

2-1997

CEPA/LEVY Collaboration

Anwar Shaikh PhD

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CEPA / LEVY

Collaboration

1997

CEPA / LEVY Review 2/97

THE CEPA/LEVY INSTITUTE MACROMODELING PROJECT

Macroeconomic policy analysis requires one to assess the potential economic impact of various policy alternatives. Macromodels provide an important and influential tool for this task. It is in recognition of this fact that we have initiated a joint project between The Jerome Levy Economics Institute of Bard College and the Center for Economic Policy Analysis (CEPA) of the New School for Social Research.

1. The Levy Institute and the CEPA share many common goals. To further these goals, we have undertaken a collaborative effort on the analysis of the macroeconomic impact of economic policies. There are three main strands to this joint effort:

--the extension and refinement of the empirical macromodel developed by Wynne Godley of the Levy Institute, for the U.S. economy.

-- a comparison of the essential structure of various heterodox macromodels, particularly those of Wynne Godley and Lance Taylor. This is to feed back into the ongoing Macroeconomic Modeling Seminar held at the CEPA.

-- the publication of an Economic Policy Review featuring policy analyses by various members of both institutions.

2. In order to ensure the success of this project, we have devoted the following resources to it:

-- Faculty involved include Wynne Godley and Dimitri Papadimitriou at the Levy, and Lance Taylor, Anwar Shaikh, Will Milberg, and Eugene Canjels at CEPA.

-- CEPA has funded two Research Assistants (RA's) for work on the Godley macromodel, and two others are funded by the Levy Institute.

-- CEPA also funds an additional RA to work directly with Lance Taylor on the macromodeling seminar and related projects.

-- Copies of the macromodeling program Modler developed by Charles Renfrew and others of the Alphametrics Corporation, as well as detailed databases developed and maintained by Wynne Godley, have been made available to appropriate faculty and students involved in this project.

-- Research and travel expenses will be shared by the two Institutes, by mutual agreement.

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3. Finally, the current structure of this project entails the following division of labor.

-- Three RA's are working directly with Wynne Godley on refining and developing the empirical sections of his large scale model. Each RA is expected to prepare a written report by July of 1997. In addition, one or more policy briefs may be generated, in conjunction with some Godley or some other faculty member.

-- Cheryl Bailer is investigating the determinants of the net foreign income flows in the United States. Godley and Milberg (1994) have noted that the U.S. became the world's largest debtor nation by 1988, and yet net foreign income remained positive for five years after that. This project will try to explain this phenomenon by distinguishing between individual components of gross stocks and flows of foreign investment, so as to separately model the associated income flows. It will also study the question of transfer pricing, since this device of over- or under-pricing certain components of intra-firm trade is used by many multi-nationals as a means of shifting declared profits out of higher tax areas, thereby distorting the reported profit flows. Implications for the long term, and for economic policy, will be explicitly addressed.

-- Matias Vernengo is engaged in refining the manner in which the foreign trade sector (exports and imports) is treated in the large scale Godley macromodel. This involves reviewing the literature on the treatment of the foreign trade sector in macromodels, analyzing and comparing different data sources on international trade and competitiveness, and ultimately developing improved methods of modeling the foreign trade sector. Deficits in foreign trade, and their putative links to government deficits (the "twin deficits" hypothesis) play a major role in current policy debates, so that a rigorous analysis of foreign trade flows is of considerable importance.

-- Carlos Bastos is analyzing the dynamics of the government sector. Of particular interest is the claim that the fiscal budget will be in crisis in the next 10 to 15 years, and that items such as the Social Security Fund will be essentially bankrupt. He will study exactly how these projections are made by the various participants in this debate (which include the US Congressional Budget Office, the General Accounting Office, the Office of Management and Budget, and various private sources). He will attempt to synthesize these various measures. He will also study how government expenditure and revenue forecasts are made in other macromodels. The overall goal is to come up with a reliable and credible means of

THE CEPA/LEVY INSTITUTE MACROMODELING PROJECT

anticipating some of the general trends involved, since these play such an important role in policy discussions.

