The Levy Economics Institute of Bard College

LEVY INSTITUTE

Summary

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Summary

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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.

The *Summary* is a quarterly publication of the Institute,intended to keep the academic community informed about the Institute's research. To accomplish this goal, it contains summaries of recent research publications and reports on other activities.

W. RAY TOWLE, *Editor*
KATHERINE HARPER, *Text Editor*

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To our readers:

This *Summary* begins with Senior Scholar James K. Galbraith's analysis of a very topical issue—the war economy. He believes that the United States is facing an economic calamity and forecasts a long and deep recession in spite of current efforts to counter this trend. What is required, he suggests, is a government stimulus package three times the amount currently proposed. A related analysis by Distinguished Scholar Wynne Godley and Research Fellow Alex Izurieta concurs with these conclusions and suggests that the deep recession can only be remedied if there are large changes in U.S. policy and elsewhere, including an immediate fiscal stimulus, reconversion to crude Keynesianism, and coordinated reflation across the world. An extract of this report, written by Godley and published in the *Guardian*, is reprinted here.

In the program on the distribution of income and wealth, a working paper by Seymour Spilerman of the Center for the Study of Wealth and Inequality at Columbia University and Research Associate Yuval Elmelech examines values and attitudes about intergenerational transfers in Israel. They find that attitudinal disposition and standard of living both have a considerable impact on transfer decisions, while ethnic terms play no role in determining transfer attitudes.

A working paper and Policy Note are summarized in the program on financial markets and monetary policy. In the former, Visiting Scholar Jörg Bibow takes exception to the view that structural rigidities are the main reason for the weakness of the euro currency. His investigative analysis suggests that the problem stems from the macroeconomic framework of the Maastricht and Amsterdam Treaties on European Union and the monetary policies of the European Central Bank. In his Policy Note, Research Associate Robert E. Carpenter contends that countercyclical monetary policy may not be effective in stimulating aggregate demand when uncertainty is high, and it is unlikely to affect the current economic slowdown. In the short run, he believes, spending increases are a more potent stabilization tool than tax cuts in the government's proposed fiscal stimulus package.

In the program on federal budget policy, Senior Scholar L. Randall Wray and I write that economists and policymakers have been living in a 30-year fantasy by shifting their economic policy preferences from Keynes to unbridled free markets. Big Government needs to play a bigger role in the U.S. economy, which otherwise may experience the sharpest downturn since World War II, followed by a slow pace of recovery comparable to the 1930s.

Two working papers are summarized under explorations in theory and empirical analysis. Visiting Scholar Jörg Bibow and Paul Lewis and Jochen Runde of the University of Cambridge examine two recent sociotheoretic perspectives on the economy and agree with Robert Shiller's approach, which explains the climb in the stock market since 1982 in terms of a plurality and confluence of causes. Martin Gaynor and Lowell J. Taylor of Carnegie Mellon University and Research Associate James B. Rebitzer analyze the impact of contracts that give physicians in an HMO network financial incentives to reduce medical expenditures. Their study shows that such incentives have a statistically and economically significant effect on expenditures for patients' medical services, and that there is no evidence that incentives adversely affect standard quality indicators.

As always, I welcome your comments and suggestions.

Dimitri B. Papadimitriou, *President*

Strategic Analysis

The War Economy

JAMES K. GALBRAITH

Policy Note 2001/8

www.levy.org/docs/pn/01-8.html

In light of the economic decline that was already under way prior to the September 11 terrorist attacks, Senior Scholar James K. Galbraith asserts that the United States is facing an economic calamity. He forecasts a very deep and long recession based on expected steep cuts in consumer spending as a result of extensive borrowing by households since 1997. If households bring their expenditures into line with income, return to normal saving levels, or try to restore depleted reserves, unemployment will rise dramatically. Factors such as technology, productivity growth, lower interest rates, or provisions of the recent tax act, he reasons, will be unable to counter this trend. He concludes that the issues of global financial architecture and the U.S. national monoculture of oil and cars lie behind the present emergency.

According to the author, current and proposed federal spending measures, including expanded unemployment insurance, extended tax rebates, and payroll tax relief, are based on numerical guesswork rather than the objective of maintaining full employment. He recommends discarding the concept of "stimulus" in favor of the larger objective of economic stabilization.Drawing on a Levy Institute Strategic Analysis by Wynne Godley and Alex Izurieta, *As the Implosion Begins...?* (2001), the author suggests that to put the U.S. economy back on an even keel would require an increase in federal budget deficits to 6 percent of GDP ($600 billion), or three times the current federal spending proposal.

Galbraith notes that business tax cuts and changes in the tax regime are useless without profits and investments. Moreover, personal tax cuts targeted at working households may not stimulate spending in a time of crisis if households increase their financial reserves and are flush with durable goods after a long expansion. He recommends payroll tax rate reductions (to effectively stabilize spending, since they target households that are income-constrained) combined with liberal federal funding increases for public health, education, transport, and other areas.

Since direct purchases by state and local governments constitute nearly 10 percent of GDP, Galbraith sees revenue sharing between federal and other levels of government to stabilize budget and service provisions and cover as much as one-fourth of total expenses this fiscal year ($300 billion) as the most effective way to stimulate the economy. This, in association with a halt in tax increases and suspension of local property and sales taxes, would provide relief to middle-class and working households. Galbraith asserts that increased state and local action,including direct job creation, should be a very high priority at this time.

Wartime monetary policy, the author notes, is inconsistent with a stable dollar unless every other major power conducts policy in the same way. Since the U.S. position today more closely resembles that of Europe in 1914 than its own in 1939, a high-order Keynesian response would have global financial repercussions and could unhinge the dollar (and potentially shift the balance of financial power to Europe).Galbraith outlines a number of scenarios that could destabilize the dollar in excess of the 20–25 percent devaluation probably needed for current account adjustment. This could lead to an economy with high unemployment and high inflation.

In light of the necessity for continued support from U.S. allies, Galbraith calls for a transition toward an effective multilateral regulatory and stabilizing global financial system. He recommends a return to a Bretton Woods framework of fixed but adjustable exchange rates among major currencies backed by a multilateral reserve, after first allowing for a substantial depreciation of the dollar. He also suggests creating regionally decentralized exchange stabilization and liquidity facilities for the developing world.

Galbraith notes that the current crisis offers compelling reasons to examine the structural sources of the U.S. trade position and to cut oil and car imports. In addition,a major national initiative in reconstructing transportation networks and urban housing patterns would usefully absorb private sector unemployment. This planning process, he suggests, should involve experts not dominated by partisan views or special interests.

