings on the central bank's assets and payments on its monetary liabilities—and was seen as a form of fiscal rent extraction or tax for providing a monetary instrument of certified value. Today, net interest income is typically the main source of central bank profit, which is then remitted to the Treasury or retained as a buffer in case of losses. The rules governing such central bank capital and reserves are arbitrary, but, Bibow suggests, should maintain a buffer that can be lost in rescue or policy operations without losing control over monetary policy operations, while at the same time not growing so large as to draw the attention of the government, which may then focus on the bank's profitability at the expense of the pursuit of its mandates.

Under normal circumstances, a central bank's profits will be fiscally significant but moderate (as central bankers tend to be risk averse) and can be expected to move in line with business and interest rate cycles. However, in unusual circumstances, such as currency market interventions and financial crises, as well as the recent experimental policies employed in the wake of the GFC, central banks' balance sheets have greatly expanded, boosting profits and changing the composition of their asset portfolios. Application of nonstandard policies also impacts asset prices, exchange rates, and interest rate levels and spreads, further affecting central bank profits and increasing risks as these policies are normalized. Because such turning points in the cycle are always critical junctures, Bibow emphasizes the importance of Keynes's reflections on the conduct of effective monetary policy, including the use of "forward guidance" to set expectations, as a way to prevent market collapse as stimulus is withdrawn.

Offering specific examples of central bank policy, Bibow examines the history of eight central banks, taking account of the peculiarities of their operations, and traces the evolution of the nonstandard policies pursued in the wake of the GFC to ascertain the effects on their balance sheets and profits. The banks under examination all experienced increased profits along with the expansion of their balance sheet in the aftermath of the GFC, though he notes that each bank has dealt with this change in a different way, with some, like those in the Eurosystem, increasing their buffers and others, like the Federal Reserve, increasing their remittances to the Treasury. Reflecting on related issues, Bibow briefly discusses some proposals recently featured in academic and popular debates, such as "helicopter money" and "QE for the people," as well as the future of money and seigniorage in the era of digital currencies.

Bibow concludes that nonstandard monetary policies implemented in response to the GFC significantly impacted not only the size and composition of central bank balance sheets, but also their profits, remittances, and financial buffers, asserting that any final assessment of their impact will only be possible after the normalization process is complete.

www.levyinstitute.org/pubs/wp_916.pdf

Program: Gender Equality and the Economy

Social Policy in Mexico and Argentina

MARTHA TEPEPA

Working Paper No. 921, January 2019

Questioning the foundation of social policies that serve as a framework for poverty-reduction strategies, Research Scholar Martha Tepepa offers a theoretical perspective on programs in Mexico and Argentina to evaluate their impact, with reference to the social equity and well-being of the population they are intended to serve.

Beginning with the historical trends around the emergence of the welfare state in Latin America, Tepepa notes the rapid urbanization in both Mexico and Argentina in the last century and the economic crises that plagued the region since the 1990s, leaving a large portion of their populations vulnerable. In Mexico, the presence of marginalized indigenous communities compounded these issues in a way not seen in Argentina, where levels of indigence and poverty were historically low thanks to a vibrant middle class that emerged in the 1920s. The middle class, supported by young immigrants who implemented European-style social programs, established Argentina's first welfare state in the early 20th century. Though a Mexican middle class emerged by mid-century, Tepepa contends they were less powerful and the social programs enacted for their protection were erratic and inconsistent. Both countries experienced growth in the postwar period, with workers and their dependents receiving social protections as an employment benefit; however, the two nations saw a surge in the percentage of their populations living in poverty following the debt crises and structural readjustment programs of the 1980s and '90s.