-- One RA, Stephanie Thomas, is working with Wynne Godley and Anwar Shaikh on the basic structure of "Godley-type" models. The current large scale Godley macromodel involves over 400 equations (which is normal in a full-scale model of this type). As such, its detail can easily obscure certain key elements of its underlying structure. This particular project will therefore try and extract the basic relations which have informed Godley's work over the years, and which remain critical to this and previous versions of his macromodels. These elements have appeared in earlier works by Godley and his co-authors, and can also be seen in his most recent (condensed) theoretical model of a modern macroeconomy. The roots and structure of his basic model will be analyzed and compared with the works of others in the postkeynesian and structuralist tradition, with special attention to the issue of its policy implications. The ultimate goal here is to better understand how and why the large scale model behaves as it does, so as to inform its ongoing development.

-- Anwar Shaikh will put together and edit an issue of an Economic Policy Review under the aegis of the Levy Institute and of an editorial board consisting of Dimitri Papadimitriou, Wynne Godley, and Anwar Shaikh. The Review will come out in the Fall semester of 1997, and it will feature policy analyses by various members of both institution (Taylor, Godley, Milberg), as well as by invited outsiders. Proposed topics include pieces on the foreign debt of the United States, on the impact of international trade on wage inequality in various countries, on the policy implications of immigration trends in the United States, and on the effects of NAFTA on trade patterns of small nations in the Western hemisphere.

CEPA/LEVY Review

- No criticism of World Bank!

- Wynne

Eatwell said: CEPA needs a model, & Wynne's is it.

→ But we cannot use this model directly for policy

→ So we focused on the theoretical structure of model which our

→ Will people be rolled over? How long? Project length?
Stephane rolled over to next Jan, like others?

→ not ready for policy review until ^{end of} summer ~~will~~?

- levy review only

- no critique of World Bank

→ ^{Transp} Billing shared by CEPA/LEVY

CEPA / Levy Review

2/3/97

By March 30

1. Will : trade & wage inequality : theory, data, policy

2. Malcolm Sawyer [Labor Party?]

World Policy Inst [Jim Chase?]

- Ellen Houston

NA 3. Lance -

4. Wynne -

5. Saskia ?

Frank

(CU BUS School)

(Finance & World Mkt?)

Wynne Godley

This was John's proposed format for the Policy Review. It can be modified.

The New School Economic Policy Review.

This will be a (shameless) copy of the format of the old "Cambridge Economic Policy Review". The format should be as follows:

- Chapter One The macro model of the US, with the usual runs on the accumulation of international debt, implications for the fiscal deficit etc.. (Anwar and Wynne).
- Chapter Two World model context of the US model (Lance).
- Chapter Three Policy discussion based on the macro model findings (a collective CEPA effort).
- Chapter Four The US labour market (CEPA labour market team).
- Chapter Five Debt dynamics (Willi).
- Chapter Six Any other aspect of US or international economy we can think of!

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From: Shaikh
To: TaylorL
Subject: Miscellaneous

Lance:

1. I had a long talk with Charles Renfro, the Modler man. He was very supportive of our project, and would like to be plugged into the macromodeling efforts. He is in Philadelphia, and may or may not attend on a regular basis, but I do think it would be politic to keep in touch with him (he studied with Klein, has a Ph.D in Econometrics, and has worked closely with Frances Cripps). Would it be OK to invite him to the macromodelling group meetings?

2. Victoria Chick would like to come and give a seminar. Could we invite her for a departmental seminar (David Kucera says he prefers not to expand the CEPA list)? I need to respond to her request, which was ferried by Malcolm Sawyer.

3. As you know, we agreed to do a joint policy review with the Levy Institute. The agreement specified that it would come out under the Levy aegis this first time, and would therefore be largely empirical and short-run policy oriented. A suggested outline would be:

i. A run of Wynne's macromodel on some topic like twin deficits, or the government deficit, international debt, etc. Extracting this from Wynne will not be easy, but Dimitri is adamant that Wynne has to produce something concrete – a "policy brief", this year.

2. Something from you, perhaps on your World Bank project, or something else you have in the works.

3. Something from Will on international trade and wages.

4. An invited piece, on some hot topic: e.g. Saskia Sassen on immigration, or something on the stock market, etc. I need help here!

I would like to talk to you about this before you return to Maine. I am free in the morning Wed (I gather we have a dept meeting, then Rao, then I teach at 4:00PM) and also much of Thurs. Call me at CEPA, or at home 718 638-7839, if you can.

