1994

1993-1994 Annual Report

Dimitri B. Papadimitriou Ph.D.

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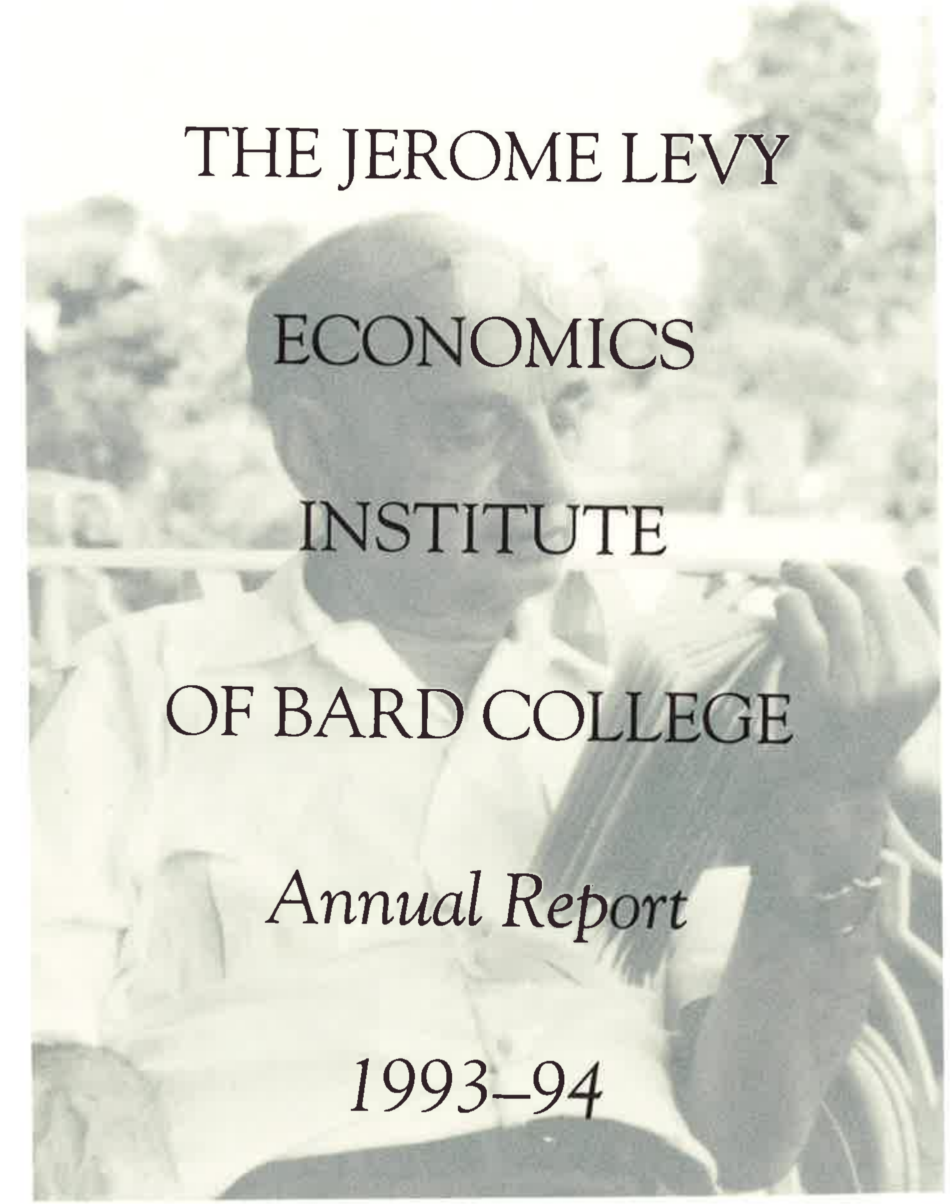
Title Page Photo: Jerome Levy, circa 1950
Courtesy of Ann Levy



THE JEROME LEVY ECONOMICS INSTITUTE OF BARD COLLEGE

Annual Report

1993–94

Jerome Levy

1882–1967

Contents

Jerome Levy

1882–1967

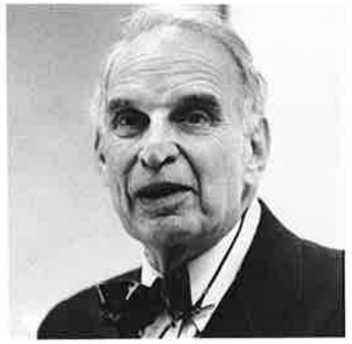
FROM THE CHAIRMAN

We remind ourselves of the purpose of The Jerome Levy Economics Institute, inscribed in its charter: "To pursue knowledge of economics that will enable nations to enlarge personal freedom, promote justice, and maintain stable economies with full employment and rising standards of living."

As we count the unemployed and measure the growing cohorts with declining standards of living in the United States and other industrially advanced countries, as well as in less-developed economies, we resolve to intensify the pursuit of our goals. We are becoming increasingly impatient with the obviously spurious erudition that so inadequately guides economic policy at home and abroad.

Our quest is inspired by the insights of Jerome Levy, whose mandate—to pursue economic justice—is alive, indeed vibrant, at the Institute. Key studies in the coming year will challenge prevailing notions and policies. They will be fitting memorials to Jerome—evidence in support of his well-developed belief that economies motivated by private profit can uncompromisingly assure opportunity for all.

S Jay Levy



S Jay Levy, chairman of the Board of Governors

REPORT OF THE EXECUTIVE DIRECTOR

This past academic year marked the continued progress of The Jerome Levy Economic Institute's research and public service programs. Our progress included the intensified activities of the Forecasting Center and the dissemination of research and policy findings of the ongoing projects on **Economic Growth and Employment**, and **Financial Restructuring and Reform.** The Institute's growing scholarly involvement in national economic policy research and analysis was recognized through diversified activities such as congressional testimony; an increased number of conferences and media events in Washington and at Blithewood; a distinguished roster of visiting scholars, lecturers, and seminar leaders; and an augmented program of publications. Each year, I am pleased to report on the Institute's accomplishments and to reflect on the prospects for the future.

Dimitri B. Papadimitriou, executive director

The work of the Institute's Forecasting Center was again recognized—nationally and internationally—for its unparalleled results on the analysis of economic trends that characterize the unfamiliar U.S. economy of this decade. The "contained depression" at the beginning of the decade can and should be followed by a period of growing living standards. *Industry Forecast*, the Center's monthly publication, offers unmatched originality in its insights on current and developing economic problems of the U.S. economy and the economies of the industrialized world.

New fellowships as Institute resident scholars were given to individuals with diverse professional backgrounds and scholarly interests. Fellowships were awarded to Peter Ferderer of Clark University, Thomas Karier of Eastern Washington University, Takao Kato of Colgate University, Anthony Laramie of Merrimack College, and William Milberg of the New School's Graduate Faculty. Their appointments expanded our research and policy analysis in the areas of international trade and the balance of payments, labor markets and human resource management policies in Japan, investment tax credits and outcomes for economic growth, the effects of uncertainty in macroeconomic stabilization policy, and the relationship of taxation to profits and employment. The new scholars were supported and guided by the Institute's Distinguished Scholars Wynne Godley, of Kings College at Cambridge University, and Hyman Minsky. During the year, a score of visiting scholars and seminar leaders increased the interactions among the Institute's professional staff.

The Institute's research and educational outreach was expanded by the work of a number of our associates who continue their research while maintaining their posts at their home institutions, working on specific issues of economic policy of particular interest to the Institute. In 1993–94, our associates roster included Steven M. Fazzari of Washington University–St. Louis, Robert Haveman and Barbara Wolfe, both of the University of Wisconsin at Madison, Douglas Holtz-Eakin of Syracuse University's Maxwell School, David Howell of the New School's Graduate School of Management and Urban Policy, Robert Hutchens of Cornell University's School of Industrial and Labor Relations, L. Randall Wray of the University of Denver, and Sourushe Zandvakili of the University of Cincinnati. The results of their analyses were disseminated in the Institute's increasing publications program, which includes a bimonthly *Report*, a quarterly research *Summary*, a series of *Working Papers* and *Policy Briefs*, *Special Reports*, and a book series published by Macmillan Press and St. Martin's Press.

Over the course of the past year, we organized and convened four conferences—one at the National Press Club in Washington, D.C.—whose themes, "Financing Prosperity in the 21st Century," "Restoring Economic Growth: America's Challenges Ahead," "Restoring America's Economic Growth and International Competitiveness," and "The Financial System in the Decade Ahead: What Should Banks Do?" increased the interaction among the professional staff, policymakers, and academics.

The Institute's activities, its scholars, and their research findings were extensively referenced in both the scholarly and popular press, including *The New York Times*, *The Financial Times*, *The Wall Street Journal*, *The Washington Post*, *Business Week*, and the *U.S News and World Report*, among others; as well as featured on ABC, CBS, NPR, and PRI radio stations and on CNN and PBS television programs such as William F. Buckley's *Firing Line*.

Last year we were pleased to welcome Paula Stern, former chairperson of the International Trade Commission, to the board of advisors, but regretted Alan Blinder's resignation from the board, necessitated by his appointment to the president's Council of Economic Advisers. We also take this opportunity to salute Alan's Senate confirmation as vice chairman and governor of the Federal Reserve.

As we look ahead to the future endeavors of the Institute, no single issue will be more important in framing our public policy focus than the issue of unemployment. Within this context, the related concern of social justice—fairness, equity, and rising living standards—becomes profoundly compelling. Viable and effective policy options, founded on sound research and nonpartisan debate, are what we all strive for at the Institute.

I want to thank our supporters, the reviewers of our research fellowship proposals, the members of the Institute's boards of Governors and Advisors, and my colleagues in the research and administrative staffs. But as always, I must single out S Jay Levy, whose guidance and good humor could not be matched by any other individual.

Dimitri B. Papadimitriou,
Executive Director and Levy Institute
Professor of Economics, Bard College

FORECASTING CENTER

In its three years of existence, the Forecasting Center of The Jerome Levy Economics Institute, founded as the continuation of a project begun by Jerome Levy in 1914, has commanded national and international attention with its insights and definitive views of current and developing problems of the American and global economies.

The Forecasting Center has taken a unique and increasingly important role in enabling many private-sector decision makers and public officials to understand and anticipate economic trends. Among the many functions of the Forecasting Center are to spotlight emerging economic developments and to influence the issues selected by the Institute for its research programs.

David A. Levy, vice chairman of the Board of Governors and director of the Forecasting Center

At the heart of the Forecasting Center's first three years' work has been its controversial, sober analysis of the many obstacles to economic prosperity. Institute Chairman S Jay Levy and Vice Chairman David A. Levy, also the Forecasting Center's director, characterized the economy of the early 1990s as a "contained depression." In the ten years following the end of the contained depression, they anticipate the gradual development of a prolonged period of rapid investment and economic growth. An in-depth explanation and analysis of the causes and cures for the contained depression are contained in the monograph *Outlook for the 1990s: The Contained Depression*, the Institute's original exposition of this thesis (published in 1991).

According to the Levys, the economy of the early 1990s was marked by burdensome financial problems reflecting years of excessive expansion, speculation, and overcapacity in industry and real estate. As a result, private fixed investment, the normal engine of growth in a free-enterprise economy, has been experiencing a period of chronic weakness. During this period net private fixed investment as a share of gross domestic product fell to a record post–World War II low and, even after recovering during 1992 and 1993, remained little more than half its 1947-to-1989 average. Investment would have collapsed completely, and a devastating depression taken place, were it not for important government safeguards—such as deposit insurance, the Federal Reserve's provision of liquidity in financial markets, and the federal government's ability to provide a vast, automatic stabilizer in the form of the federal budget deficit—that have *contained* the depression. Indeed, the federal government's deficit spending represented a stimulus that countered the weakness in fixed investment. Along with preventing a 1930s-type collapse, these containment devices have allowed the economy to grow, albeit sporadically. High unemployment persists, however, and broad, sustained prosperity remains elusive.

Economic analysis meeting of the Forecasting Center

Even as the overcapacity of the early 1990s continued to dampen many types of domestic and international business investment, early signs of the approaching long-term investment boom were on the horizon, such as the rise in capital outlays for a new generation of technology. The Forecasting Center anticipates that the investment trend will continue upward through the late 1990s, but may be temporarily interrupted as the global economy continues to struggle with residual idle capacity, debt, and labor market problems for the next few years.

Public attention was originally focused on the pessimistic implications of the contained depression thesis for at least a sizable part of the remainder of the decade. Now, however, the focus is increasingly on the extremely optimistic implications of the thesis for the years after the contained depression. The Institute's January 1992 paper, "How to Restore Long-Term Prosperity in the United States and Overcome the Contained Depression of the 1990s," explored both the pessimistic and optimistic themes of the thesis and advocated innovative policies to encourage economic growth, reduce unemployment, and improve the nation's ability to compete in the twenty-first century. During 1993 the Forecasting Center increasingly emphasized the optimistic, long-term outlook of its thesis at Institute conferences, in congressional testimony, and at other presentations to members of Congress.

Founded forty-five years ago by Jerome and S Jay Levy, the Forecasting Center's monthly *Industry Forecast* makes the often-overlooked point about the deficits of the 1990s that they have largely been symptoms, not causes, of inadequate private investment and general economic malaise. The Forecasting Center has consistently maintained that inflation has been on a long-term decline and that there is little threat that inflation will be a serious problem during the remainder of the decade.

Development continues on a number of fronts at the Forecasting Center. S Jay and David A. Levy are writing a book about the contained depression, the prosperity to follow, and the implications for public policy. The book will be published by Random House.

The Forecasting Center's full-time research staff continues to grow. The addition of Devi Bhattacharyya and John Kim in 1993 and Martin Farnham and Dimos Silvestriadis in 1994 brought greater depth to the Forecasting Center's international and domestic analyses. Under the supervision of economist Jonathan Siegel, the Forecasting Center has implemented new technology that has extended the sophistication and power of its data analysis.

By incorporating into its analysis the work of Institute researchers, the Forecasting Center has also benefited from the expansion of the Institute's growing scholarly research programs, such as Distinguished Scholar Hyman P. Minsky's analysis of financial instability, Distinguished Scholar Wynne Godley's domestic modeling and international debt analyses, and Research Associate Steven Fazzari's work on the determinants of business investment.

The Forecasting Center will continue developing its research operations in order to increase its contribution to national policy debates.