Through the adoption of Washington Consensus policies near the end of the 20th century, social spending was cut in the name of fiscal discipline, while provisioning of social protections and public utilities was opened to privatization. This, Tepepa argues, resulted in significant increases in poverty and inequality accompanied by an ideological shift that legitimized privatization. However, a reevaluation of the structural adjustment policies in the 1990s recognized the role of social development in enhancing economic growth, as well as the need to mitigate the deterioration in living conditions to prevent social protest and legitimize the ruling government. The implemented programs—Mexico's National Solidarity Program and Argentina's Social Plan of the National Government—were highly targeted to provide emergency relief for the poorest citizens and subject to stipulations from the international institutions that financed them. With budgets large enough to only prevent further deterioration in "outcome indicators" (such as infant mortality), poverty rates remained stable and inequality grew in both countries.

As the economic crises deepened, the deteriorating conditions generated instability. By 2002, more than half of Argentina's population lived in poverty and the country's leadership had changed five times in the previous year. Mass demonstrations by the unemployed forced the ruling class to open a dialogue with civil-society representatives, resulting in solutions that bypassed both the private sector and international organizations. Programa Jefas y Jefes de Hogar Desocupados (PJJH, or the Head of Household Program), was one result of these discussions that Tepepa identifies as an example of the new thinking around social programs. In contrast with prior programs, the PJJH was designed and implemented at the local level, and required that participants work on community-level projects. From 2002 to 2010, the PJJH was open to all households with few restrictions and featured a broad spectrum of coverage that emphasized the well-being of the entire household, not just the minors. Beginning in 2004, as the economy stabilized, the PJJH was slowly phased out and participants were transferred to one of three new programs that focused on targeted conditional cash transfers (CCTs) and removed educational components for adult members of the household.

In Mexico, the National Solidarity Program—a CCT program financed and organized by international aid organizations—had been operating since 1996. The program went through several modifications, with the most recent incarnation, Prospera, still focusing on the core objectives from 20 years ago: education for school-aged children, regular health evaluations, and health and nutrition education for beneficiaries. The program is highly targeted and serves over seven million households in rural areas; participation may or may not involve coresponsiblities and households must meet strict eligibility criteria. Unlike the PJJH, Prospera was conceived as

a temporary program and offers no educational benefits for household adults, an oversight that Tepepa suggests ignores the intergenerational nature of poverty transmission.

Tepepa concludes that economic growth derived from structural reforms has not been inclusive enough to eliminate poverty. Given the limited reach of the programs currently operating in Mexico and Argentina, she asserts they are insufficient and ineffective, and the high degree of targeting excludes vulnerable populations, further increasing inequality.
www.levyinstitute.org/pubs/wp_921.pdf

Program: Employment Policy and Labor Markets

Macroeconomic Policy Effectiveness and Inequality: Efficacy of Gender Budgeting in Asia Pacific

LEKHA CHAKRABORTY, MARIAN INGRAMS, and YADAWENDRA SINGH
Working Paper No. 920, January 2019

Gender budgeting, an approach to fiscal policy that uses national and/or local budgets as a tool for promoting inclusive development, is currently employed in over 90 countries around the world, a quarter of which are located in the Asia Pacific region. Using the United Nations Gender Development Programme's Gender Development Index (GDI) and Gender Inequality Index (GII) as proxies for gender equality, Research Scholar Lekha Chakraborty, Marian Ingrams, Center for Research on Multinational Corporations, and Yadawendra Singh, Jawaharlal Nehru University, evaluate the impact of gender budgeting on gender equality and fiscal spending in Asia Pacific counties, as well as the nexus between spending and equitable development.

Following a review of the literature, the authors note the primary motivations for gender budgeting: its perceived positive impacts on economic growth, inclusive development, and equal realization of human rights. Though the direction of the causality is unclear, growth is often an outcome of an increase in gender equality, as women improve their human capital and increase their labor force participation, thereby raising productivity; however, inequality may be a stimulus to growth in semi-industrialized nations that rely on female labor in low-wage export industries. Given the evidence that the causality may run in both directions, the authors suggest that the goal of equitable development should not be lost in the push for growth, as several studies have identified women's development as having trickle-down effects that yield immediate and long-term benefits for society. The authors assert that gender budgeting can help realize these benefits through the collection and evaluation of sex-disaggregated social and economic data to inform equitable fiscal policy and provide justification for laws that address gender disparities.