The Developing U.S. Recession and Guidelines for Policy

WYNNE GODLEY and ALEX IZURIETA

Strategic Analysis,October 2001
www.levy.org/docs/stratan/recess.html

This article originally appeared as "Recession, USA" in the Guardian *on October 23, 2001, and is reprinted by permission.*

A year ago, good times seemed here to stay. Now Goldilocks and structural growth are forgotten, but the chances of spontaneous recovery are slim. The U.S. is in the early stages of a recession which could be as deep and intractable as any since the second world war, with serious consequences for the rest of the world. The situation can be remedied, but only if there are large changes in policy, in the U.S. and elsewhere.

A year ago, the general opinion in the U.S. was that the business cycle had been abolished and that the good times were here to stay. There was neither any need nor any place for active fiscal policy, and inflation would be controlled if interest rates were suitably adjusted by an independent central bank. Professor Edmund Phelps of Columbia University pronounced growth to be "structural" and in September 2000 the consensus forecast was that GDP in the U.S. would rise 3.7% between 2000 and 2001.

These euphoric views,based on a supposed "supply side" revolution, ignored the fact that aggregate demand in the U.S. had been driven for many years in an unusual and unsustainable way. The fiscal stance had become so tight that the budget was in structural surplus while net export demand had fallen so much that there was a record balance of payments deficit.

That total demand could nevertheless rise so fast was due to the fact that these negative forces were more than offset by a uniquely large rise in private expenditure relative to income. Net saving by the private sector fell from 5.5% of GDP in 1992 to –6% at the end of last year; this was the extent to which private spending at that time exceeded income.

This excess spending was only possible because there had been a prolonged surge in private borrowing which resulted in ever higher levels of debt relative to income. The whole process was obviously unsustainable and had made the private sector (businesses and households) dangerously vulnerable to negative shocks—a downturn in investment, asset prices, income, employment or profits.

Although nothing comparable had previously happened in the U.S.,similar falls in saving, generated by credit booms, drove rapid expansions in the U.K., Scandinavia and Japan just over 10 years ago. In each case there was a reversion of net saving to normal levels—that is, private expenditure fell back below income—and a severe and intractable recession.

It is clear that in the U.S.a similar implosion began in the fourth quarter of 2000. There has been a rise in private net saving caused initially by a fall in investment and stock prices, consequently the economic expansion ground to a halt in the second quarter of 2001, well before the terrorist attacks. A further slowdown, reinforced by the attacks, has almost certainly continued.

The amazing change in rhetoric has not been very edifying. Everyone agrees that the U.S. is now in recession and everyone agrees too, in an astonishing volte face, that an immediate fiscal stimulus is needed. Goldilocks and "structural growth" have been quietly forgotten. Yet it is better for the U.S. that the authorities (including chairman of the Federal Reserve Board, Alan Greenspan) be silently reconverted to crude Keynesianism than that they should be in thrall, like the poor Europeans, to the perverse doctrines of the Growth and Stability Pact spawned by the Maastricht treaty.

As to the scale and duration of the U.S. recession and the policies which may now be appropriate,three points need to be borne in mind. First, the recession may be much more severe than most people suppose; for instance the October consensus forecast is that U.S.GDP will rise by 1.2% between 2001 and 2002, implying that recovery from the recession will be in full swing in nine months' time. But if, as I believe to be possible, private net saving reverts to its historic norm over the next two years, this would remove a gigantic chunk of demand equal to about 7–8% of GDP, or $750bn, from the circular flow of income. Such a demand deficiency would swamp all the announced expansionary fiscal measures, which can hardly exceed $100–200bn per annum at the outside. If private saving were to revert to its normal level as fast as it did 11 years ago in the U.K., there could be an absolute fall of 2% in GDP between this year and next.

Second, there seems to be a growing consensus in the U.S. that, because there will soon be a spontaneous recovery, any fiscal stimulus should be temporary. However, according to the scenario I am outlining, the unravelling taking place is a reversion to a normal situation from an abnormal one. For this reason, there may be no spontaneous recovery in prospect at all. According to this story, the move of the budget over a period of years into structural surplus was misguided and will have to be permanently reversed.

Third, fiscal and monetary expansion would probably not, by themselves, provide an effective and lasting antidote—should there now be a long period of stagnation with rising unemployment—because the period starts off with such a huge balance of payments deficit. If growth were rehabilitated by unilateral expansionary measures at home, it seems probable, particularly as growth in the rest of the world is faltering, that the deficit would start growing again, perhaps reaching 6–7% of GDP in a few years.

If the balance of payments deficit were to rise this much there would be an ongoing need for huge and rising inflows of foreign capital (which might not be forthcoming), while the net foreign indebtedness of the U.S. would be reaching startling levels—40% of GDP or more. Moreover, in order to achieve adequate growth under these circumstances, there would have to be another very large, rising budget deficit. These processes could not continue. For the recovery to be sustainable, any stimulus from fiscal and monetary policy will have to be matched by measures to increase net exports.

Yet "measures to increase net exports" sounds disturbingly vacuous. As the exchange rate is no longer an instrument of policy in any ordinary sense and as spontaneous changes in rates cannot be counted on to correct imbalances automatically, the solution would appear to be coordinated reflation across the world. However, neither appropriate institutions nor agreed principles exist to give effect to such a programme.

Program: Distribution of Income and Wealth

Israeli Attitudes about Inter Vivos Transfers

SEYMOUR SPILERMAN and YUVAL ELMELECH
Working Paper No. 341, November 2001
www.levy.org/docs/wrkpap/papers/341.html

Private transfers of material resources play a critical role in the reproduction of inequality across generations. To date, little research has directly examined values and attitudes about intergenerational transfers, either from the point of view of parental motives or that of parental feelings of obligation toward offspring.

In Israel, there is a need for substantial assistance early in adult life, and a consequent reliance upon parental resources. In this working paper, Seymour Spilerman of the Center for the Study of Wealth and Inequality at Columbia University and Research Associate Yuval Elmelech examine parental asset transfers in the form of inter vivos gifts and bequests, and seek to ascertain the causes of attitude formation in regard to parental obligations. Using data for the urban Jewish population from the 1994–95 Survey of Families in Israel, they tap perceptions and views about parental responsibility to provide financial assistance, and examine the determinants of transfer attitudes with respect to four sorts of aid—home and car purchase, schooling expenses, and ongoing financial support following marriage.