Edward V. Regan, president of the Institute and Leon Levy, founding member of the Institute's Board of Governors

RESEARCH PROGRAMS

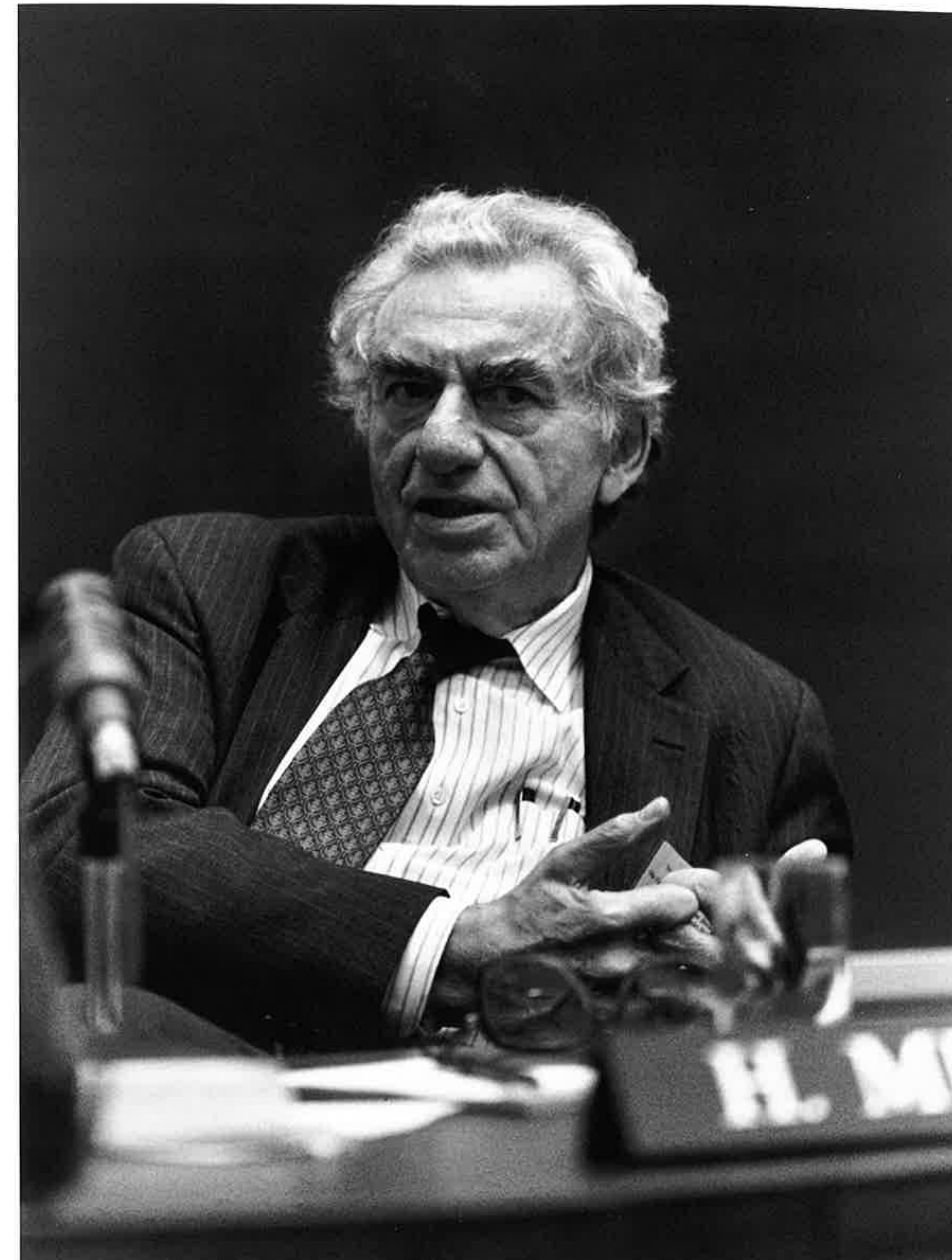
Although the Institute explores many different policy issues and interests, its research programs are mainly focused in two areas: (1) the reconstituting of the financial structure and (2) the prospects of employment and economic growth. Other research areas include public and private investment in physical and intellectual infrastructure and their effects on productivity and international competitiveness; the compensation and distribution of income effects resulting from changes in the demand for unskilled, skilled, semi-professional, and professional workers; effects of free trade with Mexico and other developing economies on the United States; and issues relating to urban policy.

Guided by Distinguished Scholar Hyman P. Minsky, the Institute's project on reforming the financial system has continued to flourish. This year's research has been particularly fruitful, highlighted by proposals for a national network of community development banks, reform of the Community Reinvestment Act, and banking sector restructuring. In addition, numerous recommendations emerged from the Institute's March '93 and April '94 conferences on financing prosperity in the coming century. The work in this area has earned the Institute a preeminent position in both academic and government policy circles.

Stemming from the work of Distinguished Scholar Wynne Godley, the scope of the Institute's research on economic growth was widened during the past year to include the effects of the structural imbalance of global trade on employment, growth, and international competitiveness. While at the Institute, Godley developed an econometric model designed to estimate the effects of a continuing trade deficit, a situation currently being experienced in the United States economy.

Financial Restructuring and Reform

Technological advances, the internationalization of financial markets, and institutional changes are just a few of the elements that have resulted in the rapid change currently taking place in the U.S. financial sector. Recent legislative efforts aimed at addressing change in the industry have been piecemeal and inadequate in promoting the long-term stability and soundness necessary to the system.



Hyman P. Minsky, Distinguished Scholar and panelist at the Institute's April 1994 conference

The Institute's project on the structural reform of the financial sector has endorsed the creation of a National Commission to undertake a comprehensive examination of the sources of financial distress in order to develop a financial system flexible enough to anticipate and respond to new developments and emerging events in the years ahead.

The Institute's active participation in the policy debate over community development banking was a natural outgrowth of Hyman P. Minsky's thesis for financing capital development in the economy. The rapid growth of nontraditional financial institutions (check-cashing outlets and pawnshops, for example) in disadvantaged communities demonstrates the unmet need for basic banking services, financing for small established businesses, and funding for start-up ventures in these neighborhoods. The Institute's proposal for a nationwide network of community development banks (CDBs) made a significant contribution to the national legislation establishing these institutions, especially in light of the policy discussions surrounding the reform of the Community Reinvestment Act (CRA) and evidence of discrimination in low-income and racially diverse lending markets. The primary goal of the Institute's community development initiative is to encourage long-term economic development and to foster an environment of opportunity for all Americans.

In March 1993 and April 1994 the Institute hosted its fourth and fifth in a series of conferences on the restructuring of the financial sector. The conferences, "Financing Prosperity in the 21st Century" and "The Financial System in the Decade Ahead," laid the groundwork for active debate on a wide range of issues. In addition, several papers in the Institute's *Public Policy Brief* series have been devoted to this project, including a proposal to create a network of CDBs, a paper outlining the implementation of the CDB model in a wider context of CRA reform, a report recommending that bank regulatory and supervisory agencies be consolidated, and a proposal to alter bank regulatory structure based on emerging changes taking place in the financial services industry.

Among the scholars contributing to the Institute's financial restructuring project were

- Hyman P. Minsky, Distinguished Scholar at The Jerome Levy Economics Institute of Bard College and Project Director
- James R. Barth, Lowder Eminent Scholar of Finance at Auburn University
- R. Dan Brumbaugh, financial consultant
- Steven M. Fazzari, Institute Research Associate and associate professor of economics at Washington University–St. Louis
- Dimitri B. Papadimitriou, executive director and Levy Institute Professor of Economics at Bard College
- Ronnie J. Phillips, Institute Resident Scholar and professor of economics at Colorado State University

- Bernard Shull, professor of economics at Hunter College and the Graduate Center of the City University of New York
- L. Randall Wray, Institute Resident Scholar and associate professor of economics at the University of Denver

Economic Growth and Employment

That investment plays a key role in stimulating economic growth and the competitive position of the United States in the world economy is widely acknowledged. The extent and form of the government's efforts to induce such activity is, however, widely debated. Research conducted at the Institute indicates that, at a minimum, public investment—broadly defined to include infrastructure, research and development, and telecommunications—can effectively stimulate private investment. Investment in such capital projects has been demonstrated to reinforce private sector productivity, increase real wages, and improve the position of the United States in the global economy.

A parallel theme in the debate over public investment is the nation's commitment to fiscal responsibility. The Institute believes that long-term deficit reduction and public investment are not mutually exclusive goals. To accomplish both ends it is essential to carefully define national objectives and priorities when undertaking deficit reduction. On one hand, credible deficit reduction will remove some long-term structural problems in the financial sector; on the other hand, dependency on a narrow policy of lower interest rates to stimulate private investment and economic growth would be myopic. Consequently, the Institute has endorsed a modest, long-term program of investment in physical infrastructure—such as transportation facilities, a fiber-optic information network, and waste and water treatment facilities—as an important instrument to enhance America's long-term economic competitiveness.

Concurrently, the Institute is exploring creative initiatives to improve the prospects for lifetime economic security among American workers. The accelerating pace of technological innovation, firm and industry restructuring, and globalization of markets has inexorably changed the structure of the labor market. Yet the public policies aimed at meeting the challenges faced by today's workers have done little to reflect these changing patterns. As a result, many potential workers have experienced permanent job loss and declining real wages. Indeed, those with few job skills have no clear path to secure employment at an above-poverty wage. Institute research indicates that the supply of lesser-skilled workers may be reduced through strategies such as vouchers extended for additional worker training and education, restricted immigration of unskilled workers, and intensive early childhood training.

Two major Institute conferences during 1993 and 1994, several issues of the *Public Policy Brief* series, and several working papers were devoted to the topics of investment, economic growth, and employment. Among the topics addressed were the

- Relationship between public infrastructure investment and private sector productivity
- Need to coordinate immigration policy so that the fluctuating needs of the domestic labor market are met
- Linkages between the cost of capital and the level of business investment
- Effects of changes in job structure on the employment prospects of young African-American males
- Extent of job-lock and labor mobility as they pertain to the health care reform debate
- Determinants of changing male earnings inequality
- Economic inactivity of young adults
- Business tax incentives and their effect on investment
- Policies to avert future unemployment and low wages

Institute scholars working on the economic growth and employment project included

- Wynne Godley, Distinguished Scholar at the Institute and professor of economics at Cambridge University
- Sharon Erenburg, Institute Resident Scholar and assistant professor of economics at Eastern Michigan University
- Steven M. Fazzari, Institute Research Associate and associate professor of economics at Washington University–St. Louis
- Robert Haveman, Institute Research Associate and John Bascom Professor of Economics and Public Affairs at the University of Wisconsin–Madison
- Douglas Holtz-Eakin, associate professor of economics and director of graduate studies at Syracuse University
- David Howell, Institute Research Associate and associate professor of economics at the New School for Social Research
- Robert M. Hutchens, Institute Research Associate and professor of economics at Cornell University's New York State School of Industrial and Labor Relations
- Thomas Karier, Institute Resident Scholar and professor of economics at Eastern Washington University
- Barbara Wolfe, Institute Research Associate and professor of economics, preventive medicine, and public affairs at the University of Wisconsin–Madison

Robert Eisner, Kenan Professor of Economics, Northwestern University, and audience at the Institute's November 1993 conference

INSTITUTE SCHOLARS AND ASSOCIATES

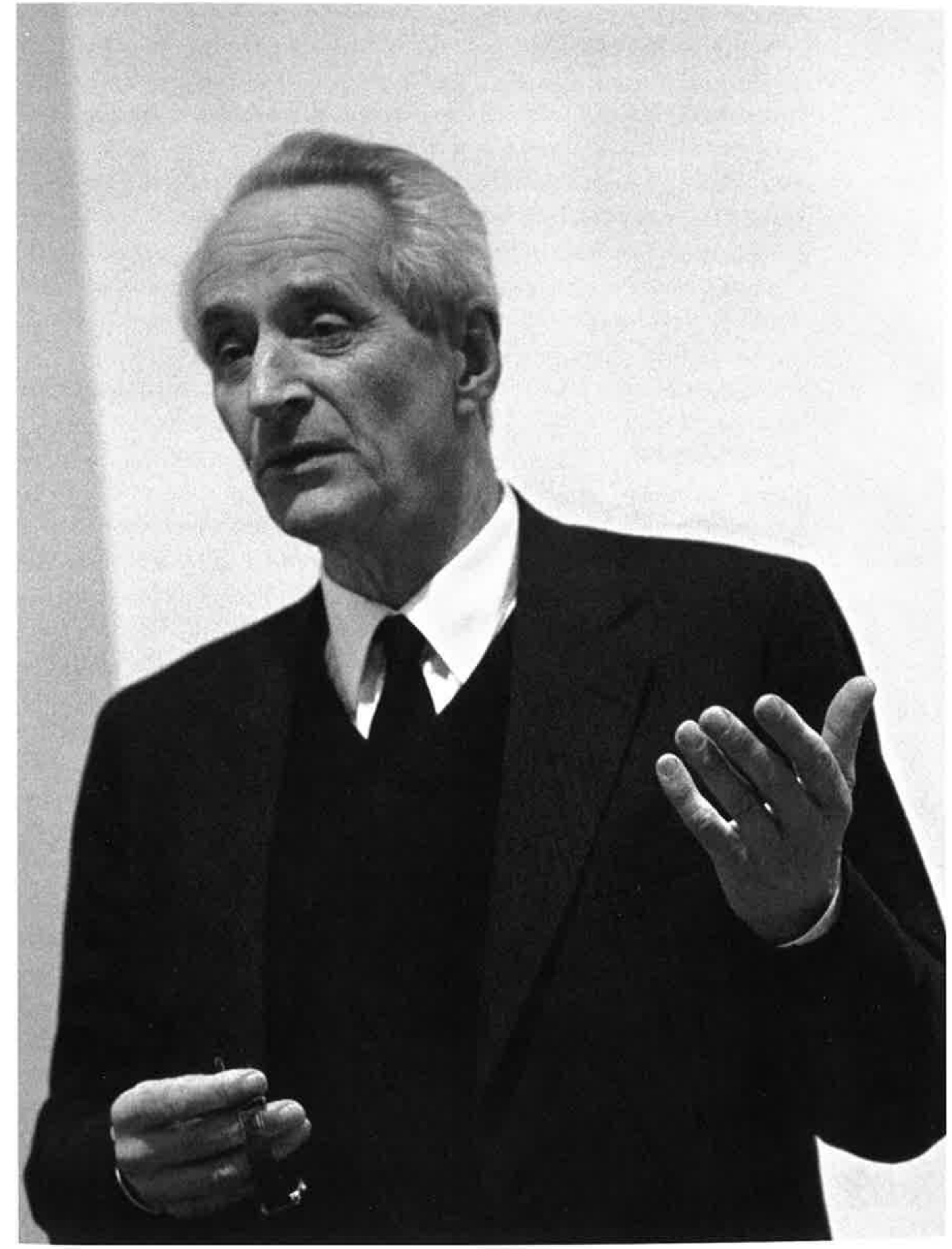
Since 1986 the Institute has supported scholarly research through its Distinguished and Resident Scholars programs, and through the commissioning of off-site research projects. Distinguished Scholars are highly respected senior economists who continue their scholarship while in residence at Blithewood and also supervise Institute research projects conducted by resident and off-site scholars. Resident Scholars usually spend one year at Blithewood intensively studying a topic of particular interest to the Institute.

Scholars at Blithewood are supported by the Institute's resources, which include advanced computer and on-line information sources, a rich academic library, and research services. The Institute's lecture series and conferences enable scholars to present their views and exchange ideas with widely recognized academics, business leaders, and government policymakers.

