4-2007

Global Imbalances: Prospects for the U. S. and World Economies

Levy Institute

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The Levy Economics Institute of Bard College

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16th Annual Hyman P. Minsky Conference

on the State of the U.S. and World Economies

Global Imbalances: Prospects for the U.S. and World Economies

April 19–20, 2007

Blithewood

Annandale-on-Hudson, New York

6:30–7:15 p.m.	RECEPTION	
7:15 p.m.	DINNER	

Friday, April 20

9:00–9:30 a.m.	BREAKFAST	
9:30–10:15 a.m.	SPEAKER:	**James K. Galbraith**, *The Levy Economics Institute* and *University of Texas at Austin,* "The Cult of Zero"
10:30 a.m. – 12:15 p.m.	SESSION 4	
	The Macroeconomic Prospects for the U.S. Economy	
	MODERATOR:	**Ajit Zacharias**, *The Levy Economics Institute*
	SPEAKERS:	**James W. Paulsen**, *Wells Capital Management,* "Economic and Financial Market Outlook"
		Robert J. Barbera, *ITG,* "Who Is the Heir Apparent to Alan Greenspan? Hu Indeed!"
		James E. Glassman, *J. P. Morgan Securities, Inc.,* "The 2007–2008 Outlook...Growth without the Steroids"
12:15–2:00 p.m.	LUNCH	
	SPEAKER:	**Frederic S. Mishkin**, *Federal Reserve Board,* "The U.S. Economic Outlook"

Thursday, April 19

9:00–10:00 a.m.	BREAKFAST AND REGISTRATION	
10:00–10:45 a.m.	WELCOME AND INTRODUCTION	
	Dimitri B. Papadimitriou, *The Levy Economics Institute,* "Global Imbalances: The U.S. and the Rest of the World"	
11:00 a.m. – 12:45 p.m.	SESSION 1	
	The State of the U.S. and World Economies	
	MODERATOR:	**Dimitri B. Papadimitriou**, *The Levy Economics Institute*
	SPEAKERS:	**Lakshman Achuthan**, *Economic Cycle Research Institute,* "Monitoring Windows of Vulnerability, or, How to Stop Crying Wolf"
		Robert W. Parenteau, *RCM,* "Financiers Gone Wild: Entering a Minsky Moment for the U.S. Household Sector"
12:45–2:30 p.m.	LUNCH	
	SPEAKER:	**Wolfgang Münchau**, *Financial Times,* "Can the European Economy Decouple from the U.S.?"
2:45–4:15 p.m.	SESSION 2	
	Monetary Policy in the U.S. Economy	
	MODERATOR:	**Greg Hannsgen**, *The Levy Economics Institute*
	SPEAKERS:	**Torsten Slok**, *Deutsche Bank Securities, Inc.,* "Lessons from the Great Inflation and Disinflation"
		Robert Z. Aliber, *University of Chicago,* "Four Global Asset Price Bubbles in 20 Years—A Historic Anomaly, or the Wave of the Future?"
4:15–4:45 p.m.	COFFEE BREAK	
4:45–6:15 p.m.	SESSION 3	
	Financial Instability in a Global Economy	
	MODERATOR:	**W. Ray Towle**, *The Levy Economics Institute*
	SPEAKERS:	**Korkut A. Ertürk**, *The Levy Economics Institute* and *University of Utah,* "From the Glut of Savings to the Glut of Dollars"
		Jan A. Kregel, *The Levy Economics Institute* and *University of Missouri–Kansas City,* "Mutual Economic Policy Interests and Global Imbalances: Developed and Developing Countries in a Globally Integrated Trade and Financial System"
		L. Randall Wray, *The Levy Economics Institute* and *University of Missouri–Kansas City,* "Stabilizing the Unstable Economy, Revisited: Extending Minsky's Analysis to the Open Economy"

Senior Scholar **James K. Galbraith** is a professor at the Lyndon B. Johnson School of Public Affairs and the Department of Government at the University of Texas at Austin. He is also director of the University of Texas Inequality Project. A focus of his research is examining issues pertaining to employment and inequality, especially determinants of global inequality. His books include *Unbearable Cost: Bush, Greenspan, and the Economics of Empire*, 2006; *Inequality and Industrial Change: A Global View* (with M. Berner), 2001; *Created Unequal: The Crisis in American Pay*, 1998; *Macroeconomics* (with W. Darity Jr.), 1994; and *Balancing Acts: Technology, Finance, and the American Future*, 1989. Galbraith received a B.A. from Harvard University and a Ph.D. in economics from Yale University. He also studied economics as a Marshall Scholar at King's College, Cambridge University.