The analytic strategy to explain the process of attitude development uses a regression framework and three sets of variables representing potential determinants of transfer attitudes: terms relating to parental aid receipt early in marriage, current financial resources, and dummy (control) variables for ethnicity and marriage duration. The authors first examine the impact on transfer attitudes of a respondent's own receipt of early assistance, then enter variables for current resources. This approach permits the measure of indirect effects of early transfer receipts, along with possible direct effects on attitudes. Households' financial resources are measured using three variables: objective and subjective standards of living and number of children. Three additional substantive regressors are introduced: education and age of the respondent (determinants of values and attitudes) and receipt of ongoing parental assistance. Four attitudinal constructs are then regressed against the sets of explanatory variables. The impact of attitudes on parental behavior is measured using a simultaneous equations model, which includes variables presumed to directly influence a transfer decision and others relating to attitudes about parental obligation.

A more general structural model is used to estimate an unobserved attitudinal construct—parental responsibility for assisting children financially. To account for such assistance in a variety of ways and with different goals, three indicators are constructed from the survey data: type of help provided, transfers of at least $10,000 in the past 10 years, and home purchase assistance. The results show that, at least in the Israeli context, parental transfer decisions and attitudes toward assistance are best viewed as single constructs (one for a willingness to provide transfers and another representing a diffuse sense of parental responsibility).

The main findings are that both attitudinal disposition and the respondent's standard of living have a considerable impact on transfer decisions, and that the former is not affected by having made transfers in the past. Parental attitudes have a strong direct effect on behavior while parental resources influence transfer decisions. Although attitudes influence behavior, there is no support for a cognitive consistency argument. In terms of attitude formation, there is evidence that educational attainment and modeling behavior (receipt of parental assistance in the past) affect the dispositional variable. Early homeownership appears to encourage an attitude of parental obligation, while family size has the opposite effect. A higher standard of living predisposes a parent to a more favorable view of assisting children, especially for housing and education. There is a clear trend relative to marriage duration to feelings of less responsibility for assisting with a home purchase, a result with implications for future transfer behavior of Israeli parents.

Ethnic terms were insignificant in all cases studied and, therefore, play no role in determining transfer attitudes. This suggests that, contrary to the persistence of ethnic differences in economic attainment and living standards, ethnic-based cultural divisions are small, at least with respect to the matter of parents' attitudes of responsibility for the welfare of their adult children.

Program: Financial Markets and Monetary Policy

The Monetary Policies of the European Central Bank and the Euro's (Mal)Performance: A Stability-Oriented Assessment

JÖRG BIBOW

Working Paper No. 338, September 2001

www.levy.org/docs/wrkpap/papers/338.html

Structural rigidities are often cited as the main reason for the euro currency's weakness since its inauguration in January 1999. Visiting Scholar Jörg Bibow takes exception to this viewpoint: his investigative analysis suggests that the weakness stems from the macroeconomic framework of the Maastricht and Amsterdam Treaties on European Union and the monetary policies of the European Central Bank (ECB). Bibow maintains that the Maastricht regime should not have granted the ECB unbounded discretion and that the ECB, in turn, has been incompetent in setting interest rates as a result of an antigrowth bias. Hence, economic policy rather than the market economy has been the source of economic instability and the cause of a weak euro. A more balanced and proactive attitude toward growth, he says, along with a medium-term orientation regarding inflation by the ECB, would have kept inflation lower in the short term and improved growth in the longer term.

Bibow's stability-oriented assessment begins with a review of the role of the ECB within the Maastricht regime. He identifies elements of an antigrowth attitude in the central bank's policy framework and confirms an antigrowth bias within its interest rate policies. This is followed by a presentation of the time-inconsistency hypothesis of the euro's decline,along with the economic consequences of the ECB's failure to conduct stability-oriented policies.

Bibow's analysis shows that the Maastricht regime is thoroughly flawed. Its macroeconomic policymaking displays an imbalance among the roles of flexibility, coordination, and discipline. He believes that fiscal flexibility fell prey to fiscal discipline when the goal, according to the Stability and Growth Pact, became a budget deficit of 3 percent of GDP or less within the context of a balanced or surplus budget. Automatic stabilizers were consequently shut off, causing poor economic performance. Moreover, he notes,since national fiscal policies are uncoordinated, Euroland's overall fiscal stance is largely a random outcome and the Maastricht regime is ill equipped to achieve an appropriate policy mix. In addition, discipline does not apply to the independent central bankers. They have unbounded discretion in the conduct of monetary policy, since their primary objective—price stability—is not clearly defined (it incorporates the caveat "without prejudice"). As a result, there is a single-minded commitment to the medium-term inflation record. Bibow believes that unbounded discretion, extreme goal independence, and a lack of any effective accountability for performance allow the ECB to make risky choices with potentially negative implications.

Price stability, as defined by the ECB, is a year-to-year increase in the Harmonised Index of Consumer Prices of less than 2 percent in the medium term. Bibow surmises that this is an ambiguous price target, combining a headline inflation measure with an unspecified medium-term horizon, which leads to ad hoc policymaking. Moreover, theory and evidence identify growth risks, as opposed to any improvement in economic performance associated with very low rates of inflation.

Bibow questions the ECB's chosen monetary aggregate, M3, which includes both bank deposits and marketable instruments. The reference value for M3 was set at 4.5 percent,based on a formula that includes a rather conservative real GDP growth rate of 2 to 2.5 percent. The author notes that the ECB should not have extrapolated the eurozone's economic performance of recent decades without taking into account the oil price shocks of the 1970s and disinflation policies during the 1980s and 1990s. Furthermore, measurement inaccuracies, combined with an increase in the interest-bearing monetary instruments included in the definition of M3 (which are not affected by interest rate tightening), suggest that M3 is of no strategic use as a monetary reference and should simply be treated together with other financial indicators, as is the case with other central banks.

In his review of the course of the ECB's interest rate decisions and its explanations for them, Bibow notes that the overnight lending rate at the time of the euro's inauguration, 3 percent,was remarkably low by European historical standards (although it is not clear whether it was low relative to the equilibrium rate). He cautions against ignoring the sizable negative output gap inherited from the convergence process, since both money and the economy can grow above trend until full potential is reached without posing medium-term inflation risks. Hiking interest rates to force monetary growth into line with the reference value before closing the negative output gap represents deliberate monetary tightening of an antigrowth variety.

According to Bibow, the pattern of ECB conduct has been to act too late in response to deteriorating economic conditions. He contends that the central bank overestimates the degree of closeness of the eurozone's economy and systematically underestimates the importance of the United States and world growth to internal developments. There is also much confusion about ECB rhetoric and behavior relating to its mandate of maintaining price stability. A guiding principle appears to be that growth at or above potential invariably poses inflation risks and should be avoided; however, this presents the prospect of a vicious circle of monetary tightening that pushes inflation up rather than down. A weakening euro enters ever more prominently into the ECB's decision to hike interest rates, which in turn counters the risk of potential wage rises and preemptively punishes labor markets. The currency markets respond accordingly and the euro weakens further. These communication failures lead markets to perceive a lack of credibility, which may disrupt the implementation of monetary policy. Overall, the ECB's monetary tightening is highly counterproductive; any incipient economic upswing is quickly aborted by monetary policy.