The direction of research undertaken at the Institute is guided by the Board of Governors, who select projects based on the Institute's current research agenda and in consultation with the Board of Advisors. The overriding priority of the Institute is the support of research that has direct public policy implications. The Institute strives to improve the human condition through the dissemination of economic ideas and is committed to nonpartisanship.

Distinguished Scholars

Wynne Godley, Ph.D. Oxford University, professor of applied economics, University of Cambridge. *Fields of concentration*: macroeconomics, public finance, and monetary theory and policy. *Recent publications*: *Britain's Economic Problems and Policies in the 1990s* (coauthored), "The British Economy During the Thatcher Era," "Time, Increasing Returns, and Institutions in Macroeconomics," "A Dynamic Model for the Analysis of Trade Policy Options" (coauthored). Professor Godley's work has centered on his development of an accounting-based model of the open U.S. economy that utilizes accounting stocks and flows measured at both current and constant prices. In collaboration with Resident Scholar William Milberg, Professor Godley has used the model to pose questions about the efficacy of the international payments adjustment system in light of the deterioration of the U.S. trade deficit since 1991. Professor Godley also contributes his



Wynne Godley, Distinguished Scholar and spring 1994 guest lecturer insights and economic forecast to the quarterly report to the Chancellor of the Exchequer, H M Treasury, United Kingdom.

Hyman P. Minsky, Ph.D. Harvard University, professor emeritus, Washington University–St. Louis. *Fields of concentration*: financial fragility encompassing the current crisis in banks, thrifts, insurance companies, and junk bond markets. *Recent publications*: "Community Development Banks: An Idea in Search of Substance," *John Maynard Keynes*, *Can "It" Happen Again?*, and *Stabilizing an Unstable Economy*. Professor Minsky contributes to many academic journals and the public press. He presents his ideas to academic and policy audiences worldwide, and his work is the impetus for the Institute's public policy research program on the reconstitution of the financial structure, a project of which he is a guiding member.

Resident Scholars

Paul B. Andreassen, Ph.D. Columbia University, associate professor, Department of Psychology, Harvard University, previously a visiting scholar, Alfred P. Sloan School of Management, Massachusetts Institute of Technology. *Fields of concentration*: psychology of economics, and systems dynamics. *Recent publications*: "The Value of Expectancy-Value Models," "On the Social Psychology of the Stock Market: Aggregate Attributional Effects and the Regressiveness of Prediction," "Explaining the Price-Volume Relationships: The Difference Between Price Changes and Changing Prices," and "The Psychology of Financial Forecasting." Dr. Andreassen's research addressed how individuals come to make systematically biased forecasts, thereby creating inefficiency in the market. The policy implications of this work thus concern how to reduce the waste of capital and the distress the economy must endure during major financial readjustments. (In residence 1992–93.)

Sharon J. Erenburg, Ph.D. University of Illinois–Champaign, assistant professor of economics, Eastern Michigan University. *Fields of concentration*: macroeconomic theory, public finance, and econometrics. *Recent publications*: "The Real Effects of Public Investment on Private Investment," and "The Real Effects of Short-Run and Long-Run Inflation: Some Empirical Evidence Using the Kalman Filter" (both in *Applied Economics*), and "The Effects of Short- and Long-Run Inflation and Uncertainty on Real Wages." Dr. Erenburg's project developed and empirically estimated the macroeconomic relationships that exist between public investment and (1) private investment decisions, (2) real output growth, and (3) employment. Her goal was to create a basis for the development of public policy aimed at stimulating a high and growing standard of living relative to other nations. (In residence 1992–93.)

J. Peter Ferderer, Ph.D. Washington University–St. Louis, assistant professor of economics, Clark University. *Fields of concentration*: macroeconomics, public policy, and econometrics. *Recent publications*: "Does Uncertainty Affect Investment Decisions" (*Journal of Post Keynesian Economics*, Fall 1993), and "Uncertainty as a Propagating Force in the Great Depression" (*Journal of Economic History*, forthcoming). While at the Institute, Dr. Ferderer examined the empirical relationship between uncertainty and investment spending. Over the last twenty years, there has been a shift in the way macroeconomic stabilization policies are viewed, with the emerging consensus that policy is acutely limited in its ability to stabilize macroeconomic fluctuations. Ferderer showed that such a view ignores that fundamental uncertainty surrounds the formation of expectations, and that this uncertainty has an effect on the behavior of the economy. His research measured the effect of uncertainty on the economy and the extent to which uncertainty can be contained by public policy. (In residence 1993–94.)

Judith Fields, Ph.D. New York University, assistant professor of economics, Lehman College, City University of New York. *Fields of concentration*: macroeconomics, labor economics, and econometrics. *Recent publications*: "Interindustry Wage Differentials for Female Workers: Are They the Same as Those for Males?" (coauthor, Edward N. Wolff; report to C. V. Starr Center for Applied Economics, New York University, 1992), "The Decline of Sex Segregation and the Wage Gap" (coauthor, Edward N. Wolff, *Journal of Human Resources*, Fall 1991). While at the Institute, Dr. Fields examined the gender wage gap and its relationship to affirmative action policies in the past decade. The study addressed the necessity of disentangling the effects of public policy from the influence of growth, unemployment levels, and basic market conditions that shape female earnings and employment opportunities. (In residence 1992–93.)

Jonathan P. Goldstein, Ph.D. University of Massachusetts–Amherst, associate professor, Bowdoin College. *Fields of concentration*: macroeconomic theory, applied econometrics, and political economy. *Recent publications*: "A Marxian-Keynesian Theory of Investment Demand: Empirical Evidence," "Motorcycle Helmet Effectiveness," "Mark-up Variability and Flexibility: Theory and Empirical Evidence," "Pricing, Accumulation, and Crisis in Post-Keynesian Theory." Dr. Goldstein studied the relationship of financial instability, profitability, and competition to capital formation and the business cycle. The research placed equal emphasis on theoretical modeling, econometric testing, and policy formation. The analysis focused on the way in which a restructuring of the financial system can reduce risk-averse behavior on the part of managers and in the investment of worker-managed funds, leading to a stronger, more farsighted, and more democratic trend in investment strategies. (In residence 1992–93.)

Thomas Karier, Ph.D. University of California–Berkeley, professor of economics, Eastern Washington University. *Fields of concentration*: macroeconomics and public finance. *Recent publications*: *Beyond Competition: The Economics of Mergers and Monopoly Power* (M. E. Sharpe), "U.S. Foreign Production and Unions," in *Industrial Relations* (forthcoming); and "Competitiveness and American Enterprise" and "The Heresies of John Kenneth Galbraith" (*Challenge*). Professor Karier investigated the merits of the investment tax credit (ITC). Over the past thirty years, the federal government has experimented with various forms of ITCs as a means of stimulating economic growth. Among the questions framed in his research were: How successful have these experiments been? Is there any evidence that a revamped investment tax credit would alleviate some of our economic problems? (In residence 1991–92 and 1993–94.)

Takao Kato, Ph.D. Queen's University, Canada, associate professor of economics, Colgate University. *Fields of concentration*: labor economics, industrial relations, and the Japanese economy. *Recent publications*: "The Economic Effects of Participatory Compensation Systems: A Review" (*The Monthly Journal of the Japan Institute of Labour*, in Japanese, coauthor), "Internal Labor Markets for Managers and the Speed of Promotion in the U.S. and Japan" (in The Japan Institute of Labour, ed., *An International Comparison of Professionals and Managers: Their Job Careers and Quality of Working Life*), "Employee Stock Ownership Plans and Productivity in Japanese Manufacturing Firms: Evidence from New Micro Data" (*British Journal of Industrial Relations*), and "On the Scope, Nature, and Effects of Employee Stock Ownership Plans in Japan" (*Industrial and Labor Relations Review*). Dr. Kato examined the relationship between human resource management practices and productivity. His research focused on the interactions between various human resource policies (employment stability, investment, and collective bargaining) and economic performance (productivity). Since much of the concern with U.S. economic and business policy is based on comparisons with Japan, this investigation of Japanese business policies has the potential for providing insights into the debate on which policies may aid performance. (In residence 1993–94.)

Anthony Laramie, Ph.D. Clark University, associate professor of economics, Merrimack College. *Fields of concentration*: macroeconomics, public finance and policy, and business cycles. *Recent publications*: "Taxation and the Business Cycle" (*Cambridge Journal of Economics*, forthcoming, coauthor), "Taxation" (in M. Sawyer and P. Arestis, eds., *The Handbook of Radical Political Economics*, Edward Elgar, forthcoming), and "The Incidence of Business Rates: A Post-Keynesian Approach" (*Review of Radical Political Economy*). Dr. Laramie's research included an analysis of how tax changes affect the aggregate levels of profits, employment, and income, and the structure of the business cycle. Specific questions addressed include: What is the relationship between the level of profits, employment, and growth? What types of tax changes are effective in changing the level of profits? What are the effects of changing the social security tax, the progressiveness of the personal income tax structure, or commodity taxes on profits and the growth in investment? and What are the dynamic effects of changing tax rates on investment, employment, and growth? (In residence 1993–94.)

William Milberg, Ph.D. Rutgers University, assistant professor of economics, New School for Social Research. *Fields of concentration*: international trade, technological change, and commercial policy. *Recent publications*: "Is Absolute Advantage Passe?: Toward a Post Keynesian/Marxian Theory of International Trade" (in M. Glick, ed., *Competition, Technology and Money: Classical and Post Keynesian Perspectives*, Edward Elgar, forthcoming), "Transnational Corporations and Mexican Autos: Impacts of Sectoral and Macroeconomic Policies" (in H. P. Gray and S. Richard, eds., *International Finance in the New World Order*, Pergamon, forthcoming, coauthor), "Market Competition and the Failure of Competitiveness Enhancement Policies in the United States" (*Journal of Economic Issues*), and "Degree of Monopoly, Pricing and Flexible Exchange Rates" (*Journal of Post Keynesian Economics*, coauthor). Dr. Milberg's research examined structural competitiveness problems and attempted to provide creative policies to overcome them. Specifically, the policies examined were protectionism and its relationship to performance; the North American Free Trade Agreement (NAFTA) renegotiations within the context of environmental, health, and wage standards; the use of subsidies to R&D and other support policies for those sectors having significant linkages; subsidies and support measures that are subject to rapid technological change and are sensitive to technological innovations by foreign rivals; and other policy options related to international trade. (In residence 1993–94.)

Ronnie J. Phillips, Ph.D. University of Texas–Austin, professor of economics, Colorado State University. *Fields of concentration*: international economics, monetary theory and policy, and economic history. *Recent publications*: *The Chicago Plan and New Deal Banking Reform* (Sharpe), "How Regulation Turned a Winner into a Loser" (*American Banker*, 1992), "The Texas School of Institutional Economics," "Economic Power, Financial Instability, and the Cuomo Commission Report," "The Minsky-Simons-Veblen Connection: Comment," and "Latin America's Debt Crisis, the International Monetary Fund, and Financial Reform" (in James L. Dietz and Dilmus James, eds., *Progress Toward Development in Latin America: From Prebisch to Technological Autonomy*). Professor Phillips analyzed proposals to restructure the U.S. financial system. His research concentrated on "narrow banks" as a way to create a safe and stable payments system. (In residence 1992–93 and 1993–94.)

Milind Rao, Ph.D. Columbia University, assistant professor of economics, Colgate University. *Fields of concentration*: macroeconomics, monetary theory, growth theory, and finance. *Recent publications*: "To Transfer or to Destroy," "On the Transfer and Advantageous Reallocation Paradoxes" (*Social Choice and Welfare*), and "Money, Growth, Distribution, and Prices in a Simple Sraffian Economy" (*European Journal of Political Economy*). Dr. Rao's research project focused on a theoretical and empirical investigation of the large-scale migration of talent—particularly in science and engineering—from certain developing countries to the United States. This "new" brain drain differs from traditional concepts of the brain drain in that U.S. postgraduate education plays a crucial role in the migration process. Hence, there are major consequences for U.S. higher education and for the effect of foreign-born talent in the United States on international trade and welfare. (In residence 1992–93.)

Hong Wang, Ph.D. Cambridge University, research fellow, Department of Applied Economics, Cambridge University. Recent publications include *China's Exports Since 1979* (Macmillan), "Commodity Production in Post-1978 China," "Markets, Institutions, and Technical Change: The Production and Utilization of Machine Tools in China" (coauthored), and "Growth and Structural Change in the Chinese Machine Tool Industry in Comparative Perspective" (coauthored). While at the Institute Dr. Wang studied the effect of Chinese economic reform since 1979 on the industrial organization and economic performance of the Chinese machine tool industry. (In residence 1992–93.)

L. Randall Wray, Ph.D. Washington University–St. Louis, assistant professor of economics, University of Denver. *Fields of concentration*: macroeconomics and monetary theory. *Recent publications*: "Minsky's Financial Instability Hypothesis and Endogeneity of Money" (*Financial Conditions and Performance: Essays in Honor of Hyman P. Minsky*), "Money, Interest Rates, and Monetarist Policy: Some More Unpleasant Monetarist Arithmetic" (*Journal of Post Keynesian Economics*), "The Monetary Macroeconomics of Dudley Dillard" (*Journal of Economic Issues*), and "Alternative Theories of the Rate of Interest" (*Cambridge Journal of Economics*). Dr. Wray's research project consisted of a comprehensive analysis of macropolicy prescriptions to redress problems confronting the U.S. economy. Dr. Wray also aimed to employ an alternative perspective—the determination of asset prices in a model that incorporates an endogenous money approach—to understand the link between interest rates and profit levels. (In residence 1992–93.)

Research Associates

Steven M. Fazzari is associate professor of economics, Washington University–St. Louis. His project empirically addressed the relative importance of the channels through which fiscal policy affects investment. The specific channels examined included public policies aimed at influencing (1) interest rates and the cost of capital, (2) the health of the economy, and (3) firms' financial conditions. Policies aimed at affecting interest rates (such as reducing the federal budget deficit and those directed at increasing savings) are thought to influence investment by reducing the cost of capital. On the other hand, taxation and spending policies that are concerned with influencing the business cycle, it is believed, have a short-run effect on the economy with possibly a longer-term influence through investment effects. Finally, policies directed at altering firms' financial condition—either through internal cash flow or from external debt—could affect either the amount of cash that firms have available to finance investment internally, or the ability of the financial sector to provide investment finance to firms through debt or equity issues. By providing insight into the ability of such policies to stimulate investment, Fazzari's work helps direct policymakers' attention to the most efficient means by which government planning might be directed. (On continuing appointment.)

