The Levy Economics Institute of Bard College

Report

January 2005 Vol. 15, No. 1

CONFERENCE: THE DISTRIBUTIONAL EFFECTS OF GOVERNMENT SPENDING AND TAXATION

Scholars gathered at the Levy Institute on October 15 and 16, 2004, to discuss the impact of government on the distribution of income. Several presented detailed studies of how various taxes and benefit programs affect people at different income levels on four continents. Others discussed topics such as the influence of income distribution on the existence of generous social programs, the social benefits of various types of economic development, and the economic fortunes of future retirees. The keynote speaker, David Cay Johnston (*below*), delivered a stinging indictment of the distributional properties of the U.S. tax system.

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The Levy Economics Institute of Bard College, founded in 1986, is a nonprofit, nonpartisan research organization devoted to public service. Through scholarship and economic research it generates viable, effective public policy responses to important economic problems that profoundly affect the quality of life in the United States and abroad.

The *Report* is published four times per year by The Levy Economics Institute of Bard College.

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Session 1. International Comparisons

The session was chaired by Dimitri B. Papadimitriou, president of the Levy Institute. Participants were Michael Förster of the European Center Vienna and the OECD and Jonathan Schwabish of the Maxwell School, Syracuse University. Amy Ellen Schwartz of New York University served as discussant.

Förster focused his presentation, which was based on research he conducted with Pierre Pestieau and Mathieu Lefèbvre, on three different types of generosity in social security programs around the world. The first sort is average generosity, which can be measured by the percentage of a country's GDP spent on social security programs, or by the percentage of a retiree's earnings that are replaced by his or her retirement benefit. The second form of generosity is the age at which one can retire and the size of the benefit for an early retiree. The third form is the degree to which the program alleviates poverty or inequality. The three coauthors found that the poverty-reduction effect of social security increased more during the period 1985–95 in the economies studied that were least open to foreign trade, an indication that economic trade and investment leads to a "race to the bottom." The authors also found a positive relationship between the "contributiveness" of social security programs—that is, the extent to which the level of benefits is linked to preretirement earnings—and the level of program generosity.

Schwabish confirmed some hypotheses about what causes some nations to invest more money in redistributive programs than others. He concentrated on government provision of cash or cash substitutes, such as food, rather than on public goods, such as defense or education. These expenditures, as a percentage of GDP, ranged from 15 percent in the United States, to 26 percent in the United Kingdom, and over 30 percent in Sweden. Schwabish found, *contra* many other studies, that the income gap between the richest group of people and the median tended to be greatest in countries in which social expenditures on the nonelderly were lowest as a percentage of GDP. One explanation for this correlation was that when the rich have vastly more resources than the middle class, they provide for themselves through markets and regard public income-security programs as a waste of money. Schwabish and his coauthors, Timothy Smeeding and Lars Osberg (with the assistance of Michael Eriksen and Joseph Marchand), also found that social expenditures are greater in countries that, unlike the United States, enjoy a very high degree of trust among citizens.

Schwartz commented on the small number of data points used by the authors of both papers. Technically, small data sets can make it difficult for researchers to consider a large number of explanatory variables. Schwartz also questioned the presentations' apparent implication that the rich in unequal societies do not support social expenditures.

Session 2. Cross-national Comparisons within Europe

Edward N. Wolff of New York University and the Levy Institute moderated this session. Holly Sutherland of the University of Cambridge, University of Essex, and DIW Berlin, and Irwin Garfinkel of Columbia University presented papers. The discussant was Marc Lee of the Canadian Centre for Policy Alternatives.

Sutherland presented research she had undertaken with the help of six coauthors: Herwig Immervoll, Horacio Levy, Christine Lietz, Daniela Mantovani, Cathal O'Donoghue, and Gerlinde Verbist. The authors provided a novel analysis by using a unified data set for all 15 of the "old" members of the European Union. They examined the equalizing effect of many types of government activities, by sequentially taking into account six components of income: market income, state pensions, means-tested benefits, non–means-tested benefits, employee and self-employed social insurance contributions, and income taxes. Sutherland and her coauthors discovered that in all countries in the study, tax-benefit systems reduce income inequality substantially. Southern European countries

Edward N. Wolff

Holly Sutherland


Ajit Zacharias

have the highest degree of inequality, said Sutherland, followed in turn by France and Sweden, then Austria, Denmark, Finland, the Netherlands, Luxembourg, Germany, and Belgium. On average, non–means-tested programs equalized income to a greater extent than those that had financial eligibility criteria. Overall, the tax-benefit system is highly redistributive in Finland, Denmark, Belgium, Austria, Luxembourg, and Germany, and much less so in Greece, Italy, and Portugal. Taxes and non–means-tested benefits worked to shift income from rich to poor to the greatest extent in those countries where inequality was mildest.