The analysis diagnoses an antigrowth bias in the ECB's discretionary interest rate policies. The time-inconsistency hypothesis of the euro's plunge states that attempts to bolster the currency by narrowing the interest rate spread vis-à-vis the U.S. dollar may be counterproductive if this is perceived to risk a widening growth differential, which underlies any sustainable path of future interest rate differential. This hypothesis offers a coherent explanation of the euro's performance since its inauguration, and the inverse interest rate/exchange rate nexus surrounding it.

Contrary to what central bankers say, Bibow contends that the structural story does not explain the euro puzzle and the level of unemployment in Europe. The euro's decline occurred when Europe's employment and growth prospects were shifting in its favor relative to the United States. Although investment flows from Europe to the United States might be seen as offering some proof of a structural story, from a liquidity preference perspective, this development might also indicate a relative repricing of assets affected by monetary policy.

Bibow rejects the ECB's contention that its policies are forward-looking and medium-term-oriented. Evidence shows a backward-looking focus on current inflation trends and an obsessive focus on the short-term outlook for upward price risks. He calls for the European political bodies to change the Maastricht regime so that central bankers no longer have unbounded discretion. The launching of the euro notes and coins in the spring of 2002, says Bibow, will be affected by the ECB's counterproductive policies, and the weakening U.S. economy will be unable to assist. He calls for Europe's elected representatives to reform the ECB and revise the central bank's goals in order to improve the macroeconomic policies affecting economic performance.

Hard Times, Easy Money? Countercyclical Stabilization in an Uncertain Economy

ROBERT E.CARPENTER
Policy Note 2001/9
www.levy.org/docs/pn/01-9.html

The current expansionary policy of the Federal Reserve is based on deteriorating U.S. economic conditions. There has been a sharp decline in consumer and business confidence about the future of the economy and an extraordinarily high level of political and economic uncertainty as a result of terrorist attacks and war. As a result, business plans and profitability must be reassessed as the tools of countercyclical monetary policy are brought fully to bear on a potentially severe recession.

Research Associate Robert E. Carpenter believes that countercyclical monetary policy is less effective when uncertainty is especially high;therefore, it is likely to do little good in combating the current economic slowdown. Noting that expansionary fiscal policy is an important stabilization tool when there are demand-side economic shocks (which monetary policy can counter only weakly), the author contends that spending increases are a more potent stabilization tool in the short run than are tax cuts (which have an important long-run effect on incentives to work and investment in capital).

Monetary theory suggests that lower interest rates stimulate investment spending by reducing the real cost of capital and increasing aggregate output and demand. Carpenter notes that this traditional channel of monetary policy can only be effective if there is a strong link between interest rates and investment spending, but that there is little empirical evidence to support a link. Nonetheless, he agrees that monetary policy affects economic activity and that it may be transmitted through two financial channels—bank lending and balance sheet—when information asymmetries create important frictions in capital markets (e.g., when borrowers cannot fully inform lenders of the expected payoffs to their investments, or when different sources of finance are not good substitutes for one another). Variations in the supply of credit affect investment spending.

The bank lending channel occurs when banks have a comparative advantage in providing loans to firms that have problems with asymmetric information (and poor access to substitutes for bank loans). Increasing bank reserves increases the supply of bank loans so that when borrowing constraints slacken,firms borrow and invest more, thereby increasing output. The balance sheet channel links the quality of a firm's balance sheet to the amount of external funds it will receive. Therefore, the firm's collateralized net worth is related to the present value of its assets (and expected future cash flows). When interest rates fall, the present value of the collateral rises, and lenders provide additional access to debt finance, which allows the firm to increase investment and output. Both channels emphasize how monetary policy can change the amount of external finances available to the firm, and both assume a fringe of unsatisfied borrowers who would invest more if there were no frictions in the capital markets to limit access to outside sources of funds.

Carpenter notes that uncertainty is not important in the standard transmission of monetary policy, because firms are modeled as though they behaved in a "risk neutral" fashion. Keynes, on the other hand, believed that uncertainty about the future had a first-order effect on investment spending. The author suggests that uncertainty about payoffs from investment magnifies asymmetric information problems in the capital markets, thus increasing the frictions and decreasing the availability of credit, irrespective of the fact that monetary policy is expansionary. For example, uncertainty might reduce bankers' willingness to make loans, and it affects calculations of net worth, which weakens both the bank lending and balance sheet transmission channels. Moreover, a high degree of uncertainty and irreversibility (of specific investments) may cause firms to postpone investment, thus reducing the demand for loans and offsetting the effect of lower user costs. Therefore, expansionary monetary policy may not be effective for stimulating aggregate demand when uncertainty is high.

Fiscal policy has been deemphasized as a countercyclical policy tool because of past large federal budget deficits. However, today's government recognizes the importance to combating the current recession of a fiscal stimulus bill containing a mixture of tax cuts and spending increases. In light of the likelihood that businesses will postpone and consumers delay spending until the economy becomes more certain, the author contends that the tax cut component of the proposed fiscal stimulus bill is unlikely to stimulate aggregate demand as effectively in the short run than would a direct injection of government spending. Such announced spending could reduce uncertainty and restore confidence immediately, thereby indirectly stimulating demand. In addition, if this spending was related to public safety, public health, and homeland defense, and used for nonrecurring programs that did not contribute to future deficits, it would be much easier to ratify (compared to tax cuts involving distributional issues).

Given the size of the current stimulus package and the expectation that tax cuts will have a smaller stimulative effect in an uncertain environment, Carpenter concludes that the proposed fiscal stimulus will not offset the expected, potentially large cumulative decline in output. A fiscal stimulus package of the correct size and strength is important to counter terrorists' beliefs that their actions could seriously harm the U.S. economy.

Program: Federal Budget Policy

Are We All Keynesians (Again)?

DIMITRI B. PAPADIMITRIOU and L. RANDALL WRAY
Policy Note 2001/10
www.levy.org/docs/pn/01-10.html

Over the past three decades, economists and policymakers shifted from economic policy preferences based on Keynes to support for unbridled free markets. Reduced support for state governments and defense spending and an increase in payroll taxes reduced the role of government while tightening the fiscal stance. Fiscal responsibility and cuts in federal welfare spending and taxes led to budgets that generated surpluses. Trade barriers were reduced and social protection removed for labor, consumers, and the environment. The United States proclaimed that unfettered markets could deliver high growth and full employment. The net result was the longest economic expansion in U.S. history and a booming New Economy. In the same period, however, there was an unprecedented burden of household debt, and income inequality continued to rise. Permanent employees were replaced with low-paid contingent and part-time workers, or cheaper foreign labor. U.S. manufacturing declined as cheap imports created chronic and growing trade deficits, and public infrastructure was neglected. National and international financial crises became routine.