Robert Haveman is John Bascom Professor of Economics and Public Affairs, University of Wisconsin–Madison; **Barbara Wolfe** is professor of economics, preventive medicine, and public affairs, University of Wisconsin–Madison. Their research project is on "Economic Activity, Underemployment, and Human Capital Poverty in the U.S., 1973–1990." By examining the issue of growth and utilization of the nation's human capital stock, the research attempts to (1) document the growth of human capital in the United States economy since the early 1970s, (2) estimate the inequality in the distribution of human capital among working-age adults and document any changes in inequality, (3) explore the patterns of utilization of human capital among the working-age population (for example, has the overall utilization rate of human capital increased or decreased over the past twenty years, and how have changing patterns of human capital utilization among age, gender, and ethnic groups contributed to the overall change in the capacity utilization rate?), (4) identify the factors that have determined the measured changes in the growth, distribution, and utilization of human capital, and (5) explore the duration and determinants of the underutilization of human capital among young adults and the changes in duration and determinants of underutilization over time. If the objective of policy is to increase the utilization of human capital so that each race/gender/education/age group in the working-age population is fully utilized, then it is important to understand the aggregate level of underutilization and its distribution within the working-age population. Does the greatest potential lie in reducing economic inactivity among young adults or older workers? Among males or females? Among those with little education or the more highly educated? The answers to these questions indicate whether policies targeted to youths (such as Jobs Corps or youth employment policies), older workers (including changes in social security or disabilities benefits and rules), or young women (changes in work/welfare policy, for instance) are likely to be effective in increasing economic activity. (On continuing appointment.)

David Howell teaches at the Graduate School of Management and Urban Policy, New School for Social Research, and is a research associate at the C. V. Starr Center for Applied Economics, New York University. His project examined the effects of recent employment restructuring on young workers by race and sex. Initial findings implied a strong link between changes in the rate of discouragement in the labor market and changes in job opportunities, job quality, and educational requirements. A lingering question remains for future research: Given that the distribution of young, moderately educated black and white women has narrowed substantially, why have young black men not been redistributed toward higher-quality, growing job sectors as effectively as their white counterparts? (On continuing appointment.)

Robert M. Hutchens is professor at Cornell University's New York State School of Industrial and Labor Relations. His research addressed the effects of shifts in occupational structure on young unskilled workers. His proposal on "Avoiding a Future of Unemployment and Low Wages: What Opportunities Are Open to Young Unskilled Workers?" considered the increased skill and education requirement of most jobs. The policy implications of this dilemma involved examining both current and recommended government efforts to help young unskilled workers in following career paths that avoid future unemployment and low wages (such as obtaining additional formal schooling or obtaining a job that provides skills that can lead to future financial security). (1992–1994.)

L. Randall Wray is associate professor of economics, University of Denver. His research project consists of a comprehensive analysis of macroeconomic policy, including an analysis of monetary policy, inflation, and unemployment and an examination of factoring companies and their effects on access to credit. (On continuing appointment.)

Sourushe Zandvakili is associate professor of economics at the University of Cincinnati. His project focuses on "The Distributional Implications of the Tax Changes in the 1980s: A New Approach for Measurement and Policy Analysis." The last decade brought several significant changes in federal tax laws. These changes were legislated in the Tax Reform Act of 1978, the Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Tax Reform Act of 1986. Zandvakili is developing a framework by which one can measure and evaluate the implications of changes in tax laws within a dynamic setting and provide an analysis of the consequences of the tax changes that have taken place during the last decade. (On continuing appointment.)

Thanks to Reviewers

The Board of Governors of The Jerome Levy Economics Institute wishes to thank the following individuals for their willingness to serve the Institute as reviewers of research proposals.

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CONFERENCES

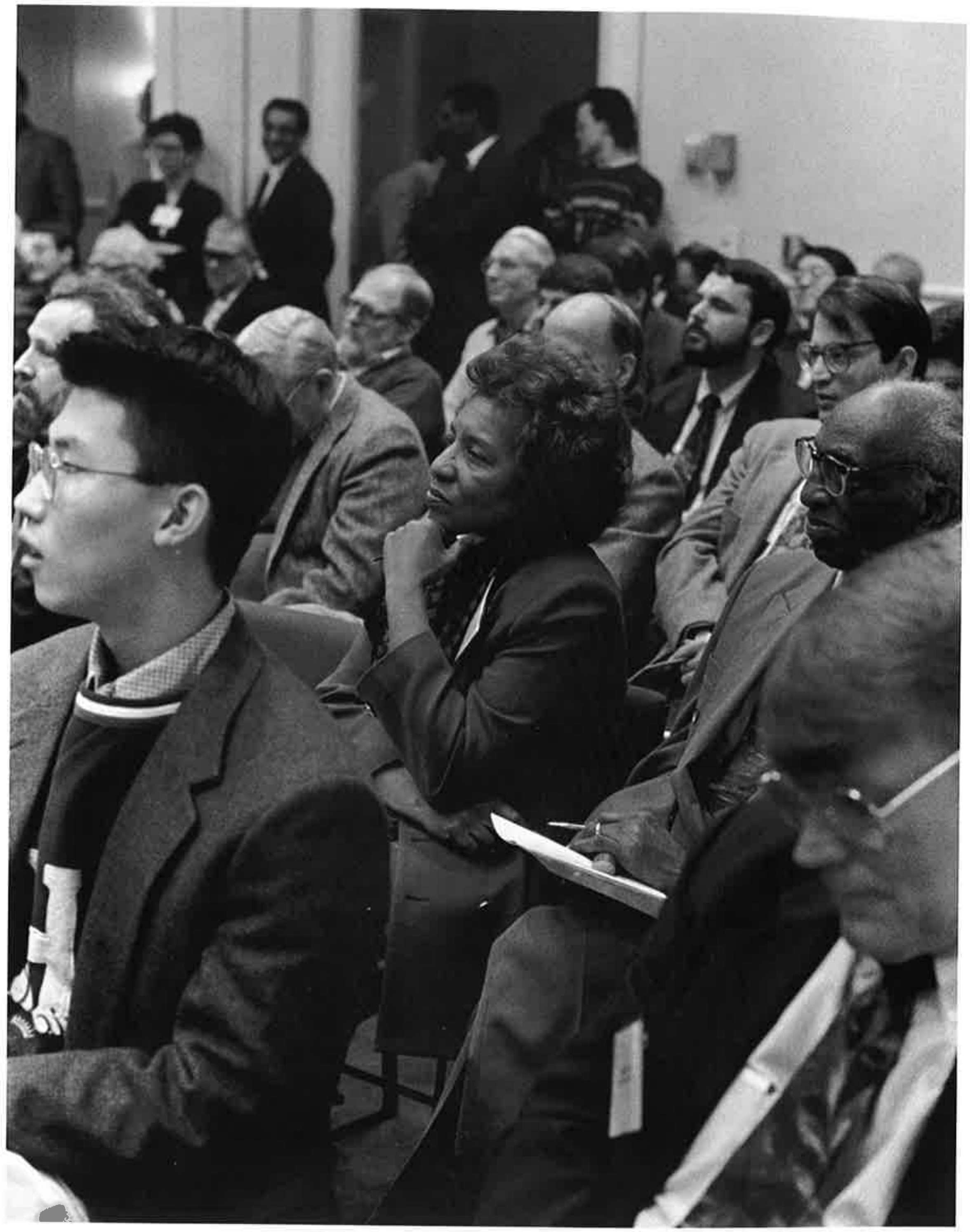
In addition to its ongoing research, The Jerome Levy Economics Institute holds conferences on a variety of topics, highlighting the issues of current importance to the Institute's research agenda. By sponsoring these conferences and providing a forum for debate on contemporary policy questions, the Institute has become established as a place for members of business, academia, and the political domain to come together to exchange ideas and discuss public policy initiatives. During 1993–1994, the Institute sponsored four major conferences: "Financing Prosperity in the 21st Century," "Restoring Economic Growth: America's Challenges Ahead," "Restoring America's Economic Growth and International Competitiveness," and "The Financial System in the Decade Ahead: What Should Banks Do?"

Financing Prosperity in the 21st Century

The Institute hosted a conference, "Financing Prosperity in the 21st Century," on March 4–6, 1993. The conference addressed issues high on the legislative agenda, namely, the need for institutional reform, regulation, and deposit insurance. The caliber of the participants and the importance of the discussions resulted in the conference's making a significant contribution to the debate on the need for financial reform. Among the many distinguished policymakers participating were Senator William Proxmire, former chairman of the Senate Committee on Banking, Housing, and Urban Affairs; Richard S. Carnell, assistant secretary for financial institutions at the U.S. Department of the Treasury; Walter Cadette, chief economist at Morgan Guaranty; George Kaufman, John Smith Professor of Finance and Economics at Loyola University, Chicago; and James Tobin, Nobel laureate and Sterling Professor of Economics Emeritus at Yale University.

Held on the sixtieth anniversary of the Banking Crisis of 1933, the conference reviewed the events that led to that banking crisis and the subsequent mandates: the Emergency Banking Act, the Banking Act of 1933, and the Banking Act of 1935, among other related legislation. The banking structure that resulted from these initiatives produced the longest period of financial stability in U.S. history, lasting nearly half a century. However, legislative reforms enacted during the past decade have been implemented piecemeal, and currently pending proposals are inadequate for comprehensive long-term reform. Thus, understanding successful past reform becomes even more important.

Conference participants considered the public's perception that greed was the underlying cause of the savings and loan (S&L) crisis and concluded, based on the body of evidence, that only a small



Participants at the Institute's April 1994 conference amount of actual losses was attributable to fraud. Instead, it was the existing structure of deposit insurance, which provided S&L operators with incentives for excessive risk taking, led to balance sheets made up of risky asset holdings allowed under deregulation, eviscerated capitalization rules, and expanded asset powers, that prompted the downfall of many S&Ls.

Current problems in the S&L and banking system cannot be solved by the ambiguous prescription to "regulate better." A more productive solution would be the unification of the existing fragmented system of chartering and regulatory control. Another would be the formation of institutions in which deposits would be safe (100 percent insured and strict limitations placed on assets) as organizations separate from those carrying uninsured deposits (such as finance companies). Such actions would allow the financial sector to flexibly respond to market forces, reduce depositor risk, raise profitability, and lower taxpayer costs over the long run.

One aim of the Institute's project on the reform of the financial structure is to provide a better understanding of why improvements to the banking system enacted during the 1930s were so successful and why it is necessary for a new blueprint to be developed and instituted. The new set of policy proposals would provide an institutional framework that allows the financing of the economy's capital development to take place and simultaneously ensures a safe payments system. While these goals are ambitious, it is the Institute's belief that fundamental reforms are integral to the establishment of a sound financial structure that would allow the economy to function efficiently in the next century. In this regard, the Institute has called for the creation of a National Commission to comprehensively examine the financial services sector.

Senator Robert Dole at the Institute's October 1993 conference

Restoring Economic Growth: America's Challenges Ahead

On October 21, 1993, the Institute held its first in a series of planned conferences in Washington, D.C. Conferences held in the nation's capital are yet another vehicle bringing the Institute closer to the fulfillment of its mission, convening agents of the government, private sector, and academy to exchange views and debate crucial economic issues.

The purpose of the October conference, held at the National Press Club, was to examine the state of the economy, assess the prospects for economic growth and job creation, and identify opportunities in the challenges that lie ahead. Debate centered on the appropriate role for the federal government in the operation of a modern capitalist economy; the wisdom of emphasizing deficit reduction over economic stimulus; and strategies for fostering job creation within the economic and political environs of trade liberalization, structural change in labor markets, and fiscal constraint.

Speakers included Alan Blinder, vice chairman of the Federal Reserve and formerly a member of the President's Council of Economic Advisers; Senator Robert Dole (R–Kans.); David A. Levy, vice chairman of the Institute and director of its Forecasting Center; Alicia Munnell, assistant secretary for economic policy, U.S. Department of the Treasury; Rudolph Oswald, director of economic research, AFL-CIO; Martin Regalia, vice president and chief economist, U.S. Chamber of Commerce; and Senator Paul Sarbanes (D–Md.).

Senator Dole noted his approval of the 1993 budget agreement but disagreed with the method by which it was accomplished, namely in combination with tax increases that discourage capital formation, risk taking, and the initiative essential to encourage entrepreneurship in the economy. He also asserted that higher levels of taxation result in economic dislocation, declining economic opportunities, and fewer jobs. A similar sentiment was registered by Martin Regalia, who noted that businesses do not have a problem with the goals of the administration's economic policies, but rather with the manner in which those goals are being implemented. The spending cuts in the budget bill were much smaller and the tax increases much larger than originally promised. In addition, the incentives in the original budget bill, important to spur research, experimentation, and training, were cut back.

Alan Blinder disagreed with these views, noting that misperceptions of the administration's economic plan have arisen because deficit reduction was seen as the sole feature of the budget plan. Also included, however, were the limitations placed to control the upward spiral of health care costs, the expansion of international trade, and incentives that would hasten the discovery and diffusion of new technology. The administration began with deficit reduction in order to promote growth and raise living standards in the long run while fostering conditions favorable for more investment in the short run.

Alicia Munnell, assistant secretary for economic policy, U.S. Department of the Treasury, at the Institute's October 1993 conference

It was David A. Levy's contention that the economy was suffering from a serious, multiyear, but temporary weakness in private investment. He blamed prior overbuilding of business capacity and speculation in real estate and various other assets. In the 1990s, he maintained, government fiscal stimulus had been supporting the economy while private sector investment, the economy's normal stimulus, was weak. He also argued that the depressed conditions of the 1990s were gradually setting the stage for a resurgence of investment and an era of prosperity unmatched in recent decades. While acknowledging that the federal deficit is a serious issue and that the Treasury's outflow must be stemmed in the long run, he stressed the dangers of cutting the deficit during the still-troubled years of business retrenchment. He recommended a plan, developed at the Institute (see Edward V. Regan, page 55), for stimulating state and municipal infrastructure spending with limited impact on the federal deficit.

Alicia Munnell contended that the slow rates of employment and economic growth during the early stages of the recent recovery were largely the result of large cutbacks in defense spending, a substantial reduction in lending by crippled financial institutions, and an expanding federal budget deficit. Because the economic picture began to improve in late 1993, owing largely to lower interest rates and a vote of confidence by financial markets in the president's economic plan, Munnell predicted a steady jump in the quality and quantity of jobs. In addition to encouraging education and training initiatives to upgrade the stock of human capital, Munnell stated that public and private investment must be undertaken so that American businesses have not only the skills but also the technology to compete in increasingly competitive global markets.

Restoring America's Economic Growth and International Competitiveness

The objective of the Institute's third conference for the year, held November 12–13, 1993, was to assess viable policy options for growth, employment, and competitiveness of the U.S. economy within the matrix of fiscal responsibility and global interdependency. The presentation identified (1) policy prescriptions for increasing the level of national investment and improving the performance of American business, and (2) possible channels through which the federal government might become actively involved in the enhancement of America's long-term, global competitive position.

Although exercises that tackle the precise definition of debts and deficits always evoke healthy disagreement, there was a consensus among conference participants on the merits of the country's commitment to "get its economic house in order." Nevertheless, the audience witnessed lively debate on what the appropriate pace and magnitude of deficit reduction should be. Furthermore, the matter of timing—whether a modest program of public investment aimed at stimulating private investment should precede or follow deficit reduction—generated an insightful exchange among the conferees.