James E. Glassman is a managing director and senior economist with JPMorgan Chase & Co. He works closely with the firm's chief investment officer, commercial banking interests, and government relations groups. He also publishes independent research on the principal forces shaping the economy and financial markets. Glassman's views are widely cited in the financial media, where he is a frequent commentator on economic policy issues. From 1979 through 1988, he served in a number of areas in the Research and Statistics and Monetary Affairs Divisions at the Federal Reserve Board in Washington, D.C. In 1988, he joined Morgan Guaranty, and in 1993, Chemical Bank, which, through mergers with Chase Manhattan, J. P. Morgan, and, most recently, Bank One, is now called JPMorgan Chase & Co. Glassman earned a bachelor's degree from the University of Illinois, Champaign-Urbana, and a Ph.D. in economics from Northwestern University.

Greg Hanngsen is a research scholar and member of the Levy Institute's macroeconomic modeling team, conducting research on macroeconomics, money, and social economics. His publications include "Minsky's Acceleration Channel and the Role of Money," *Journal of Post Keynesian Economics*, 2005. He is also the former editor of the *Report* and many other Levy Institute publications. Hannsgen received a B.A. in economics from Swarthmore College, an M.A. in public affairs from the University of Minnesota, and M.A. and Ph.D. (2002) degrees in economics from the University of Notre Dame.

Senior Scholar **Jan A. Kregel** currently holds the position of Distinguished Visiting Research Professor at the Center for Full Employment and Price Stability at the University of Missouri–Kansas City. He was formerly chief of the Policy Analysis and Development Branch of the United Nations Financing for Development Office and deputy secretary of the United Nations Committee of Experts on International Cooperation in Tax Matters. Before joining the U.N., Kregel was professor of economics at the Università degli Studi di Bologna and professor of international economics at Johns Hopkins University's Paul Nitze School of Advanced International Studies, where he also served as associate director of its Bologna Center from 1987 to 1990. He has published extensively, contributing over 160 articles to edited volumes and scholarly journals. His books include *Rate of Profit, Distribution, and Growth: Two Views*, 1971; *The Theory of Economic Growth*, 1972; *The Reconstruction of Political Economy*, 1973 and 1975; *Theory of Capital*, 1976; *Origini e sviluppo dei mercati finanziari*, 1996; and *International Finance and Development* (with J. A. Ocampo and S. Griffith-Jones), 2006. Kregel studied primarily at the University of Cambridge, and received his Ph.D. from Rutgers University. He is a life fellow of the Royal Economic Society (U.K.), an elected member of the Società Italiana degli Economisti, and a distinguished member of the Asociacion Nacional de Economistas de Cuba.

PARTICIPANTS

Lakshman Achuthan is managing director of the Economic Cycle Research Institute (ECRI), an independent organization focused on business cycle research and forecasting. He plays a key role in helping corporate strategists, asset managers, and policymakers regularly use cyclical forecasts in their decision-making process. He is also the managing editor of ECRI's forecasting publications and regularly participates in a wide range of public economic discussions. Achuthan is a member of *Time* magazine's board of economists as well as the New York City Economic Advisory Panel, and serves as a trustee on a number of nonprofit boards. He is coauthor of *Beating the Business Cycle: How to Predict and Profit from Turning Points in the Economy*, 2004.