Garfinkel, in a paper coauthored with Timothy Smeeding and Lee Rainwater, tried to determine how and to what extent various welfare states helped citizens attain their developmental needs and capabilities, looking at the effect of government programs in areas such as education and medical care. The authors used data from the OECD and the Luxembourg income study to compare the income of a low-, a median-, and a high-income individual in each country, inclusive and noninclusive of welfare spending. They found that each country spent at least one-fourth of its GDP on social welfare. The English-speaking countries spent a lower share of their GDPs than the Continental European ones, but the differences in social expenditures narrowed when one considered the extent to which benefits are "taxed back" and added in-kind programs, such as food stamps and education. In a piece of good news, the study found that in all countries, social welfare programs substantially redistribute income from the top to the bottom and middle of the income scale. In most countries, this redistribution is so massive that, on average, net welfare benefits account for more than half of the income of the worst-off 20 percent of the population. Because of high educational and health spending, in the United States children in all income categories up to the richest 20 percent are net gainers from social programs.

Lee commented that the first paper had neglected some governmental impacts on income distribution, including value-added taxes and the monetary worth of public services. He also questioned including employer-provided benefits in a study of the effects of government spending and taxation.

Session 3. Distributional Effects of Taxes and Government Spending in the U.S.

Greg Hannsgen chaired this session. Edward N. Wolff of New York University and the Levy Institute and Ajit Zacharias of the Levy Institute gave the first presentation, and William G. Gale of the Brookings Institution followed. Sourushe Zandvakili of the University of Cincinnati discussed both papers.

Edward N. Wolff and Ajit Zacharias presented their development of a new measure of household income, concentrating on the net effects of government expenditure on income, as they defined it. They counted deductions from income, such as payroll and income taxes, and additions, such as the value of Medicare benefits and education. They took care to assign these sums to the actual beneficiaries; for example, highway subsidies were counted as a benefit to those who owned vehicles. In one finding, the total cost of government to households exceeded the total benefits—perhaps an indication that Americans do not receive a good "deal" for their tax payments. However, the two presenters concluded that this finding applied mainly to the relatively wealthy. For the median household (the household that is richer than half and poorer than

Diane Elson

Ann Harding

half), net government expenditures were positive. The redistributive effect implied by this fact was confirmed for various segments of the population with lower-than-average market income. That is, considering net government expenditures reduced the gaps between white and nonwhite households, married couples and single (female)-parent families, and elderly and nonelderly households. The government activities that reduce inequality most are transfer payments such as Social Security and Medicare.

William G. Gale of the Brookings Institution, in presenting a paper he coauthored with Leonard E. Burman, Matthew Hall, and Peter R. Orszag, related findings involving the distributional effects of contributory pension plans such as 401(k)s and IRAs, which they called a "key, but underexamined" issue. These savings plans all allow workers to shelter some income from federal taxation. The authors measured the cash benefit of these tax breaks to an individual as the difference between the present value of the withdrawals of tax-advantaged contributions and the present value of similar, hypothetical contributions to taxable accounts. The difference was quite large (around $528 for the average "tax filing unit"). The benefits of the plans tend to be concentrated in the relatively high tax brackets: 70 percent of tax reductions go to the richest fifth of all taxpayers. The bottom fifth benefits hardly at all, while those with incomes between $75,000 and $500,000 garner two-thirds of the benefits. Relative to tax breaks from employer-sponsored plans, benefits from IRAs reduce the tax burden relatively little.

Zandvakili suggested that the work of Wolff and Zacharias might benefit from the use of formal statistical tests to determine if differences in wealth distribution were within the margin of error of the estimates. Zandvakili also pointed out that the results of the second paper were dependent upon several strong assumptions, such as people's tax brackets not changing over their lifetimes.