Senator Daniel P. Moynihan at the Institute's November 1993 conference

Among the many distinguished policymakers, business leaders, and academics assembled at Blithewood were Alan Auerbach, professor of economics, University of Pennsylvania and former deputy chief of staff, Joint Committee on Taxation, U.S. Congress; Robert Barbera, former managing director and chief economist, Lehman Brothers; Robert Eisner, Kenan Professor of Economics, Northwestern University; Robert Giordano, director of economic research, Goldman Sachs and Company; Congressman Maurice Hinchey (D–N.Y.); Robert Kuttner, cofounder and editor of *The American Prospect* and a well-known contributor to *Business Week*; Richard McGahey, executive director, Joint Economic Committee, U.S. Congress; Senator Daniel P. Moynihan (D–N.Y.); Howard Rosen, executive director, Competitiveness Policy Council; Robert Shapiro, vice president, Progressive Policy Institute; Paolo Liebl von Schirach, The Concord Coalition; and James Tobin, Nobel laureate and Sterling Professor of Economics Emeritus, Yale University.

Serving as the framework for much of the discussion throughout the conference was a presentation by Robert Kuttner titled "Keynes, Schumpeter, and High-Growth Economics in the 1990s." The paper articulated the view that current economic problems should be set in the context of the conflicts within and between economic theory and reality. The differences were defined in terms of Smithian, Keynesian, and Schumpeterian efficiencies that illustrate the conflicts between various economic forces such as those between actions that enhance market price activities and those that would move the economy closer to full employment.

Kuttner alleged that it is naïve to blindly accept the view that the conventional solution to the economic competitiveness problem lies in greater fiscal prudence, greater marketization, and greater global laissez-faire. These trends invariably undercut the ability of automatic stabilizers, such as fixed exchange rates, country-by-country macroeconomic management, national regulatory and wage-setting institutions, and national industrial development strategies, all characteristic of the Bretton Woods era.

Many of the ensuing presentations adopted themes of the Kuttner paper, focusing on the conflicts between allocative (Smithian) and employment (Keynesian) efficiencies and technological innovation tied to the business cycle (Schumpeterian efficiencies). For example, Richard McGahey asserted that we have had (and will always have) continuing actions to adopt Smithian efficiencies in the economy: lean and mean corporate structures, cost reduction, and employment cutbacks. However, we no longer employ macroeconomic stimulants, and those Keynesian efficiencies, at least right now, are not translating into employment. Howard Rosen made four observations about the global economy that point out the conflicts between the different types of efficiencies: (1) borders still matter; (2) in the context of the world economy, our standard of living has to be determined within a global marketplace; (3) some investment is more efficient and stimulative than other forms of investment; and (4) the velocity of technological change is more rapid than at any other time in history. These premises are at odds with one another, creating a tension between questions of equity versus efficiency versus response.

The Financial System in the Decade Ahead: What Should Banks Do?

Susan M. Phillips, member of the Board of Governors of the Federal Reserve System, at the Institute's April 1994 conference

In April 1994, the Institute hosted a conference on the challenges facing banks during the coming decade. Participants included members of bank regulatory institutions (the Federal Reserve, the Department of Treasury, and the Comptroller of the Currency), bank insurers (the Federal Deposit Insurance Corporation), representatives of the banking industry (American Bankers Association), politicians, and members of academia, who debated how they should deal with these challenges. Featured speakers were Susan M. Phillips, member of the Board of Governors of the Federal Reserve System, Thomas M. Hoenig, president of the Federal Reserve Bank of Kansas City, and Richard S. Carnell, assistant secretary for financial institutions, U.S. Department of the Treasury.

In her speech, "Bank Activities and Structure in the Coming Decade," Ms. Phillips offered her opinions about the future and evolution of the structure of banks and how they will deliver services in the years ahead. During the next decade, she expects that large commercial banks will experience sizable and swift changes, some geographically expanding by forming multistate or international institutions. Many will be increasingly active in off-balance-sheet activities, while others will introduce new financial products and delivery systems.

Despite the changes that will take place among this group, most institutions will experience little or no change other than the efficiencies created by technological progress. As a long-term strategy, Phillips suggested that banks diversify into full-service financial centers offering securities, insurance, and real estate services. In addition, she predicted that banking consolidation will continue, resulting in fewer banks, but that the number of branch banks will rise because, for example, banks will use branches to offer specialized products and personalized services to local markets in an effort to differentiate themselves from nonbank competitors.

Mr. Hoenig, in his address "Challenges for the Banking Industry in the 1990s," asserted that technological advances, newly emerging financial theories, and innovative financial instruments have altered banks' balance sheets and transformed the manner in which the industry does business. Off-balance-sheet activities have and will continue to become increasingly important, especially for larger banks. The direction that these activities are allowed to take will determine future changes in the degree of risk or stagnation in the banking industry.

These changes will result in banks' being increasingly called on to assist customers in managing all types of risk and facing stiffer competition for deposits (primarily from nonbank institutions), all in the midst of growing bank consolidation, an environment fraught with perils and no assurance of success. These trends could lead to a substantial rise in the degree of systemwide risk, or to a heavily regulated and stagnant market, or to a happy medium balancing safety and risk. To achieve a balanced outcome, (1) supervisory techniques and enforcement methods must be changed to accommodate new, more risky bank activities; (2) new methods need to be invented to protect the payments system; (3) structural changes, within the broader macroeconomy as well as within the banking system, that would allow higher capital levels to be maintained must be explored and promoted; and (4) changes in financial markets must be reconciled with their subsequent implications for monetary policy. In order for the market to achieve stability central banks must establish a framework for achieving long-run price stability. In addition, the Federal Reserve and other regulatory agencies must develop methods by which they can quickly respond to threats to the payments system.

Ellen Seidman, special assistant to the president for economic policy, at the Institute's April 1994 conference

Mr. Carnell gave an insightful speech on systemic risk, which he said is a condition created by asymmetric information in the financial markets. Carnell defined systemic risk as the "sudden, unexpected, widespread loss of confidence in financial markets with potentially large effects on the real economy." The loss of confidence generally is large and sudden; if it were not, steps could be taken to correct the situation, thereby eliminating or decreasing any potential risk.

Systemic risk could be caused by (1) nonsimultaneous transactions (debits and credits are recorded at different times), (2) illiquid assets, which make it difficult for regulators to measure potential insolvency, (3) the numerous interconnections between institutions, which could result in the collapse of one leading to the demise of otherwise healthy institutions, and (4) herd mentality, resulting in bank runs. Carnell asserted that reform efforts to deal with systemic risk should be aimed at combining the actions of institutions that have traditionally dealt with systemic risk with those not included in the process but connected to the circumstances of risk (such as the SEC). Solutions should focus on structural change. Crisis management should be abandoned as a method of dealing with systemic risk, with regulators instead focusing on identifying and observing conditions that lead to systemic risk in order to increase available information and raise the level of confidence in the financial system.

The conference concluded with roundtable discussions on community development banking. Dimitri B. Papadimitriou, executive director, The Jerome Levy Economics Institute, stressed the structural problems existing in the banking system today—where a segment of the population is left without access to traditional banking services—and provided the framework for a free-ranging discussion on trends in community development banking and reinvestment. The participants (Robert Clair, senior economist and policy advisor, Federal Reserve Bank of Dallas; Mark Winston Griffith, president, Central Brooklyn Federal Credit Union; Brian Mathis, senior policy analyst at the U.S. Department of the Treasury; and Martin Trimble, executive director, National Association of Community Development Loan Funds) debated a spectrum of issues relating to the dearth of credit and financial services in low-income areas and two key government initiatives designed to solve the problem: the Community Reinvestment Act (CRA), and the soon-to-be-enacted legislation on community development banks (CDBs).

Hyman P. Minsky, Distinguished Scholar at the Institute, started off another roundtable on setting a policy agenda for financial and banking reform by commenting that a peculiarly complex structure is evolving under bank holding companies. While one large institution may be supervised by the Federal Reserve, some of its subsidiary banks may be supervised by the states, and its fund sales organization supervised by the SEC. Minsky's opening remarks provided an outline for a roundtable seeking the answers to a number of questions, including:

- Have the problems of deposit insurance been solved?
- If there is to be some regulation of banking, how should it be structured?
- What are the implications of the changing system for the financial establishment?
- Will the creation of a national commission aid in the restructuring of the financial system?

William C. Hunter, vice president, Federal Reserve Bank of Atlanta, at the Institute's April 1994 conference

According to several panelists, one solution to the problem posed by the risks of derivatives and other instruments might be to create a financial services structure in which some subsidiaries of financial institutions would be federally insured and others not. James Chessen, chief economist and director of policy research at the American Bankers Association, said that the first priority of such a restructuring should be to allow banks the freedom to engage in operations involving mutual funds, insurance, or pension products. If banks' actions were limited to exclude these markets, then the industry would be condemned to perpetually declining market share.

Most participants agreed that, at least in the near term, any sweeping regulatory reform was unlikely. Part of the problem in building a consensus for reform, said Ellen Seidman, special assistant to the president for economic policy, is that "there is no crisis." Both Seidman and Howard Menell, Republican staff director, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, cited political difficulty as the reason that the likelihood of Congress producing any meaningful financial reform regulation in the near future is limited. Congress stands ready to consider meaningful reform, but first the administration will have to develop a policy on financial reform, according to Menell, and "this is not an issue the president will take on in his first term."

PUBLIC INFORMATION

An important element of the Institute's mission is to disseminate economic ideas that will stimulate the discussion and implementation of public policy. The Institute seeks to fulfill this mission through several channels, including conferences, workshops, lectures, seminars, debates, presentations by Institute staff and fellows, as well as through its wide range of publications.

Outreach Programs

Congressional Testimony

Given the breadth and depth of the Institute's research, Institute scholars and staff often are called upon to offer their expert advice and opinions to the local and national media, special interest groups, and Congress. During 1993–94, congressional consultations were offered by Chairman S Jay Levy; David A. Levy, vice chairman and director of the Forecasting Center; Executive Director Dimitri B. Papadimitriou; and Edward V. Regan, president of the Institute.

S Jay Levy has taken the position that sacrificing public investment to expedite the reduction of the federal budget deficit is counterproductive. Levy testified before the Senate Finance Committee that a program could be crafted that combines a strategy for public investment with gradual deficit reduction. He asserted that these goals are not mutually exclusive, even in the current environment of fiscal responsibility. Hence, though he stresses the importance of long-term deficit reduction, he holds that the proper sequencing of public investment and deficit reduction may be more crucial to economic growth and employment opportunity in the short term.

David A. Levy offered testimony before the Economic Development Subcommittee of the House Public Works and Transportation Committee on the Institute's proposal to reduce unemployment and underemployment by adding to the nation's stock of public capital. A program of investment in public infrastructure would accelerate economic growth and create jobs. Doing so would improve Americans' quality of life, heighten the nation's international competitive position, and improve federal fiscal soundness.

Dimitri B. Papadimitriou testifying in Washington, D.C., before the House Subcommittee on Regulation, Business Opportunities, and Technology of the Small Business Committee

A novel financing scheme crafted by the Institute would allow the infrastructure program to go forward while having only a minimal effect on the federal budget deficit. The proposal would amortize the federal cost of the projects over their lifetimes and reimburse states and localities for interest costs. Furthermore, the proposal requires bond covenants assuring adequate maintenance in the future, which would sharply curtail the existing problem of deferred infrastructure maintenance.

As a result of the Institute's research related to its financial reform project and a subsequent proposal for the creation and implementation of a nationwide network of community development banks (CDBs), Dimitri B. Papadimitriou was called to testify before the House Subcommittee on Regulation, Business Opportunities, and Technology of the Small Business Committee. He later submitted written testimony on the same topic to the Senate Committee on Banking, Housing, and Urban Affairs.

Papadimitriou contended that the challenge for policymakers in developing a CDB program will be to meet the financial services needs of small, even microsized, businesses and low-income, low-wealth consumers while at the same time creating profit-seeking institutions that would finance economic development in disadvantaged communities. As in any competitive market, an effective CDB strategy should provide incentives to investors and have minimal reliance on investment by nonindigenous, "socially conscious" lenders. Papadimitriou contends that to establish a nationwide system of CDBs and then expect them to compete for funds from the philanthropic public would be self-defeating. Furthermore, existing models of CDBs often are unable to serve "the poorest of the poor" but rather target a marginally educated and employed segment of the population. Consequently, a successful CDB initiative must not neglect the population that presumably needs the most assistance.

David A. Levy testifying in Washington, D.C., before the Economic Development Subcommittee of the House Public Works and Transportation Committee

In February 1994, both the House and the Senate voted on legislation calling for a constitutional amendment to balance the federal budget. The amendments—which failed to garner the two-thirds majority needed for passage—were rejected by both bodies. Shortly before the Senate vote, Edward V. Regan, president of The Jerome Levy Economics Institute, testified before the Senate Appropriations Committee on the inadvisability of passing such an amendment. His statement, coauthored by S Jay Levy, chairman of the Institute, cautioned against the potential pitfalls of a constitutional requirement for a balanced federal budget.

Regan noted that many in Congress are justifiably disenchanted with the political distortions caused by federal budget deficits, which make understandable the numerous calls for a constitutional amendment to balance the budget. Nonetheless, the tax increases and spending cuts required for a rapid elimination of the deficit would result in significant economic deterioration. The contractionary economic shock of such a radical program (without provision for an investment budget) would threaten the nation's recovery and have a negative effect on jobs, economic growth, and America's international competitiveness.

A constitutional amendment of this sort also poses the problem of preventing Congress from using the budget as a fiscal stabilizer in times of future recessions, a tool that has limited the depth of every recession since 1957–58. Economic recovery (as measured by growth in gross domestic product) has always been closely tied to deficit spending. Some in Congress have based their commitment to a balanced federal budget on the observation that forty-eight states have self-imposed balanced budget requirements. Federal fiscal circumstances, however, do not correspond to the conditions of the states. First, problems arising from deficits do not have the same effects at the federal level as they do at the state level. For states, deficits result in poor credit ratings, which cause state borrowing costs to rise; a series of deficits can erode confidence in the state as a stable place in which to do business.

In addition, fiscal practices at the state level differ from those at the federal level. For example, the governors of thirty states can unilaterally cut spending, and thirteen have other options available to them; this power increases the ease of balancing state budgets. Also, deficits have been reduced by the use of capital budgets, which allow states to offset the effect of deficits by amortizing the cost of state-purchased assets over their useful lifetimes; the federal government does not have a capital budget and must incur the total cost of an asset all at once.

Edward V. Regan testifying in Washington, D.C., before the Senate Appropriations Committee

Most importantly, however, experience at the state level has shown that deficits can be and have been circumvented by the use of accounting gimmicks. Evidence suggests that state lawmakers have employed a variety of accounting gimmicks—such as off-budget accounts, changing the timing of receipts and payments, and sale–leaseback schemes—to circumvent balanced budget requirements, and there is no reason to believe that the federal government would not also participate in these practices in order to artificially balance its own budget.