According to President Dimitri B. Papadimitriou and Visiting Senior Scholar L. Randall Wray, economists and policymakers have been living in a 30-year fantasy. Rather than follow the trend for free market policies, the authors concur with Keynesian theory and the views of Minsky and suggest that Big Government needs to play a bigger role in the U.S. economy. In light of current economic trends—a contraction in GDP; sharply higher unemployment rates; declines in consumer confidence, spending on durable goods, and corporate profits; lower-than-expected state government revenues; and associated budget problems—the authors think that the U.S. economy may be about to experience the sharpest economic downturn since World War II, followed by a slow pace of recovery comparable to the 1930s.

Noting that there is much uncertainty over the proper way to ramp up government involvement in the economy, the authors identify three main challenges ahead. Most immediately, government must cushion the economic downturn. A combination of tax cuts and spending increases totaling at least $600 billion annually, they say, is the minimum needed to achieve the necessary long-term fiscal adjustment. This amount is up to six times larger than the proposed fiscal policy stimulus of $100–$150 billion annually and would move the budget to a sustained deficit of about 3 percent of GDP. This larger deficit may be needed to avoid a recession. The authors favor a bias toward budget deficits since there is a high probability that the United States will continue to run significant trade deficits into the foreseeable future. The normal case here is a small private-sector surplus, which can only be achieved if the budget deficit exceeds the trade deficit. Therefore, any long-term strategy that relies on a sustained private-sector deficit and public-sector surplus will ultimately fail because a structurally tight government budget would result in a recession and a cyclical budget deficit—precisely what is happening today.

The second challenge is to increase federal government spending on public infrastructure, public health services, precollegiate education, training and apprenticeship programs, job programs, and fiscal relief for state and local governments. The real needs of this physical infrastructure will require expenditures of almost $2 trillion.

The third challenge relates to long-term prospects for renewing robust economic growth. The authors note that the long-term structurally imbalanced federal budget has led to surpluses, which are largely responsible for the economic downturn. They suggest that a "permanent" and significant revenue-sharing agreement between the federal government and state and local governments be put in place rather than the proposed short-term fiscal stimulus package, since an economic recovery will not occur until there is a fundamental restructuring of the federal budget stance.

To make up the difference between their suggested fiscal stimulus package and the government's ($450 billion annually, or 4.5 percent of GDP), the authors recommend that the federal government increase its funding of state and local projects by $150 billion annually and make allowances for local decision-making and control. This action would, by relieving state and local budgets, reduce incentives to use regressive taxes and lotteries to meet critical needs. Another $150 billion annually could come from payroll tax relief, and a tax credit against payroll taxes, the authors say, should be equally shared between employers and employees. This policy measure would cut the burden of payroll taxes by one-third, provide real tax relief to workers and their employers, make American labor more competitive by lowering employer costs, and reduce layoffs during an economic downturn. According to the authors, this policy would be more effective than capital gains tax cuts or corporate income tax relief. Furthermore, $150 billion annually could be added to the fiscal stimulus package through a combination of expansion of the Earned Income Tax Credit, expansion of medical insurance, increased federal spending on unemployment compensation, and significant improvements in public health services.

While noting that Keynes and Minsky did not want government involved in every aspect of economic life, the authors point out that these economists looked to government to achieve an appropriate long-term budget stance given long-term private sector spending propensities, and that nations that run trade deficits, such as the United States, need a more stimulative fiscal stance. Therefore, built-in mild automatic stabilizers such as a progressive tax system and an adequate safety net, which generate countercyclical spending, are desirable and allow budget deficits to rise during economic slumps and fall during booms. The authors also align themselves with Keynes and Minsky by supporting government job programs, since only government can provide a "perfectly elastic" demand for labor, and these programs help to stabilize wages and prices. Moreover, a comprehensive, federally funded job training and job creation program could be used to eliminate both structural and cyclical unemployment.

Papadimitriou and Wray note that the government's proposed demand stimulus package is non-Keynesian because it is temporary, and supply-side policies are expected to generate long-term growth. The real problem, they conclude, is that a structurally imbalanced budget will kill any economic recovery by generating budget surpluses at a low growth rate. Therefore, if Keynesian policies are to be successful, discussions in the policymaking arena should focus on permanent adjustments to the budget that will eliminate structural budget surpluses.

Explorations in Theory and Empirical Analysis

Uncertainty, Conventional Behavior, and Economic Sociology

JÖRG BIBOW, PAUL LEWIS, and JOCHEN RUNDE
Working Paper No. 339, September 2001
www.levy.org/docs/wrkpap/papers/339.html

Economic sociology is the application to economic phenomena of explanatory models drawn from sociology. In deciding which social theory should form the basis for this perspective, it is necessary to conceptualize social structure and its relation to human agency. It is important to determine how rational action is possible in the face of severe uncertainty (when there is no scientific basis on which to assign numerical probabilities to events) if one is incapable of the expected rational, utility-maximizing behavior that lies at the heart of orthodox economic theory.

In this working paper, Visiting Scholar Jörg Bibow of the University of Hamburg and Paul Lewis and Jochen Runde of the University of Cambridge examine two recent sociotheoretic perspectives on the economy—the French Intersubjectivist School and the Economics as Social Theory project. The authors begin their study by comparing these schools' interpretations of Keynes on uncertainty and conventional behavior in the stock market. They then examine the works of Jean-Pierre Dupuy, a prominent member of the French Intersubjectivist School, and identify some specific problems with his account of stock price formation. The authors outline an alternative account of the structure-agency relationship, based mainly on the work of Tony Lawson (representing the Economics as Social Theory project), and conclude by introducing contemporary concrete examples from Robert Shiller's book *Irrational Exuberance*.

In their review and interpretation of Keynes, the authors make two main observations: in the context of financial markets, prevailing prices reflect an aggregation of the views of market participants; and the "conventional method of calculation" is compatible with a considerable degree of stability and continuity in our affairs "so long as we can rely on the maintenance of the convention." They note that the instability of stock markets is also rooted in Keynes' three conventions and that it creates two issues: investor beliefs are formed on the assumption that the future will be much like the present; and mimetic behavior, the attempt to conform with the majority, may destabilize ruling valuations when market participants try to profit through speculation ahead of the public.