Robert Z. Aliber taught international finance at the Graduate School of Business of the University of Chicago from 1965 to 2004. While there, he developed the Program of International Studies in Business and the Center for Studies in International Finance. He has been a consultant to the Board of Governors of the Federal Reserve System and to other U.S. government agencies, as well as to the World Bank, the International Monetary Fund, and research institutes and private firms. He has written extensively about international monetary and exchange rate issues, and has lectured throughout the United States and abroad.

Robert J. Barbera is executive vice president and chief economist at ITG, with responsibility for ITG's global economic and financial market forecasts. He has spent the last 25 years as a Wall Street economist, earning a wide institutional following. Barbera was chief economist and director of economic research at Lehman Brothers, and prior to that was chief economist at E. F. Hutton. From 1994 to 1996, he was cochairman of Capital Investment International, a New York–based research boutique. Before arriving on Wall Street, Barbera served as a staff economist for Senator Paul Tsongas and as an economist for the Congressional Budget Office; he also lectured at M.I.T. Currently, he is an adjunct professor of economics at Johns Hopkins University. Barbera holds a B.A. and a Ph.D. from Johns Hopkins.

Research Associate **Korkut A. Ertürk** is a professor and chair of the department of economics at the University of Utah. His general areas of research include monetary theory, economic growth and development, gender and development, mathematical modeling, political economy, and the history of economic thought. He has served as a consultant to the Institute for Training and Research of Women, the Commonwealth Secretariat, and the Department of Social and Economic Affairs of the United Nations General Secretariat, and was a member of the International Advisory Committee for the UNIFEM Biennial Report. His recent publications include "On the Changing Nature of Currency Crises," in P. Arestis, J. Ferreiro, and F. Serrano, eds., *Financial Developments in National and International Markets*, 2006; "Asset Price Bubbles, Liquidity Preference, and the Business Cycle," *Metroeconomica*, May 2006; "On the Minskyan Business Cycle," in P. Arestis and G. Zezza, eds., *Advances in Monetary Policy and Macroeconomics*, 2007; and "Speculation, Liquidity Preference, and Monetary Circulation," in P. Arestis and M. Sawyer, eds., *A Handbook of Alternative Monetary Economics*, 2007. Ertürk received a Ph.D. in economics from New School University.

Dimitri B. Papadimitriou's areas of research include financial structure reform, community development banking, fiscal and monetary policy, employment policy, and the distribution of income, wealth, and well-being. He heads the Levy Institute's macro-modeling team studying and simulating the U.S. and world economies. In addition, he has authored and coauthored studies relating to Federal Reserve policy, fiscal policy, employment growth, and social security reform. Papadimitriou is president of the Levy Institute and executive vice president and Jerome Levy Professor of Economics at Bard College. He has testified on a number of occasions in committee hearings of the U.S. Senate and House of Representatives, was vice-chairman of the Trade Deficit Review Commission of the U.S. Congress (2000–01), and is a former member of the Competitiveness Policy Council's Subcouncil on Capital Allocation. He was a Distinguished Scholar at the Shanghai Academy of Social Sciences in fall 2002. Papadimitriou has edited and contributed to eight books published by Macmillan and Edward Elgar and is a member of the editorial board of *Challenge*. He is a graduate of Columbia University and received a Ph.D. in economics from the New School for Social Research.

Robert W. Parenteau is chief U.S. economist and investment strategist at RCM, an investment management company of Allianz Global Investors. He employs macroeconomic insights to drive U.S. equity and global balanced portfolio strategy. In this effort, he guides the global and domestic asset allocation, sector, factor, and industry selection decision making of RCM portfolio managers and equity analysts. He earned a B.A. in political economy with honors at Williams College in 1983. His dissertation identified how labor market dynamics undermined the Keynesian policy consensus. He completed a chartered financial analyst degree in 1989 and then served as a regular lecturer for all three levels of the Security Analysts of San Francisco CFA preparation course until 1999. In 1999 and 2000, he presented several papers at the Levy Institute's annual conference on financial structure that applied Human P. Minsky's financial instability hypothesis to the late-1990s technology bubble. He further explored the macrodynamics of financial imbalances in papers presented at the Political Economy Research Institute (2001), the seventh and eighth International Post Keynesian Workshops (2002 and 2004), and the Eastern Economic Association proceedings (2005). Versions of his papers were published as chapters in L. R. Wray and M. Forstater, eds., *Contemporary Post Keynesian Analysis*, 2004, and G. A. Epstein, ed., *Financialization and the World Economy*, 2005.