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Pallens Tennre

Foley Tennre

Milburg Tennre

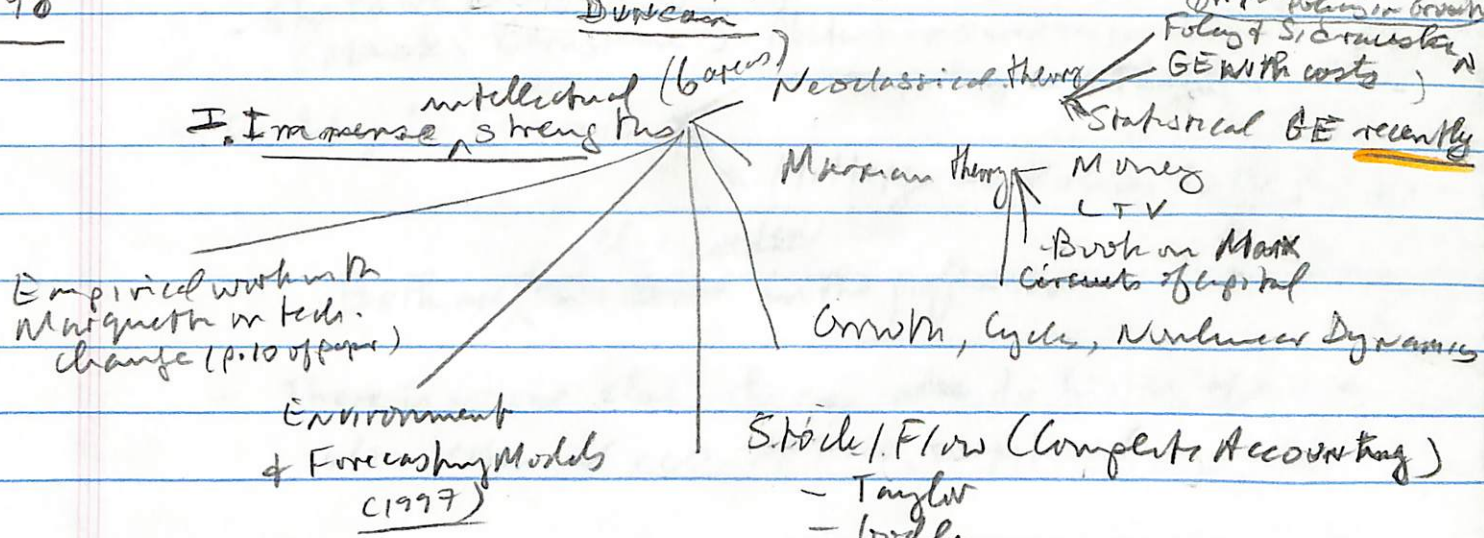
Date sent: **Wed, 03 Mar 1999 13:40:28 -0500**
From: **"Edward Nell" <NellE@newschool.edu>**
To: **as63@soas.ac.uk**
Subject: **Re: Palley, etc.**

The Tenure Committee met today. I suggested waiting till next week for you, but they did not wish to wait. The discussion did not ever really address Palley; the members who had been on the original committee were wholly defensive, and their remarks concerned what they had 'really meant', the aim being to show that they had been fair-minded and above-board. They hadn't, of course, so it was ridiculous. Palley's work was never considered; his books and articles lay on the table in a folder. The rubber band was never even removed. Arien Mack was an exception: she simply said, "we made a mistake, and should take this chance to rectify it." But the rest were impossible.

There is an Executive Faculty Meeting on Wed the 10th. The Report of the Tenure Committee will be presented then. If you could come we could both speak against it.

1/21/98

- 1. Faculty attrition: David, John, Tom, ^{Alice (Annie)} Grunzelli (Class + Gen ed) of Andrew + Retirement possible
- 2. Fields affected: Macro (John, David, Tom); M + B (Tom); Policy
- 3. Enrollment issue: Gender + Race (Grunzelli, Rhonda)
- 4. Restructuring: Best differentiated (Studies by ME + DMG; by Tom when John was chair) CEPA, policy



II. Range: History of Thought to Complexity theory, Public Finance

- Widely regarded as best in his chosen areas
- MS - lovely discussion of limitations of rationality (pp 23-24, MS)
- IB - Integrity
 - Prisoner Dilemma (35-36) → Hobbes
 - Linguistic complexity (#2-) → In Visible Hand
- Great teacher & wonderful colleague

- Senior administrator

- Letter

Ned Phelps (Nobel on the works) = one of the first-class minds of his prof & a major talent

Karl Shell = "leading econ theorist of his generation"

Discussion:

- He was cited as the leading econ. in 4-yr. universities (Dean)
- Enrollment: why did foreign students fall so much? [Andrew]
 - Paradigm of dept: policy, prob Keynesians
 - CEPA as a source of scholarships
 - Game Theory / Econometrics / Eco History (Janice Klinghorn)
 - "Dept should be reciprocity" (Enabling Committee for Eco.)