The French Intersubjectivist School explains the nature of social conventions in terms of self-referential thinking and mimetic behavior. Self-referential systems (those in which a variable's value is the product of the interaction of the actors involved in the valuing process rather than external factors) may be interpreted in the same way as Keynes's conventions;in this context, prices are determined by what market participants believe other market participants think prices will be. The French Intersubjectivist School rejects the mainstream "efficient market theory" that stock prices accurately reflect all public information about economic fundamentals at all times.

In terms of how the social world is made up, this school's suggestion is that it reflects a form of voluntarism that is entirely reducible to the shared beliefs of its current participants. The authors reject this suggestion and believe that it underestimates the impact on prices of various factors external to the beliefs of the participants. In their view, society is a dynamic process of interaction between preexisting social structure and current human agency through which social structure is reproduced and transformed over time.

Dupuy believes that players resort to common sense rather than speculative behavior and adopt external or objective points of reference to guide their action. Thus, stock market prices are the product of only the mutually reinforcing beliefs of the actors in the system (a specular mimetic process). The authors, however, raise a number of points against Dupuy's account of Keynesian convention. They accept that mimetic episodes may be responsible for driving prices to certain levels, but note that Dupuy has not succeeded in explaining how they produce the market consensus that allegedly marks their end, or why market participants should forget the arbitrary way conventional judgment is formed once it has been established.

The authors analyze their general observations using the boom in the U.S. stock markets over the second half of the 1990s, when stock prices became detached from "fundamentals" of mainstream economic and financial theories. In their view, *Irrational Exuberance* represents a contemporary version of Keynes's vision of the workings of the financial markets. Shiller explains price movements in terms of changes in economic fundamentals, and allows for the fact that asset prices may diverge from fundamental values (which, alone, cannot account for the historically unprecedented price-earnings ratios). Daily market price stability is affected by psychological, quantitative, and moral anchors, and their occasional fragility (echoing Keynes) may cause dramatic shifts in market prices in the face of exceptional events. Shiller also considers the possible repercussions of external factors such as changes in institutions, technology, regulation, demography, culture, and politics. The authors agree with his approach, which explains the stock market's climb since 1982 in terms of a plurality and confluence of causes, and believe that the stock market bubble cannot be purely the product of an intersubjective dynamic of the kind envisaged by the French Intersubjectivist School.

Both Shiller and the French Intersubjectivist School argue that it may be rational for individuals to engage in mimetic behavior in times of uncertainty, which is essentially the third of Keynes's three conventions. Thus, prices may easily diverge from fundamentals, and failure to evaluate and disseminate information about the latter undermines the efficient market theory. Shiller's account of mimetic contagion on stock markets differs from the French Intersubjectivist School's by emphasizing various external factors that condition the mimetic process (such as the roles of the new media and "new era" economic thinking in propagating a speculative bubble) and combining these with psychology and the tendency for people to conform to the majority.

In sum, the authors acknowledge the contribution of the French Intersubjectivist School to the theory of social convention and our understanding of speculative and mimetic behavior on stock markets. They disagree, however, on its concentration on conventions, which offer a one-sided, voluntaristic view of social structure (prices are entirely independent of the surrounding social system and economy, and depend on the mutually reinforcing beliefs of market participants). The authors favor Shiller's Keynesian account, which achieves a meaningful causal explanation of stock market behavior by invoking a plurality and confluence of causes.

Incentives in HMOs

MARTIN GAYNOR, JAMES B. REBITZER,
and LOWELL J. TAYLOR
Working Paper No. 340, October 2001
www.levy.org/docs/wrkpap/papers/340.html

A system of financial and nonfinancial incentives that rewards managed care physicians for limiting medical expenditures is controversial to the extent that it induces them to take actions on behalf of patients that differ from those they would take in the absence of incentives. On the other hand, supporters of managed care are concerned about policy initiatives that make it difficult for HMOs to implement effective incentive systems. In this working paper, Martin Gaynor of Carnegie Mellon University, Research Associate James B. Rebitzer of Case Western Reserve University, and Lowell J. Taylor of Carnegie Mellon University analyze the impact of contracts that give physicians in an HMO network a financial incentive to reduce medical expenditures. Their study shows that cost-containment incentives have a statistically and economically significant effect on expenditures for patients' medical services. These expenditures relate mainly to outpatient rather than inpatient services and are reduced by about 5 percent. The study confirms the concern that incentives induce physicians to take actions on behalf of patients that differ from those they would choose without incentives. However, there is no evidence that financial incentives adversely affect standard quality indicators; rather, physicians appear to respond to quality incentives by improving quality.

The authors' research into the organizational economics of an HMO relies on three key elements: detailed knowledge of the structure of the incentive system, development of a model of behavior tailored to this setting, and detailed data on the outcomes. Their HMO's incentive system had two noteworthy features. First, primary care providers (PCPs) chosen by each primary care physician in the network received specific financial rewards if their average medical utilization expenditures were below a target level. Second, incentive contracts were group-based: rewards were based on the performance of panels of primary care physicians rather than individual doctors. The authors note that panels of doctors (PODs) were haphazardly assembled by the HMO without regard to POD size.

A model was formulated to understand the nature of the group incentive and to derive testable predictions for its effect on physician behavior. In modeling the difference between the medical services desired by a patient if he or she does not bear any of the costs versus the level of service if the patient pays, the authors show that for any chosen bonus level and target, the difference depends on the unobservable clinical needs and preferences of the patient. In addition,the model points out the rationale for implementing a bonus scheme on a group basis. The marginal disutility of allocating medical care is not necessarily equalized across doctors, even when they have identical preferences. The HMO can reduce this disparity by adjusting the physician's target on the basis of observable patient characteristics (such as age and gender), and grouping physicians and providing bonuses based on observed group outcomes. Pooling patients across doctors can reduce the difference across patients in the marginal disutility of rationing care. The theory suggests that, all else being equal, physicians who have a small share of the POD's patients will provide higher levels of medical services than will physicians with larger shares. Similarly, per-patient expenditures will be higher in large PODs.

To examine the correlation between medical utilization spending and the intensity of incentives to limit it, data from about 1,000 PCPs and 100 PODs in the HMO were analyzed for the period 1994 to 1997. The results show that physicians are clearly responsive to financial incentives and incentive contracts reduce medical utilization expenditures. Consistent with theory, as the number of physicians in a POD increases,the panel is less likely to win back their withhold by about 10 percent of the mean. Under the HMO's incentive system, PCPs can reduce medical expenditures by lowering the number of office visits by patients or reducing specialist referrals. In smaller PODs, expenditures are cut on services and procedures that generate fees for other physicians. Analysis shows that by increasing panel size from 10 to 12 physicians, outpatient spending increases about 5 percent above the mean, and expenditures about 7 percent. The empirical study of POD size and variation over time shows that use of group incentives can lead to a more efficient allocation of resources among an HMO's patients than incentives geared toward individual physicians.