James W. Paulsen is chief investment strategist at Wells Capital Management. An investment management industry professional since 1983, Paulsen develops investment strategies that assist in the management of separate institutional account assets as well as mutual and collective investment funds. He joined Norwest Investment Management, Inc., which later became part of Wells Capital Management, as chief investment officer in 1997. Previously, he was senior managing director and chief investment strategist for Iowa's largest independent asset manager, Investors Management Group, Des Moines. Earlier, he was president of SCI Capital Management in Cedar Rapids, Iowa. Paulsen is often quoted in the national press, including the *Wall Street Journal*, *Barron's*, and the *New York Times*. *BusinessWeek* named him Top Economic Forecaster for 2001, and *BondWeek* has twice named him Interest Rate Forecaster of the Year. For more than 20 years, he has published his own assessments of national and global economic trends through his newsletter, *Economic and Market Perspective*, which was named to *Money* magazine's list of "101 Things Every Investor Should Know" in 2004. Paulsen earned his bachelor's and doctoral degrees in economics from Iowa State University.

Federal Reserve Board Governor **Frederic S. Mishkin** took office on September 5, 2006, to fill an unexpired term ending January 31, 2014. Before becoming a member of the Board, Mishkin was Alfred Lerner Professor of Banking and Financial Institutions at the Graduate School of Business, Columbia University, from 1999 to 2006. Prior to that, he was A. Barton Hepburn Professor of Economics (1991–99) and professor (1983–91) at the Graduate School of Business. He was also a research associate at the National Bureau of Economic Research (1980–2006) and a senior fellow at the Federal Deposit Insurance Corporation's Center for Banking Research (2003–06). In addition to Columbia University, he has taught at the University of Chicago, Northwestern University, and Princeton University. Mishkin served the Federal Reserve System in several roles before joining the Board. From 1994 to 1997, he was executive vice president and director of research at the Federal Reserve Bank of New York and an associate economist of the Federal Open Market Committee. He was editor of the Federal Reserve Bank of New York's *Economic Policy Review* and later served on that journal's editorial board. From 1997 to 2006, he was also an academic consultant to and served on the Economic Advisory Panel of the Federal Reserve Bank of New York. Mishkin has been an academic consultant to the Board of Governors and a visiting scholar at the Board's Division of International Finance. His research focuses on monetary policy and its impact on financial markets and the aggregate economy. He is the author of more than 15 books and has published numerous articles in professional journals and books. He has served on the editorial board of the *American Economic Review* and has been an associate editor at the *Journal of Business and Economic Statistics*, the *Journal of Applied Econometrics*, and the *Journal of Economic Perspectives*. He is currently an associate editor (member of the editorial board) at the *Journal of Money, Credit and Banking*, *Macroeconomics and Monetary Economics Abstracts*, *Journal of International Money and Finance*, *International Finance*, and *Finance India*. Mishkin has been a consultant to the World Bank, the Inter-American Development Bank, and the International Monetary Fund, as well as to numerous central banks throughout the world. He is a former member of the International Advisory Board to the Financial Supervisory Service of South Korea and has served as an adviser to the Institute for Monetary and Economic Research at the Bank of Korea. Mishkin holds a B.S. and Ph.D. in economics from the Massachusetts Institute of Technology. In 1999, he received an honorary professorship from the People's (Renmin) University of China.