Turning next to the process, Chakraborty, Ingrams, and Singh argue that three elements of a typical budget (expenditures, revenues, and intergovernmental fiscal transfers) can all be viewed through a gender lens to advance equality. With respect to expenditures, they recommend grouping them by the percentage that will impact women and accounting for the difference between the authorized and allocated funds. For revenues, because concessions to high-earning individuals and the taxation of certain household necessities have been shown to have a negative impact on women, they suggest that tax policies should be designed with gendered priorities. Finally, the authors advocate modifying intergovernmental fiscal transfers to reward lower-tier governments for success in promoting gender parity. To achieve these goals, gender budgeting must be incorporated in the policymaking process, either through budget call circulars and budget statements or via constitutional provisions and laws. The authors provide an appendix detailing laws enacted within each of the countries in their study—for instance, with respect to economic issues, such as equal pay, or social issues, such as child marriage—to illustrate the legal climate regarding gender equality, which they imply may correlate with their gender budgeting approaches or outcomes, though they note further study is warranted.

To evaluate the relationship between gender budgeting and gender equality, the authors employ a dynamic panel estimation analysis using GDI scores to capture gender-equality-sensitive indicators for education, health, and income, and GII scores to assess gender disparities in health, empowerment, and labor force participation for each country in their study. Their results show that gender budgeting is significantly and

positively related to both the GDI and GII. Their control variables of public spending on health, education, and growth are found to be insignificant in determining the GDI, though spending on health and female labor force participation were significant in determining the GII.

Chakraborty, Ingrams, and Singh conclude that gender budgeting efforts have a more significant impact than economic growth on gender-equality-sensitive indices and that public policy variables (such as public spending on health and education) are also relevant for gender equality in the region. They suggest prioritizing the incorporation of gender budgeting in the Asia Pacific countries that have not yet done so.
www.levyinstitute.org/pubs/wp_920.pdf

INSTITUTE NEWS

UPCOMING EVENTS

28th Annual Hyman P. Minsky Conference

Levy Economics Institute of Bard College
Annandale-on-Hudson, New York
April 17, 2019

The 28th Annual Hyman P. Minsky Conference, "Trade Policies and International Adjustment Mechanisms: Implications for Global Economic and Financial Stability," will take place at Blithewood, on the Bard College campus, on April 17, 2019.

To mark the 100-year anniversary of Minsky's birth, speakers from government regulatory bodies, the private sector, and academia will seek to shed light on conditions in the US and Europe, with special emphasis on the impact of the current administration's policies with regards to a possible repeat of the 2008 financial crisis. The highlights of the conference will be presentations by the President of the Federal Reserve Bank of St. Louis and the First Vice President of the Federal Reserve Bank of Minneapolis; European conditions will be the focus of the former Governor of the Central Bank of Cyprus and the professor from the University of Groningen, while private sector analysts from hedge funds and policy think-tanks will assess the potential for current economic policies to confront the challenge of prolonging the recovery. Particular emphasis will be given to the analysis of the increasing stock of private corporate debt and rising house prices, which in both the US and Europe have reached levels similar to or higher than those seen before the Great Recession.

To learn more or to register, please visit the Levy Institute website at levyinstitute.org.

The Hyman P. Minsky Summer Seminar

Levy Economics Institute of Bard College
Annandale-on-Hudson, New York
June 16–22, 2019

The Levy Institute's 10th annual Hyman P. Minsky Summer Seminar will be held on the Bard College campus in June 2019. The Summer Seminar provides a rigorous discussion of both theoretical and applied aspects of Minsky's economics, and is geared toward recent graduates, graduate students, and those beginning their academic or professional careers. For application and other information, please visit our website.

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Gender Equality and the Economy

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Editors: Elizabeth Dunn and Michael Stephens

The *Summary* and other Levy Institute publications are available on the Institute's website.
To comment on or inquire about publications, research, and events, contact the Institute online at levyinstitute.org.

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