The authors linked quality incentives based on preventive care and indicators of patient satisfaction to cost-control incentives for the year 1997, the first year that the HMO's incentive system incorporated quality measures. They found a statistically significant and negative relationship between (stop-loss) expenditures and quality; i.e.,panels with the best quality scores had the lowest average expenditures.

These results are consistent with the notion that the HMO's incentive system moves physicians to offer both lower-cost care and care with higher measured quality. Therefore, physicians respond positively to incentives for metered quality and there is no evidence that properly designed incentive systems adversely affect quality.

NEW RESEARCH STAFF

Research Associate Robert E. Carpenter is an assistant professor of economics at UMBC. His current research areas include the theory of the firm, financial economics, and macroeconomics. He is the coauthor, with Bruce Peterson, of two forthcoming publications: "Capital Market Imperfections, High-Tech Investment, and New Equity Financing" in the *Economic Journal* and "Is the Growth of Small Firms Constrained by Internal Finance?" in the *Review of Economics and Statistics*. Carpenter conducted research at the Claus M. Halle Institute for Global Learning at Emory University, where he studied the effects of European integration on the growth of European firms, access to finance, and governance structures. He received a Ph.D. in economics from Washington University.

NEW BOOK IN THE LEVY INSTITUTE BOOK SERIES

How can the persistent worsening of the income distribution in the United States in the 1980s and 1990s be explained? What are the prospects for the reemergence of sustainable prosperity in the U.S. economy over the next generation?

Corporate Governance and Sustainable Prosperity, the latest in the Levy Economics Institute Book Series, addresses these issues. It is edited by William Lazonick and Mary O'Sullivan and published by Palgrave. The book focuses on the microeconomics of corporate investment behavior, especially as reflected in investments in integrated skill bases, and the macroeconomics of household saving behavior, particularly in regard to the growing problem of intergenerational dependence by retirees on employees. Specifically it analyzes how the combined pressures of excessive corporate growth,international competition, and intergenerational dependence have influenced corporate investment behavior over the past two decades.

Part One sets out a perspective on how corporate investment in skill bases can support sustainable prosperity. Part Two presents studies of investments in skill bases in the machine tool, aircraft engine, and medical equipment industries. Part Three provides a comparative and historical analysis of corporate governance and sustainable prosperity in the United States, Japan, and Germany. By integrating a theory of innovative enterprise with in-depth empirical analyses of industrial development and international competition, *Corporate Governance and Sustainable Prosperity* explores the relation between changes in corporate resource allocation and the persistence of income inequality in the United States in the 1980s and 1990s.

Contributors to the volume include Beth Almeida, Robert Forrant, Michael J. Handel, William Lazonick, Philip Moss, Mary O'Sullivan, and Chris Tully. Editors Lazonick and O'Sullivan are Levy Institute research associates, as is contributor Handel.

CONFERENCE

The 12th Annual Hyman P. Minsky Conference on Financial Structure
April 25, 2002,
The Roosevelt Hotel, Madison Avenue and 45th Street,
New York City

Registration and program information will be posted on the Levy Institute website (www.levy.org) as it becomes available.

CALL FOR PAPERS

Economic Mobility in the United States and Other Advanced Countries
October 18–19,2002,
Annandale-on-Hudson, New York
Organizer: Edward N. Wolff,
Levy Economics Institute and New York University

It has been argued that rising inequality in the United States and several other advanced countries is not a problem because it is measured using annual income, while mobility—the movement of households from one income group to another—has risen over time. Therefore, the argument goes, over an individual's lifetime inequality may actually decline. Moreover, the higher degree of inequality (computed on the basis of annual income) in the United States as compared to other industrialized countries may be offset by higher U.S. mobility. One objective of this conference is to determine whether these arguments are true.

Focus is on empirical research on economic mobility in the United States and other advanced countries. Potential topics include:

1. Mobility in jobs, earnings, income, wealth, and other indicators of well-being over a lifetime
2. The distribution of lifetime income and other measures of lifetime resources
3. Intergenerational mobility in income, wealth, and other indicators of well-being
4. Changes in mobility, both over a lifetime and across generations
5. International comparisons of mobility, both over a lifetime and across generations

Please e-mail an abstract of the proposed paper to Frances M. Spring at *spring@levy.org* by April 1, 2002.

PUBLICATIONS AND PRESENTATIONS

PUBLICATIONS AND PRESENTATIONS BY LEVY INSTITUTE SCHOLARS

WYNNE GODLEY *Distinguished Scholar*

Publication: "Recession,USA." *Guardian*, October 23.

PHILIP ARESTIS *Visiting Senior Scholar*

Publications: "Will the Euro Bring Economic Crisis to Europe?"(with Malcolm Sawyer). In P. Arestis, M. Baddeley, and J. McCombie, eds., *What Global Economic Crisis?* Basingstoke: Palgrave, 2001; *Money, Finance and Capitalist Development* (ed. with Malcolm Sawyer). Northampton, Mass.: Edward Elgar, 2001; *Economics of the Third Way: Experience from around the World* (ed. with Malcolm Sawyer). Northampton, Mass.: Edward Elgar, 2001; *The Euro: Evolution and Prospects* (ed. with Andrew Brown and Malcolm Sawyer). Northampton, Mass.: Edward Elgar, 2001;"Explaining the Euro's Initial Decline" (with Malcolm Sawyer, Iris Biefang-Frisancho Mariscal, and Andrew Brown), *Eastern Economic Journal* 27 (2001); *Money, Macroeconomics and Keynes: Essays in Honour of Victoria Chick, Volume I* (ed. with M. Desai and S. Dow). London: Routledge, 2002; *Methodology, Microeconomics and Keynes: Essays in Honour of Victoria Chick, Volume II* (ed. with M. Desai and S. Dow). London: Routledge, 2002.

Presentations: "The State of Economic Integration and Obstacles to Full Employment," WSI-Herbstforum, Düsseldorf, November 29–30;"Fiscal and Monetary Policies in the Eurozone," Berlin, October, and Salvador, Brazil, December; "Economics of the Third Way and European Macropolicies," Bad Mitterndorf, Austria, January 5; "Inflation Targeting: What Have We Learned?" Austrian National Bank, Vienna, January 7.

WALTER M. CADETTE *Senior Scholar*

Publication: "Two Decades of Overstated Corporate Earnings." *Quarterly Commentary of Sanders Research Associates Limited*, Third Quarter, 2001.

Presentation: "Corporate Profits, a Miracle of Modern Bookkeeping," Institute of Directors conference, London.