Rather than a constitutional amendment, Regan suggested that Congress should impose a stricter discipline of budget and financial processes through an overhaul of the federal government's system of budgeting, accounting, and financial reporting. The General Accounting Office has suggested such measures as requiring governmentwide audited financial statements and a streamlined budget process.

The Budget, The Economy, and Trends for the Coming Year

In December 1993 the Institute sponsored a series of four episodes of the PBS television show *Firing Line*. Two segments centered on the budget and its effect on the economy, one focused on general economic trends for the coming year, and the final segment addressed recent shifts in the distribution of income. Panelists included Jack Kemp, former secretary of the Department of Housing and Urban Development; David A. Levy, vice chairman of The Jerome Levy Economics Institute and director of its Forecasting Center; Senator Daniel P. Moynihan (D–N.Y.), chairman of the Senate Finance Committee; Peter G. Peterson of the Blackstone Group and the Concord Coalition and author of the book *Facing Up*; Edward V. Regan, president of The Jerome Levy Economics Institute; Dian Cohen, an economic consultant from Canada; and Jane Bryant Quinn, financial expert. All episodes were moderated by William F. Buckley, Jr.

Panelists noted that the deficit is smaller than earlier forecasts had indicated, implying that the "deficit problem" was not as dire as once thought. In addition, discussions of the deficit generally are undertaken within a static framework that assumes that variables such as inflation, economic growth, and monetary policy will maintain their current values through time. Using this type of framework, however, leads one to conclude that dealing with the deficit means spending must necessarily be cut. Such thinking neglects the option of instituting programs aimed at expanding the size of the economic pie. Such programs would raise income levels, thus increasing federal revenues and making it easier to deal with the budget deficit.

Jane Bryant Quinn, financial consultant and member of the Institute's Board of Advisors, at the Institute-sponsored Firing Line *in December 1993*

Several panelists predicted a mixed outlook for the economy in 1994. While the passage of NAFTA bodes well for the economy, the increased tax burden (under the 1994 Budget Reconciliation Act) and the president's proposed health care plan would unduly burden small business and dampen the economy.

In the discussion on poverty, one panelist maintained that a reason for the problems posed by poverty in the United States is the operation of essentially two economies: A macroeconomy that works because it is based on incentives, and a microeconomy operating in the inner city that is similar to a third world, socialist, developing economy that does not recognize private property. It was also argued that the polarization of wealth is not a new phenomenon, but has been going on for several decades and has not been limited to the United States, having taken place in other industrialized countries as well. We cannot, therefore, attribute this widening of the income and wealth gap to the policies of the 1980s or to the Reagan administration alone.

Jack Kemp, former secretary of the Department of Housing and Urban Development, and Senator Daniel P. Moynihan at the Institute-sponsored Firing Line *in December 1993*

Trade with China: Ethics and Most Favored Nation Status

A second taping of four episodes of *Firing Line*, on the issue of trade with China, took place at Blithewood under the aegis of the Institute. The first two episodes focused on the moral responsibility of American business in trading with countries accused of human rights violations (China in particular), while the third and fourth programs addressed whether most favored nation (MFN) status should be repealed in the case of China.

Participants on all four panels were Howard Baker, a former majority and minority leader of the U.S. Senate, chief of staff for President Reagan, and presidential candidate in 1980; Edward V. Regan, president of the Institute; and Stephen Solarz, former chairman of the House Foreign Affairs Subcommittee on Asian and Pacific Affairs, currently a practicing lawyer and consultant. Joining them on the first two programs were Richard Dicker, currently with Human Rights Watch and formerly with Africa Watch and Amnesty International; James MacGregor, who currently runs the Dow Jones office in China and is former bureau chief for the *Wall Street Journal* in Beijing; and Paula Stern, former chairwoman of the International Trade Commission who also served as senior campaign adviser to Candidate Clinton on trade and international economic affairs; Dr. Stern is also a member of the Institute's Board of Advisors. Additional panelists on the final two programs were Jeff Fiedler, a monitor of activities in China for the AFL–CIO; Mike Jendrzejczyk, Washington director of Human Rights Watch/Asia and formerly with Amnesty International; and Nancy Pelosi, congresswoman from San Francisco and cosponsor of legislation making China's MFN status conditional on improvements in human rights treatment.

Howard Baker, a former majority and minority leader of the U.S. Senate, chief of staff for President Reagan, and presidential candidate in 1980, at the Institute-sponsored Firing Line *in April 1994*

In the panel discussion of whether the business community has a moral responsibility not to do business with a country if that country does not observe human rights, several panelists contended that business had no such responsibility, with Edward Regan stating that business should not have to pay for political problems. Howard Baker observed that while business contends that they look beyond profits to the bigger picture (of human rights), "they tend to finesse it." Some contended that promoting human rights and the bottom line are not mutually exclusive ends; rather, actions can be taken that blend private interest with social responsibility. For example, privatization has lead to social dislocation, labor disputes, and the jailing of key labor leaders; if American firms are going to do business in China, they have a long-term interest in addressing these problems.

Most conversation, however, centered on whether the presence of American business in China would ultimately help bring about change; in other words, can "trickle-down democracy" work? Stephen Solarz asserted that it can, and that in the long run it is more likely that democracy will evolve in the context of growing prosperity and interaction with the world's market economies and democracies than in isolation. Paula Stern agreed with the latter premise, noting that trade with market-oriented countries has led to the advancement of democracy in South Korea and Taiwan. She cautioned that we cannot assume China will follow in the footsteps of South Korea; the spread of market economies usually does, however, advance political objectives. James McGregor contended that American companies in China employ Chinese people who see how we work and act, forcing the firms that compete with American companies to institute those same methods.

Dr. Stern commented that the threat of sanctions is usually more productive than the actual imposition of them. Mr. Baker observed that since 1982, however, dramatic economic changes have taken place in China as a result of the opening up of trade. Richard Dicker noted that while this might be true, 1993 was the worst year for human rights since the Tiananmen Square crackdown and that economic changes have not yet translated into any relaxation of political control.

The debate shifted its focus to the narrower question of whether China's MFN status should be revoked for the failure of the Chinese government to comply with human rights conditions. Mike Jendrzejczyk asked how China, which is on the road to becoming economically, politically, and militarily powerful, could ever be held accountable for its actions on the human rights front. Right now, the United States is the largest market of the Chinese, and they cannot afford to let MFN status slip away. Mr. Jendrzejczyk asserted that China is not meeting human rights conditions because the Clinton administration has given mixed signals and waffled on the issue enough that the Chinese do not consider revocation of MFN a serious threat. Mr. Baker contended that Chinese officials are not afraid of the U.S. with respect to MFN; rather, they are belligerent about it.

Paula Stern, former chairwoman of the International Trade Commission and member of the Institute's Board of Advisors, at the Institute-sponsored Firing Line *in April 1994*

Mr. Solarz asserted that both American consumers and businesses would lose if MFN were revoked, that we would lose China's cooperation on strategic issues, debilitate the economy of Hong Kong, and encourage Japan's economic opportunism. Moreover, there is no possibility of getting China to comply with human rights conditions by revoking MFN, while American business stands to lose a great deal by doing so. But Mr. Jendrzejczyk asserted that MFN leverage is important because survival of the Chinese government depends on foreign trade and investment, especially with the United States. We would be naïve to assume that the government in power is automatically going to allow economic reform to lead to long-term political reform unless there is both internal and international pressure to do so. But the administration needs to make additional efforts to develop more of a multilateral policy.

Ms. Pelosi generally agreed, noting that 38 percent of China's exports enter the United States, while $9 billion in U.S. goods, or just 2 percent of total U.S. exports, go to China, which makes the argument about the vast harm done to U.S. businesses at the very least debatable. And although China has an overall trade deficit, they have a $30 billion trade surplus with the United States, meaning that China is spending U.S. dollars in other countries. It is no wonder, then, that other nations are not speaking out.

Consensus appeared to be reached on only one point, namely, that flexibility is desirable, and that we make differences where differences matter.

Lecture Series

The cornerstone of the Institute's public outreach program is its lecture series, in which the Institute brings distinguished scholars to Blithewood to discuss a wide range of economic and public policy matters. The lecture series is free of charge and open to the public. In sponsoring the series, the Institute seeks to provide a forum for prominent scholars to present their findings to a diverse audience composed of academics, policymakers, and the general public.

The lecturers in the 1993 series are listed here with their presentation topics.

Albert Ando, professor of economics, University of Pennsylvania, "United States Development in the 1980s"

William Baumol, professor of economics, Princeton University and New York University, "Why Health Care Costs Are Unlikely to Slow, and Why We Can Live with That"

Michael Dukakis, an Institute spring 1994 guest lecturer

Francine Blau, professor of economics, Institute of Labor and Industrial Relations, University of Illinois, "Gender and Economic Outcomes: The Role of Wage Structure"

Kathryn M. Dominguez, professor of economics, John F. Kennedy School of Government, Harvard University, "Does Central Bank Intervention Increase Volatility of Foreign Exchange Rates?"

The Honorable Michael Dukakis, former governor of Massachusetts, professor of economics, Northeastern University, "Economics and The Presidency"

Ronald Ehrenberg, professor of industrial and labor relations and economics, Cornell University, "Do the Race and Gender of a Student's Teachers and Classmates Matter? Evidence from Elementary, Secondary, and College Education"

Marianne A. Ferber, professor of economics, University of Illinois at Urbana–Champaign, "Beyond Economic Man"

Gail Fosler, chief economist, The Conference Board, "Public Finance and Economic Policy"

Geoffrey Heal, professor of economics and vice dean, Columbia University, "Global Environment Risks in Economic Perspective"

James Tobin, Nobel laureate, Sterling Professor of Economics Emeritus, Yale University, and member of the Institute's Board of Advisors, at the Institute's November 1993 conference

Robert M. Hutchens, professor, School of Industrial and Labor Relations, Cornell University, "Avoiding a Future of Unemployment and Low Wages: What Opportunities Are Open to Young, Unskilled Workers?"

Wynne Godley, Distinguished Scholar, The Jerome Levy Economics Institute and Cambridge University, "The Unaccountable Admiration for Mrs. Thatcher in the USA"

David A. Levy, vice chairman and director of The Levy Forecasting Center, The Jerome Levy Economics Institute, "Assumptions and Economists' Other Vices"

Frank S. Levy, Rose Professor of Urban Regional Planning and Economic Development, Massachusetts Institute of Technology, "The Role of Cognizant Skills in Wage Determination," and "The Impact of Recent Restructuring on Jobs and Earnings"

Louis Lowenstein, Simon H. Rifkind Professor of Finance and Law, School of Law, Columbia University, "Efficient Market Theory: An Indictment"

Francine Blau, an Institute spring 1994 guest lecturer

N. Gregory Mankiw, professor of economics, Harvard University, "Asymmetric Price Adjustment and Economic Fluctuations"

William Poole, Herbert H. Goldberger Professor of Economics, Brown University, "Monetary Policy: Is Money an Anachronism?"

Richard L. Schmalensee, professor of economics, Alfred P. Sloan School of Management, Massachusetts Institute of Technology, "Recent Developments in Energy and Environmental Policy"

Juliet B. Schor, professor of economics, Harvard University, "The Overworked American"

Ajit Singh, fellow and director of studies in economics, Queens College, Cambridge University, "The Stock Market and Economic Development: Should Developing Countries Encourage Stock Markets?"

Participants and Presentations in Professional Meetings

ASSA Meetings

A number of Institute members participated in the Allied Social Sciences Association national meetings in Boston, Massachusetts, in January 1994. Dimitri B. Papadimitriou, executive director of the Institute, presided over a session on "America's Agenda and the Emerging Structural Approach to Policy." Research Fellow Ronnie Phillips coauthored, with James R. Stanfield from Colorado State University, a paper entitled "America's Agenda: An Institutionalist Perspective," and Robert Kuttner, cofounder of the *American Prospect*, presented a paper during that session, "The Politics of Structural Economic Policies." Papadimitriou and Institute Distinguished Scholar Hyman P. Minsky were session discussants. Minsky also presented his paper "Reflections on Longer Waves in Financial Relations: Financial Factors in the More Severe Recessions" in a session on long wave cycles. Research Fellow Anthony Laramie was a copresenter of a paper entitled "Tax Incidence Dynamics," and Research Fellow William Milberg presented "Trade Policy as Industrial Policy: Performance Standards for U.S. Firms." Milberg also was a discussant in sessions on current research in methodology and international structures, change, and competition.

EEA Meetings

The Institute sponsored three sessions at the annual Eastern Economic Association meetings. Two sessions—one on the balance of payments adjustment crisis, and the other on risk and the macroeconomy—were chaired by Dimitri B. Papadimitriou. One of the former session's papers—"The Crisis of U.S. Debt(s)"—was presented by Distinguished Scholar Wynne Godley and William Milberg; Research Fellow J. Peter Ferderer presented "Monetary Policy Regimes, Credibility, and Uncertainty" at the latter. Papadimitriou and Hyman P. Minsky were the session's discussants. Papadimitriou also presented "Financing Small Business: The Role of Factoring Companies and Community Development Banks" at a session on the economics of the neighborhood chaired by George McCarthy, Institute Research Associate and economics professor at Bard College. McCarthy was also copresenter of "Neighborhood Change: A Review of the Literature" at that session.

Richard L. Schmalensee, an Institute fall 1993 guest lecturer

International Seminars

In October, Distinguished Scholar Hyman P. Minsky gave a series of seminars and workshops in Brazil. Professor Minsky conducted the workshops for economics faculty and students at University of Campinas, University of São Paulo, and the federal University of Rio de Janiero. Professor Minsky gave two presentations, "The Foundations of Post Keynesian Economics" and "International Financial Market Developments." Discussion tended to center on the Brazilian problems of unemployment and hyperinflation (then averaging about 1,000 percent per year).

PUBLICATIONS

The Institute's publications program is the core of its educational endeavors and an important mechanism in disseminating its research findings and policy reccomendations. The Institute hopes that through this function it might raise the level of education and debate on a broad range of current economic issues. To accomplish this the Institute publishes research findings, conference proceedings, policy discussions and analyses, and other works aimed at general, policy-making, and academic audiences.

Regularly Issued Publications

The Working Papers series, initiated in 1987, contains contributions from Institute scholars and conference participants. The purpose of the series is to disseminate ideas and solicit comments for scholarly research in progress. The series is available both in printed form and over the Internet.

Public Policy Brief is aimed at widening the debate on many economic issues and their consequences for public policy. Initiated in 1992, the series was created in response to the urgent need to expand public debate on a broad spectrum of economic concerns. Topics covered in this year's issues ranged from immigration reform to the effect of the health care system on labor market mobility, to the role of interest rates in influencing investment. The *Public Policy Brief* is published several times a year and is circulated among a dynamic group of academics, business leaders, and government officials.