7 Power Abstract + 2

Open to the
- All of his things in Bernard
- His recommendation from NC
- we have 3 NC (David Sch)

Millberg Tenure Committee

- Should we tenure anyone from inside given the state of dept?
(Mack, Bernstein) - Abstentions were motivated by this alone

< Analysis in Economics ← Discussion Foley → Theory
Millberg → Policy is the future

Both are ^{well-connected} ~~well-connected~~ in the profession

- There is no one else who can ~~do~~ do history of econ & also technical econ. of trade, empirical I-O work.

- How do we compare to other dept's which is to do similar things? ← orthodox

- Will attract, will continue to attract, more students than any "Star".

yes, 2 abstentions,

Will ← int'l trade history of thought & methodology } I will say more about int'l trade because its place is less familiar outside econ professor

I Int'l Trade

1. Central paradigm in ^{international} economics: optimality, equality, convergence, universal benefits of free trade & unfettered markets

- But of course this has repeatedly been unfounded by historical + empirical evidence

→ leads to a series of "paradoxes" in orthodox eco

(i) Free trade does not appear to proceed along lines of predicted specialization (Leontief Paradox: US imports more capital-intensive goods than it exports..)

(ii) Wage inequality seems to rise with more openness
→ contrary to Samuelson/Stolper theorem

(iii) Economies do not seem to be converging with greater globalization (international differentials widen across globe)

(iv) Free trade does not lead to automatic trade balance and hence policy does matter

2. So question arises: why is the theory so often wrong?

← The theory is false even on its own grounds (i.e. at its own level of abstraction)

→ The theory is too abstract: institutional, political, & macroeconomic factors "inhibit the attainment of an ideal, fully globalized economy" (Milberg, Tenen statement)

↓ Empirical
Will's path → Policy

3. Will's researches on int'l trade (w/resp to ICI) - (iv) before

(i) What does drive trade patterns?

- technology gaps - exist + are persistent (5)
- Milberg/Elmslie < 5 OECD countries, I-O (Milberg/Elmslie) (4)
Canadian paper (5)
- "Social relations, not natural endowments" (6)
- Competition for what share drives tech. change (with Peter Gray)

(ii) What is happening to int'l wage inequality & why?

- UNCTAD paper (3) = wage inequality growing in many DC's
- CEPA MacArthur grant = skill-based technical change (3)

(iii) Is there convergence? why or why not?

- NO, gaps widen. Technological, wage, trade, institutions
- cause is institutional + political differences (CJE paper 6)
- Absolute Advantage is not passe (6)

(iv) Since free (or otherwise) trade is not automatically self-balancing, institutions + policies matter (6)

- "Tech Change, Social Policy & Competitiveness" = work org + state are crucial
- Industrial policy < temporary protection to get upgraded" (8)
labor + environmental standards maintained
- Paper with Elmslie on labor + environmental uniform standards
- WYNNIE GOOLEY on unsustainable deficit (9)

II History of Thought & Methodology are natural concerns for heterodox economics

- Opposition to "natural" models of neoclassicals leads him to oppose classical & neoclassical notions of "naturally" based social laws → poststructuralist theories (9)

→ reified notion of the market (10)

→ reified notion of the individual (10)

→ nice article on rhetoric of policy relevance = loose link between theory/data and policy conclusions (11)

→ Crisis of Vision in Modern Eco Thought with RCT

→ quite successful in its impact

⊗

III Fit in Dept < ^{Int'l Trade} ^{Hist of Thought}
CEPA

Teaching: 90% approval

Job Placement

Undergrad. curriculum at Lang

Interdisciplinary PE courses

South African training program (Eco. Policy Institute)

Success to ~~the~~ AMSDEN & HELLBROEK (GORDON in style)

Different scholars emphasize different aspects of his contributions, which is a sign of his depth

IV (Others)

Amsden (MIT, Sloan School) [excellent trade theorist]

Jan Faberberg (Oslo) (economist of high standing)

Jaime Galbraith (strong case for tenure)

Pasinetti (POPE): "Original work in trade theory, fine contributions... the best in his generation in this tradition"

Warren Samuels (History of Thought) = "work on rhetoric is the best in the field"

McCloskey = first rate mind

Bledner, AU

Godley "profundity" range