JAMES K. GALBRAITH *Senior Scholar*

Presentations: "The Price of the War System," New School University, New York City, November 8; Keynote speaker, Conference on Globalization and Development, China Academy of Social Sciences, Wuhan, China, November 21; "Increasing Inequality in China: Further Evidence from Official Sources,1987–2000," Allied Social Science Association Meetings, Atlanta, January 4–6, 2002.

JOEL PERLMANN *Senior Scholar*

Publications: *Women's Work?: American Schoolteachers, 1650–1920* (with Robert A. Margo). Chicago: University of Chicago Press, 2001; Editor (with Mary Waters), *Counting Races, Recognizing Multiracials*. New York: Russell Sage Foundation Press, 2002. Appointed to the board of advisors for the forthcoming Harvard University Press book *The New Americans*.

Presentation: "U.S. Census Race Categories," Conference on the Measure and Mismeasure of Populations: The Statistical Use of Ethnic and Racial Categories in Multicultural Societies, Centre d'Études et de Recherches Internationales and Institut National d'Études Démographiques, Paris, December 17–18.

MALCOLM SAWYER *Visiting Senior Scholar*

Publications: "Will the Euro Bring Economic Crisis to Europe?"(with Philip Arestis). In P. Arestis, M. Baddeley, and J. McCombie, eds., *What Global Economic Crisis?* Basingstoke: Palgrave, 2001; *The Euro: Evolution and Prospects* (ed. with Andrew Brown and Philip Arestis). Northampton, Mass.: Edward Elgar, 2001;"Kalecki on Money and Finance." *European Journal of the History of Economic Thought* 8:4 (2001);"Explaining the Euro's Initial Decline" (with Philip Arestis, Iris Biefang-Frisancho Mariscal,and Andrew Brown). *Eastern Economic Journal* 27 (2001); "The Structure of the Economy," "Industry: Structure and Policies," "Privatization and Regulation," and "The Distribution and Redistribution of Income." In Malcolm Sawyer, ed. *The UK Economy*, 15th Edition. Oxford: Oxford University Press, 2001;"Economic Policy with Endogenous Money." In P. Arestis,M. Desai,and S. Dow, eds., *Money, Macroeconomics and Keynes: Essays in Honour of Victoria Chick, Volume I*. London: Routledge, 2002; "The NAIRU: A Critical Appraisal"(with Philip Arestis). In P. Arestis and M. Sawyer, eds., *Money, Finance and Capitalist Development*. Northampton, Mass.: Edward Elgar, 2001;"Economics of the Third Way"(with Philip Arestis) and "Economics of the British New Labour: An Assessment" (with Philip Arestis). In P. Arestis and M. Sawyer, eds., *The Economics of the Third Way*. Northampton, Mass.: Edward Elgar, 2002.

Presentation: "European Economic Policy without a European Government: Alternatives to the Stability Pact," Eine andere Geldpolitik für mehr Wachstum und Beschäftigung in Europa?: Beschäftigung zwischen Europäischer Währungsunion und nationaler Wirtschaftspolitik workshop, Berlin, October 26–27.

EDWARD N. WOLFF *Senior Scholar*

Publications: "The Role of Education in the Postwar Productivity Convergence among OECD Countries." *Industrial & Corporate Change* 10:3 (2001); "The Recent Rise of Profits in the United States." *Review of Radical Political Economics* 33:3 (2001); "Outsourcing of Services and the Productivity Recovery in U.S. Manufacturing in the 1980s and 1990s" (with Thijs ten Raa). *Journal of Productivity Analysis* 16:2 (2001); "Where Has All the Money Gone?" *The Milken Institute Review* 3:3 (2001).

Presentations: "Recent Trends in Living Standards in the United States," New York University, October 4; "Retirement Income Security: How Many Have It and How Has It Changed?" Economic Policy Institute, Washington, D.C., October 12; "Impact of Gifts and Estates on the Distribution of Wealth," Center for Retirement Research Conference on the Role and Impact of Gifts and Estates, Woodstock, Vermont, October 22–23; "Technology and the Demand for Skills," Emory University, Atlanta, November 16; "Inheritances and Wealth Inequality Trends,1989–1998," Allied Social Science Association Meetings, Atlanta, January 4–6,2002; "Productivity, Computerization, and Skill Change," Conference on Technology, Growth, and the Labor Market, Federal Reserve Board of Atlanta, January 6–7, 2002.

Media: Interview for KDOW radio, Minneapolis, November 8; Interview for CNBC Business Center, November 9.

L. RANDALL WRAY *Visiting Senior Scholar*

Publications: "How to Implement True, Full Employment." In *Proceedings of the 53rd Annual Meeting of the Industrial Relations Research Association*. Champaign, Illinois: IRRA, 2001; "Surplus Mania: A Reality Check." In Don Cole, ed., *Macroeconomics*. New York: McGraw-Hill/Dushkin,2001; "Money and Inflation." In Richard Holt and Steven Pressman,

eds., *A New Guide to Post Keynesian Economics.* New York: Routledge,2001;"Buckaroos: The Community Service Hours Program at the University of Missouri–Kansas City." *The Economic and Labour Relations Review* 12,Special Supplement: Achieving Full Employment (2001).
Presentations: "Killing Social Security Softly," The Social Security "Crisis": Critical Analysis and Solutions, University of Missouri, Kansas City, November 12; "Understanding Modern Money," University of Newcastle, Australia, December 10–11; "Are We All Keynesians Again?" University of New South Wales, Australia, December 14; "Is It Happening Again? A Minskian Analysis of the Current Great Recession," Allied Social Science Association Meetings, Atlanta, January 4–6, 2002.
Media: Interviewed by Rex Nutting for *CBS MarketWatch*, September 21; Commentator, *The Dan Ferguson Show*, KCTE radio, Kansas City, October 8 and October 28; Interview, KCTV television news, Kansas City, November 2; Panelist, discussion on Social Security, *The Walt Bodine Show*, KCUR Public Radio, Kansas City, November 8; Interview, *ANALYST* magazine, November 15.

JÖRG BIBOW *Visiting Scholar*
Presentation: "Easy Money through the Back Door: The Markets versus the Eurosystem," Prospects and Risks of the Unified Currency in a Decentralized Central Banking System conference, Bremen, November 23–25.

ALEX IZURIETA *Research Fellow*
Presentations: "As the Implosion Begins," Union for Radical Political Economics Summer School, Bantam, Connecticut, August 18; "The Developing Recession in the U.S.: Prospects and Policy Alternatives," Ford Foundation, New York City, November 6.

QIYU TU *Visiting Fulbright Scholar*
Presentation: "U.S.–Chinese Economic Relations after China's Entry into the WTO," University of Hawaii, Manoa, November 6–12.

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