Report, the Institute's bimonthly newsletter, summarizes Institute conferences, lecture series, recent publications, and ongoing research to a diverse audience interested in public policy matters. Also included are synopses of special Institute events, ranging from congressional testimony by Institute members to the taping of a series of *Firing Line* debates at Blithewood. A regular feature of the *Report* is an interview with an individual in government or academia who might provide insight into current topics of debate in the public policy arena. The *Report* is widely distributed to members of the academy, business, and government.

Summary is a quarterly publication that provides to an academic audience synopses of the Institute's Working Papers series and Institute conferences as well as updates on scholarly research being con-

Publications of The Jerome Levy Economics Institute of Bard College ducted at the Institute. The *Summary* also includes special features about projects being conducted by the Institute's distinguished and resident scholars, and professional presentations made by Institute scholars and staff.

Industry Forecast is a monthly report to its subscribers on current and prospective economic conditions, researched and written by the Institute's Forecasting Center. (Quarterly reports and additional special issues are published as economic events warrant them). Through its examination of financial data, public policy actions by the Federal Reserve, Congress, and the administration, the *Industry Forecast* provides an analysis of the current state of the economy based on examination of current economic trends and their meaning for the future. First issued in 1949, *Industry Forecast* is the oldest economic forecasting newsletter in print devoted solely to analyzing and forecasting economic conditions in the United States.

Proceedings of major conferences are published in **The Jerome Levy Economics Institute book series.** The work of Institute scholars and researchers is also featured in books, major journal articles, and contributions in the press.

Books

Poverty and Prosperity in the USA in the Late Twentieth Century
Edited by Dimitri B. Papadimitriou and Edward N. Wolff (Macmillan, and St. Martin's Press, 1993)
The 1980s witnessed an unprecedented rise in inequality in the United States, despite an economic expansion that began in 1983. The papers collected in this volume explore differing manifestations of this inequality, including poverty rates that remained unexpectedly high over the period, the shrinkage of the middle class, a growing intergenerational wage gap, a widening of the earnings gap between college and high school graduates, and an increasing dispersion of the distribution of family income, despite the increased labor-force participation of wives. Measurement issues are also explored, including the use of earnings capacity, health status, and more direct indicators of the living conditions of families to define poverty status. The fact that levels of poverty and inequality remained quite high after a sustained expansion is especially worrisome and raises concerns about appropriate policy actions needed to offset these developments.

This volume includes essays and comments by Robert B. Avery, Rebecca M. Blank, Alan S. Blinder, David Bloom, Sheldon Danziger, William T. Dickens, Greg Duncan, Richard B. Freeman, Robert Haveman, Christopher Jencks, Susan E. Mayer, Timothy M. Smeeding, Barbara L. Wolfe, and Edward N. Wolff.

Financial Conditions and Macroeconomic Performance: Essays in Honor of Hyman P. Minsky
Edited by Steven M. Fazzari and Dimitri B. Papadimitriou (M. E. Sharpe, 1992)
This unique collection of papers on financial instability and its impact on macroeconomic performance honors Hyman P. Minsky and his lifelong work. It is based on a conference at Washington University–St. Louis in 1990 and includes among the authors Benjamin M. Friedman, Charles P. Kindleberger, Jan Kregel, and Steven Fazzari. The papers consider Minsky's definitive analysis that yields such a clear and disturbing sequence of financial events: booms, government intervention to prevent debt contraction, and new booms that cause a progressive buildup of new debt, eventually leaving the economy much more fragile financially.

Profits, Deficits, and Instability
Edited by Dimitri B. Papadimitriou with a foreword by Paul Sarbanes (Macmillan, and St. Martin's Press, 1992)
The papers drawn together in this book seek to make a contribution to an important area in economics: the study of profit. Business accounting defines profits as the excess of total revenue minus total costs. On the other hand, economic theory defines profits on the basis of what is being measured and for what purpose (for example, as the return to ownership and as national income profits or real profits). The concept of profits, however, cannot and should not be reduced simply to the inquiry of measurement, but rather considered in terms of its role within the workings of an economic system. The papers in this volume provide original insight into the crucial questions of interrelationships among profits, corporate investment and financing activity, the causes of instability and government deficits, and the secular and cyclical changes in production and employment.

Public Policy Brief

During 1993, the Institute witnessed the burgeoning of the *Public Policy Brief*, a journal aimed at making a constructive contribution and advancing the debate on public policy issues. Eight issues of the *Brief* were published on a wide range of topics.

Two that received widespread attention showcased the Institute's proposal for community development banks and its plan for the implementation of a nationwide network of such institutions. Other topics included the link between public infrastructure investment and increased private sector productivity; the link between interest rates and business investment, and the resulting effects on investment-related fiscal policy; the links between U.S. immigration policy and domestic labor market needs; the effect of health insurance on labor market mobility; and the need for regulatory reform consistent with the ongoing changes and emerging patterns in the financial system.

Issues of the *Public Policy Brief* published in 1993 are summarized below.

Public Policy Brief No. 3

Community Development Banking

A Proposal to Establish a Nationwide System of Community Development Banks

Hyman P. Minsky, Dimitri B. Papadimitriou, Ronnie J. Phillips, and L. Randall Wray

The crux of this proposal is that the primary function of the financial structure is to advance the capital development of the economy. It is assumed that capital development is fostered by the provision of a broad range of financial services to various segments of the American economy, including consumers, small and large businesses, retailers, developers, and all levels of government. The existing financial structure is particularly weak in servicing small and start-up businesses and certain consumer groups. This problem has become more acute as a decrease in the number of independent financing alternatives and a rise in the size distribution of financing sources have increased the financial system's bias toward larger transactions.

The proposal to establish a nationwide system of community development banks (CDBs) is based on the notion that a critical function of the financial system is not being adequately performed by existing institutions for well-defined segments of the population: low-income citizens, inner-city minorities, and entrepreneurs who seek modest financing for small businesses. The primary goals of the CDBs are to deliver credit, payment, and savings opportunities to communities not well served by banks, and to provide financing throughout a designated area for businesses too small to attract the interest of the investment banking and normal commercial banking communities.

Public Policy Brief No. 4

Public Infrastructure Investment: A Bridge to Productivity Growth?

Public Capital and Economic Growth

David Alan Aschauer

New Federal Spending for Infrastructure: Should We Let This Genie Out of the Bottle?

Douglas Holtz-Eakin

This issue featured a debate on the effects of public infrastructure investment on private sector productivity. David Aschauer, who was among the earliest researchers to quantify the statistical relationship between public infrastructure investment and private sector productivity, states that the slower rate of productivity growth since the early 1970s—coupled with an aging population, the declining proportion of workers to the total population, and other demographic factors—poses a dilemma for policymakers interested in strengthening the long-term relative position of the United States in an increasingly competitive global economic environment.

Brian Mathis, senior policy analyst, U.S. Department of Treasury, and Mark W. Griffith, president, Central Brooklyn Federal Credit Union, at the Institute's April 1994 conference

In contrast, Douglas Holtz-Eakin dismisses the conventional arguments for a federal infrastructure program by asserting that a large-scale public infrastructure program has no appreciable effect on productivity growth; in the current fiscal climate of scarce federal resources, a federal infrastructure program is not consistent with the goal of deficit reduction; there are better infrastructure strategies than new spending and massive construction programs; and policies aimed at increasing private rather than public investment will have a more positive impact on America's competitiveness.

***Public Policy Brief* No. 5**
The Limits of Prudential Supervision
Reorganizing the Federal Bank Regulatory Agencies
Bernard Shull
Previous efforts at reforming the bank supervisory and regulatory structure have failed to prevent the recurrence of financial crises. These measures never attacked systemic problems, such as the banking industry's sensitivity to overall economic trends, a propensity for opportunistic behavior, and the fragmented general financial regulatory structure. Although the most recent round of banking legislation—most notably the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the Federal Deposit Insurance Corporation Improvement Act (FDICIA)—was a good beginning, it did not go far enough in the area of unifying the regulatory structure.

Douglas Holtz-Eakin, associate professor of economics and senior research associate, Metropolitan Studies Program, The Maxwell School, Syracuse University

Shull proposes unifying federal bank regulatory agencies that presently have flexible authority over competing institutions. In essence, the reorganization would evolve from a "functional subsidiary" model that integrates monetary policy and deposit insurance authority with the conventional functions of regulation and supervision. Shull contends that such an integration would foster greater efficiency, improved policy planning, and better accountability while protecting against the hazards of excessive concentration of power. Among the possibilities for a consolidated regulatory agency, Shull prefers consolidation in the Federal Reserve because it is the only banking agency whose structure was originally designed to deal with concerns about concentration of power.

***Public Policy Brief* No. 6**
A Path to Community Development
The Community Reinvestment Act, Lending Discrimination, and the Role of Community Development Banks
Dimitri B. Papadimitriou, Ronnie J. Phillips, and L. Randall Wray
Banks play a pivotal role in a community's economic viability. The social costs associated with economic decline—in terms of both physical deterioration and human capital losses—are the impetus for regulation governing the lending practices of existing financial institutions. To ensure that credit flows would continue in economically depressed and declining communities (thus preventing even further economic decline), Congress, in 1977, passed the Community Reinvestment Act (CRA). The purpose of the act is to ensure that each institution markets its services to all segments of its community.

The establishment of a system of federally regulated, for-profit, community development banks (CDBs) would help to fill the financial gap in areas inadequately served by traditional banks, CRA requirements notwithstanding. These organizations would be charged with delivering credit, payment, and savings opportunities and providing basic financing to households and small businesses in underserved areas. Such a system would not substitute for the CRA, but rather act as a supplement to current regulation. Proposals to amend the CRA by allowing depository institutions that invest in the equity of a CDB exemption from CRA compliance would weaken existing law by diluting the investment of the depository institution in its own particular community. Such proposals (under which "investment" has been defined to be as little as one-quarter of one percent of total assets) are not consistent with the spirit of the CRA and would negate the beneficial dialogue that takes place between the institution and the community in which it operates.

***Public Policy Brief* No. 7**
Immigration Policy: A Tool of Labor Economics?
Immigration and the U.S. Labor Market: Public Policy Gone Awry
Vernon M. Briggs
According to Briggs, the fundamental problem with present immigration policy is that the current group of immigrants generally lacks the human capital attributes that are in short supply in the domestic labor market. While mass immigration in the past was consistent with then-existing labor market needs, such a policy today is incompatible with the nation's current economic development trends and labor force requirements.

James R. Barth, Lowder Eminent Scholar of Finance, Auburn University

Briggs concludes that the "most important reform needed is to shift the emphasis of the legal immigration admission system away from the politically popular family reunification program to one that is primarily designed to serve economic purposes." With an abundant domestic stock of unskilled and undereducated workers, the nation must recognize the long-term economic consequences of unmitigated entry of individuals lacking human capital attributes.

***Public Policy Brief* No. 8**
Financing Prosperity in the Next Century
The Changing World of Banking: Setting the Regulatory Agenda
James R. Barth and R. Dan Brumbaugh, Jr.
Although five major banking legislative initiatives were enacted during the 1980s, each was essentially an ad hoc reaction to narrow problems requiring immediate corrective action. Barth and Brumbaugh present a series of reform proposals aimed at making bank regulations compatible with the changing financial system. Evidence supports their contention that change in the market for financial services has reduced the importance of depositories as they have traditionally operated. A

dramatic increase in nonbank competition has contributed to a substantial shrinkage in the proportion of total financial assets held by depository institutions.

Barth and Brumbaugh assert that any reform alternative should be conscious of the dynamic nature of the financial marketplace. Furthermore, an effective reform proposal tackling bank regulation must pass a two-part test: It must protect the payments and credit mechanisms in order to promote systemic stability, and it must promote competition within the financial services industry.

Public Policy Brief **No. 9**
The Investment-Finance Link
Investment and U.S. Fiscal Policy in the 1990s
Steven M. Fazzari

Fazzari offers evidence that policies aimed at stimulating private sector investment through interest rate reductions are, at best, misguided. He presents new empirical research that attempts to measure the relative influence of fiscal policy on investment through the following channels: the cost of capital (including interest rates, depreciation, and tax factors that affect capital income), firms' financial circumstances, and fiscal policy aimed at influencing the course of the business cycle.

Steven M. Fazzari, Institute Research Associate and associate professor of economics, Washington University–St. Louis

The policy implications of these findings are strikingly obvious. Fazzari concludes that because of the nebulous effect of interest rates on investment, while there may be benefits derived from policies aimed at increasing savings or lowering the budget deficit, a higher level of business investment is not one of them. Rather, because of the sizable effects of the business cycle and financial channels on investment (as compared with cost of capital effects), such a program will weaken the economy in the short run and curtail investment, with lower interest rates having little counteracting effect. A similar argument can be made about programs that attempt to reduce interest rates by promoting a rise in savings (such as a capital gains tax cut). Again, such a policy depends on investment responding to a lower cost of capital, a relationship that Fazzari finds to be inordinately weak. If policymakers aspire to raise investment, they should instead attempt to directly affect firms' access to internal finance, such as through an investment tax credit.

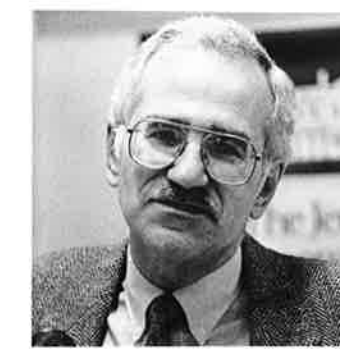
Public Policy Brief **No. 10**
Job-Lock: An Impediment to Labor Mobility?
Is Health Insurance Crippling the Labor Market?
Douglas Holtz-Eakin

Recent survey results and anecdotal evidence appear to support the view that workers sometimes sacrifice job opportunities in order to retain health benefits. Because workers do not wish to risk being temporarily uninsured, to pay a higher price for the same coverage, or to lose all or part of their insurance benefits, they may remain in their current jobs rather than take new positions or start their own businesses. If this phenomenon, commonly referred to as "job-lock," is, in fact, real, the nation pays an economic price in terms of costs associated with a misallocation of workers among productive opportunities, higher relocation and training costs for workers who have stayed too long in their jobs, and the loss of innovation, employment, and competition associated with start-up ventures. Determining the existence and extent of job-lock is crucial from a public policy perspective in crafting the optimal system for the delivery of health insurance.

Holtz-Eakin's findings suggest that the incidence of job-lock is overstated. Therefore, reform programs proposing to dismantle the current system of employer-provided insurance in order to improve labor mobility are misguided. Rather, recommendations should be designed to improve access to care and enhance the efficiency of insurance operations; any employer-provided system should be concerned with guaranteeing the portability of insurance coverage and premium expenses in order to avoid the possibility of job-lock in the future.

Public Policy Brief **No. 11**
A Path to Good Jobs?
Unemployment and Low Wages: The Distribution of Opportunity for Young Unskilled Workers
Robert M. Hutchens

The structure of the U.S. labor force is changing. Fewer and fewer jobs are available in occupations that require few or no specialized skills. The decline in the number of these jobs has resulted in few employment opportunities for lower-skilled workers, and these workers must now overcome numerous challenges in order to find work at livable wages in today's increasingly competitive job market.