Wolfgang Münchau is associate editor of the *Financial Times* and its European economic columnist. Together with his wife, economist Susanne Mundschenk, he founded www.eurointelligence.com, a macro Internet site for the euro area, offering daily comment and analysis. Münchau was one of the founding members of *Financial Times Deutschland*, the German-language business daily, where he served as deputy editor from 1999 to 2001 and as editor-in-chief from 2001 to 2003. He was economics correspondent of the *Financial Times* ahead of the start of economic and monetary union and has held several senior positions at that newspaper, and in the Washington, Brussels, and Frankfurt bureaus of the London *Times*. In 1989, he was the recipient of the Wincott Young Financial Journalist of the Year award. Münchau holds the degrees of Dipl. Betriebswirt (Reutlingen University) and Dipl. Mathematiker (University of Hagen), and an M.A. in International Journalism (City University, London).

Torsten Slok is a senior member of the global economics team at Deutsche Bank Securities, Inc. Before joining the firm in 2005, Slok was on the staff of the Organisation for Economic Co-operation and Development in Paris in the Money and Finance and Structural Policy Analysis Divisions. He previously worked for the International Monetary Fund as part of the group responsible for writing the semiannual *World Economic Outlook* reports, and in the regional division overseeing China, Hong Kong, and Mongolia. He has published numerous journal articles and reviews on economics and policy analysis. Slok studied at Princeton University and the University of Copenhagen, and holds a Ph.D. in economics.

Resident Research Associate **W. Ray Towle** is the editor of the *Summary* and other Levy Institute publications. His research interests include macroeconomic forecasting, international financial systems, regional economic development, balanced budgets, and deregulation. Previously, he was a consultant, writer, and editor in Canada and New York, and he has an extensive background as an energy economist. He received B.Sc. and M.A. degrees from the University of Alberta, an executive M.S. degree in finance from the Zicklin School of Business at Baruch College, City University of New York, and a Ph.D. from the University of London, England.

L. Randall Wray is a senior scholar working on projects in the areas of monetary policy, employment, and social security. He is examining the population that has not benefited by the economic expansion of the 1990s—especially low-skilled, prime-age males who are not counted as officially employed because they are out of the labor force. Wray's most recent research focuses on the rapidly rising incarceration rates of this segment of the population and on proposals to make increased use of prison labor. With President Dimitri B. Papadimitriou, he is assessing the effect of demographic shifts—specifically, the aging of the population—on the labor market in light of the current slow growth in labor force participation rates and based on different ranges of productivity growth. They also are continuing their work on the appropriateness of existing price indexes as targets for monetary policy and will apply their findings to OECD countries. Wray has published widely in journals and is the author of *Understanding Modern Money: The Key to Full Employment and Price Stability,* 1998. He is a professor of economics and senior research associate at the Center for Full Employment and Price Stability at the University of Missouri–Kansas City. He received a B.A. from the University of the Pacific and an M.A. and a Ph.D. from Washington University in St. Louis.

Senior Scholar **Ajit Zacharias** is working primarily on the Levy Institute Measure of Economic Well-Being (LIMEW) within the distribution of income and wealth program. The LIMEW is an alternative measure that can provide the foundation for a comprehensive view of the level and distribution of economic well-being. His research interests include concepts and measurement of economic well-being, effects of taxes and government spending on well-being, valuation of noncash transfers, and time use. Zacharias received an M.A. from the University of Bombay and a Ph.D. from New School University.

The Levy Economics Institute of Bard College

April 19, 2007

Dear Colleague:

I am delighted to welcome you to the 16th annual Hyman P. Minsky conference on "Global Imbalances: Prospects for the U.S. and World Economies." Last year, the U.S. trade deficit climbed to a record $763.6 billion. The falling U.S. housing market threatens to undermine consumption by heavily indebted American households and has triggered a financial crisis in the subprime mortgage sector. Meanwhile, Federal Reserve Chairman Ben Bernanke is repeatedly warning Congress to address unsustainable federal budget deficits. Amid this news, and with major financial markets becoming more turbulent this year, it is becoming increasingly vital to explore the impact of global financial imbalances.

The presenters at this year's conference are top policymakers, economists and analysts. They are uniquely qualified to offer their insights and policy guidelines on these issues. I trust you will enjoy their presentations and the discussions to follow. Your comments and suggestions are welcome.

I look forward to seeing you again at future Levy Institute events.

Sincerely,

Dimitri B. Papadimitriou

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