Robert M. Hutchens, Institute Research Associate and professor at the New York State School of Industrial and Labor Relations, Cornell University

Robert M. Hutchens examines the importance of three career paths by which a young person with limited academic credentials may avoid a life of unemployment and low wages: obtaining additional formal schooling, securing a job that provides secure employment at "good" wages, or acquiring a job that provides skills and thereby opens a door to good future jobs. The paper examines whether these are viable paths for academic "underachievers," and whether access to these paths has changed through time, by analyzing longitudinal data of the population that has been affected by changes in labor market dynamics: men aged 18–19 in 1966 who did not complete twelve years of school. The author then examines the paths and success rates among these academic underachievers at ages 33–34.

Hutchens concludes that the most beneficial policy would be to sharply reduce the supply of unskilled labor, as this not only will have the beneficial effect of raising their wages, but also would force employers to either eliminate or restructure unskilled jobs. Possible supply-side efforts by the public sector to implement this strategy include enhancing early childhood education programs, disbursing training vouchers to young adults, and restricting the immigration of unskilled workers. Owing to the difficulty of identifying jobs, occupations, and industries that would consistently result in financial security for those with limited academic skills, the author concludes that, with few exceptions, demand-side interventions will not work. Even if such jobs could be identified, demand-side interventions frequently have side effects that reduce job opportunities for unskilled workers. Supply-side intervention makes the most sense.

***Public Policy Brief* No. 12**

An Alternative in Small Business Finance

Community-Based Factoring Companies and Small Business Finance

Dimitri B. Papadimitriou, Ronnie J. Phillips, and L. Randall Wray

Factors, which trace their roots back to the days of Hammurabi four thousand years ago, when they made advances to manufacturers and merchants against goods, typically in the United States have been small, independent, and highly specialized firms focusing on providing credit and collection services to a select group of small businesses.

For small businesses there are many advantages to doing business with a factor. The purchase of accounts receivables by factors enhances the balance sheets of their clients because it improves their debt-to-equity and debt-to-asset ratios. Thus, factors can make it easier for small businesses to obtain bank financing. Factors also are willing to take an equity interest in their clients. In addition, full-service factors provide a range of services from bookkeeping and billing to inventory controls and data processing that banks do not offer, and availing themselves of these services allows small companies to focus on their core businesses.

Because small-scale factors are more "people intensive" and more involved with the day-to-day operations of their clients than are banks, they are particularly well suited to monitor their clients' financial condition and to take on new clients that banks might consider too risky. And because factors are more interested in the creditworthiness of a client's customers than of the client itself, they often extend loans in excess of collateral to rapidly growing small businesses. The growth of factoring is particularly important now because small businesses—an important engine of economic growth—appear to have less and less access to bank capital.

Because factors are becoming an increasingly important source of financing for small and start-up businesses, the authors of this *Public Policy Brief* propose that factors be encouraged to play a broader role in financing firms in distressed communities. In some cases community-based factors should be eligible for funding and assistance under the administration's new community development financial institutions legislation. In addition, investment by banks in these factors should count toward compliance with the proposed new regulations for the Community Reinvestment Act.

***Public Policy Brief* No. 13**

Investment Tax Credit Reconsidered

Business Tax Incentives and Investments

Thomas Karier

Public policies intended to stimulate private sector investment include cutting corporate income tax rates and/or capital gains tax rates, allowing credits for investment projects, and actions aimed at reducing interest rates. In this *Public Policy Brief*, Resident Scholar Thomas Karier explores the efficacy of one such program, the investment tax credit (ITC), in stimulating private investment spending. He notes that there are three possible channels through which an ITC can act on investment: price, income, and multiplier effects. His study's focus is narrowed, however, to scrutinize the ability of the ITC to spur investment—through either an increase in the equipment share of gross domestic product (GDP) or a rise in the annual growth rate of investment.

Karier finds that ITCs do not appear to have a significant effect on equipment investment; rather, the primary determinant of investment was a decline in relative equipment prices. The effects of a decline in corporate tax rates (the income effect) were found to be distributed among increased dividends and fewer equity and debt issuances, and had little influence on investment. Capacity utilization and real GDP growth were found to be the only business cycle variables that had a significant effect on equipment investment growth, leaving little reason to believe that the ITC had any countercyclical effect.

Because adequate levels of investment spending are crucial to economic growth—and because of the high price tag attached to past credits—Karier concludes that alternatives to tax investment credit programs must be found and pursued. Financing investment is crucial. Even in light of recent evidence of a resurgence in private equipment investment, aggregate levels of private sector investment as a share of GDP are relatively low compared with the postwar average. A modest program of direct public investment, which has been demonstrated to have a positive effect on private investment, might be financed by rearranging spending priorities within the budget; a more expansive program (such as one that would be required during a prolonged period of slow growth) could be financed through additional borrowing or through an increase in the corporate income tax.

Special Reports

Investment, Jobs, and Economic Growth

Edward V. Regan

October 1993

This report recommends that a large infrastructure program should be undertaken in 1994 and 1995 in order to stimulate job growth and private sector investment. Because it has been sorely neglected in the past, the outlined program suggests emphasis should be placed on upgrading and repairing existing infrastructure (rather than investment in new facilities). In addition, the report recommends that some of the financing could come from a federal subsidy of the interest payments on state and municipal bonds. The federal share of spending would not appear as a lump sum but, rather, would be amortized over a number of years in the same manner that asset funding is accounted for by private sector firms. Finally, Regan advocates that covenants requiring preventive maintenance be attached to any issued bonds in order to ensure that the nation's roads and bridges are indeed renovated.

The suggested financing scheme would have only a minimal effect on the federal deficit; this effect could be offset with minor spending cuts. Regan warns that the effect of higher taxes and lower spending associated with current deficit reduction could result in poor economic growth and correspondingly high rates of unemployment; these effects could be offset by the suggested spending program.

From Contained Depression to Prosperity
David A. Levy
October 1993
The lack of prosperity in the United States can trace its roots to excess productive capacity purchased with debt at inflated prices, conditions unlike those of past recessions (that is, downturns resulting from short-term overproduction) and more comparable to downturns associated with long-term economic strife. The economy has been prevented from reexperiencing circumstances similar to past depressions as a result of stimulatory fiscal policies and stabilizing financial safeguards (such as deposit insurance).

Levy asserts that because private fixed investment had been seriously curtailed (which in turn has limited the economy's ability to produce wealth, including corporate profits), any aggressive reduction in fiscal stimulus is likely to retard the economy, reduce the tax base, and ultimately add to current economic problems. It follows that the federal deficits of the 1990s are actually helping, not hurting, the economy. While burgeoning deficits and a spiralling national debt are serious concerns, we must understand that they are symptoms, not causes, of larger economic problems.

Moreover, deficit reduction has been predicated on the belief that heavy federal borrowing drives up interest rates, thereby stunting private investment. Levy contends that the relationship between federal deficits and interest rates is dubious on both theoretical and empirical grounds, but even assuming that deficit reduction does reduce rates, Levy maintains that interest rates are a weak determinant of business investment. Deficit reduction, therefore, cannot magically revive capital spending but slows the economy, reduces profits, and discourages investment.

Levy predicts that the depressed conditions of the 1990s are actually setting the stage for investment in an era of prosperity unmatched in the past quarter century. He suggests that the government implement a fiscal stimulus that would have a minimal effect on the federal budget deficit. This could be done through a program of public infrastructure maintenance in which the federal government would reimburse states for interest expenses on any debt incurred. The federal share of spending would not appear as a lump sum but instead would be amortized over a number of years in the way that private sector firms account for asset funding.

The Financial System in the Decade Ahead: What Should Banks Do?
Proceedings from the April 14–16 conference at The Jerome Levy Economics Institute of Bard College
May 1994
This report contains speeches by two of the conference's featured speakers and a synopsis of two roundtable sessions. The first of the two speeches was by Susan M. Phillips, governor of the Federal Reserve System, titled "Bank Activities and Structure in the Decade Ahead." The second speech, by Thomas M. Hoenig, president of the Federal Reserve Bank of Kansas City, was "Challenges for the Banking Industry in the 1990s."

The first roundtable, "Issues in Community Banking," was moderated by Mark S. Carey, an economist with the Board of Governors of the Federal Reserve System. Members included Robert T. Clair, senior economist and policy advisor, Federal Reserve Bank of Dallas; Mark Winston Griffith, president, Central Brooklyn Federal Credit Union; Brian Mathis, senior policy analyst, Department of the Treasury; Dimitri B. Papadimitriou, executive director, The Jerome Levy Economics Institute; and Martin Paul Trimble, executive director, National Association of Community Development Loan Funds. The second, "Setting a Policy Agenda for Financial and Banking Reform," was moderated by Paul M. Horvitz, Elkins Chair in Banking and Finance, University of Houston. Members included Jane D'Arista, lecturer in law, Boston University; James Chessen, chief economist and director of policy research, American Bankers Association; William Janeway, managing director, E. M. Warburg, Pincus & Co., Inc.; Howard A. Menell, Republican staff director, Committee on Banking, Housing, and Urban Affairs, U.S. Senate; Hyman P. Minsky, Distinguished Scholar, The Jerome Levy Economics Institute; and Ellen S. Seidman, special assistant to the president for economic policy.

Working Papers

84. *Migration of Talent I: Foreign Students and Graduate Economics Education in the United States*
Milind Rao

85. *The Relationship Between Public and Private Investment*
Sharon J. Erenburg

86. *The Origins of Money and the Development of the Modern Financial System*
L. Randall Wray

87. *The Psychology of Risk: A Brief Primer*
Paul Andreassen

88. *The Limits of Prudential Supervision: Economic Problems, Institutional Failure and Competence*
Bernard Shull

89. *Profits for Economists*
Thomas Karier

90. *An Alternative Approach to Banking Reform*
Kenneth Spong

91. *A Comparison of Proposals to Restructure the U.S. Financial System*
R. Alton Gilbert

92. *The Current State of Banking Reform*
George Kaufman

93. *Finance and Stability: The Limits of Capitalism*
Hyman P. Minsky

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96. *Mortgage Default Among Rural, Low-Income Borrowers*
George W. McCarthy, Jr., Roberto G. Quercia, and Michael A. Stegman

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Douglas Holtz-Eakin

98. *The Investment-Finance Link: Investment and U.S. Fiscal Policy in the 1990s*
Steven Fazzari

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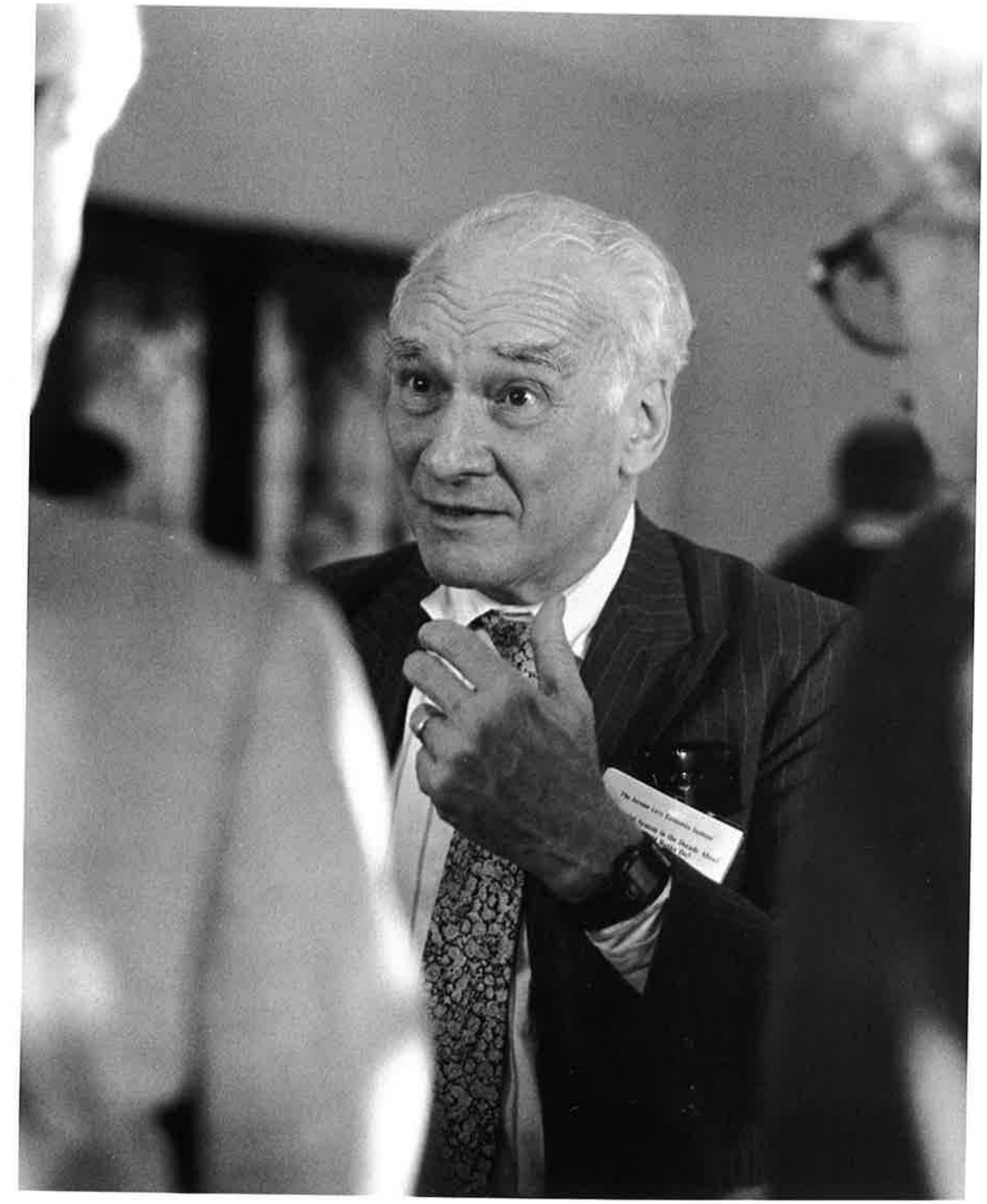
L. Randall Wray

100. *Avoiding a Future of Unemployment and Low Wages: What Opportunities Are Open to Young Unskilled Workers?*
Robert M. Hutchens

101. *Technological Change and the Demand for Skills in the 1980s: Does Skill Mismatch Explain the Growth of Low Earnings?*
David Howell

102. *Credibility of the Interwar Gold Standard, Uncertainty, and the Great Depression*
J. Peter Ferderer



Martin Mayer, Visiting Scholar at the Brookings Institution, at a Levy Institute conference

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Thomas Karier

104. *The Anatomy of Changing Male Earnings Inequality: An Empirical Exploration of Determinants*
Robert Haveman and Lawrence Buron

105. *The Collapse of Low-Skill Male Earnings in the 1980s: Skill Mismatch or Shifting Wage Norms?*
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Takao Kato

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