Session 4. Distributional Effects in Other Countries I

Diane Elson of the Levy Institute and the University of Essex served as chair for this session. Two speakers gave presentations: Ann Harding of NATSEM, Canberra, Australia, and Kwang Soo Cheong of Johns Hopkins University. Lars Osberg of Dalhousie University was the discussant.

Harding presented a paper she had written with Rachel Lloyd and Neil Warren on government spending and taxation in her home country of Australia. Using individual household data from 2001–02, she simulated the distribution of income including various items not usually included in official statistics, such as taxes on goods and services and the value of government health and housing programs. Harding and her coauthors found that government taxation and spending had a large effect on the income distribution, greatly improving the access of less-well-off groups to goods and services. Without government programs and taxation, the income of the richest 20 percent of Australians was 43 times that of the poorest. Once a number of government activities were taken into account, the ratio was reduced to three to one. Various cash benefits paid by the government, as well as income taxes, contributed to this equalizing effect. Harding, Lloyd, and Warren believe that government benefits are so strongly progressive in part because they are mainly means-tested, or provided on the basis of need. This contrasts strongly with programs such as the U.S. Social Security system, which pays benefits to retirees regardless of need. Harding showed that, out of all types of households, the situation of single-parent households and the aged were affected most by government activity.

Cheong analyzed the progressivity of the South Korean tax system, an increasingly popular topic in policy debates in that country, using survey data from the 1990s. The backdrop of the study was a tumultuous period, including a severe financial and economic crisis in 1997 and 1998. The burden of the crisis was borne mainly by the poorest 20 percent of the population, who saw their income fall by 47 percent. Cheong discussed several different aspects of the redistributive properties of the tax system, which was modified several times during the period of his study. He first examined "vertical equality," or the extent to which the tax system helped poor and moderate-income households relative to those with higher incomes. He found that the tax system did not have much of an equalizing effect in this regard, partly because tax rates are very low for all groups. In another indication of lack of equity, effective tax rates (total tax payments divided by total income) did not consistently rise with income. Cheong also examined the "horizontal" equality of the tax system, or its tendency to treat those with equal income equally. Testing horizontal equity by measuring the degree to which the tax system moved people around in the income rankings, Cheong arrived at another negative result.

Osberg pointed out that the first paper counted well-being in two different ways: sometimes income was adjusted to reflect the "economies of scale" enjoyed by large households; other times, income was calculated on a per capita basis. A sort of inconsistency could result. Regarding the second paper, Osberg questioned the consistency of Cheong's micro data with data on taxes for the economy as a whole.

Keynote Address: DAVID CAY JOHNSTON

Johnston, who writes for the *New York Times* and is author of *Perfectly Legal,* began by linking the advent of progressive income taxes to democracy in ancient Greece. He charged anti-tax conservatives such as Grover Norquist with forgetting Edmund Burke's observation that "the revenue of the state is the state." Johnston cited numerous statistics indicating that the rich are reaping economic rewards at the expense of those with moderate and low incomes. For example, in 1970, the richest one-hundredth of 1 percent of Americans had one-tenth the total income of the poorest third. Today, the two groups—the poorest 96 million U.S. residents and the richest 28,000—have roughly the same total income. Today, those who earn $60,000 annually give the government a greater share of their income than those who make over $10 million. Why does the tax system benefit the rich? Because, said Johnston, the rich tend to be major political contributors. Recalling a talk he had given before a number of members of Congress, Johnston said that they had admitted in conversation that they paid more attention to the needs of their top donors than to those of their poor constituents. Johnston described what he calls the "stealth tax"—the alternative minimum tax, which increasingly prevents many of the moderately wealthy from benefiting from deductions or tax cuts. He warned that one proposed reform, replacing the income tax in part with a national retail sales tax, would lead to a rush to purchase consumer goods before the tax was implemented. It would also stimulate black markets. Johnston reminded the audience that the Boston Tea Party was not in protest of British taxes, but rather against a tax exemption for the East India Company. He closed by observing that the American people seem occupied with television shows about celebrities and other trifles, at a time when their involvement in politics is more important than ever.

Session 5. Distributional Effects in Other Countries II

Rania Antonopoulos of New York University and the Levy Institute chaired this session. Leon Podkaminer of the Vienna Institute for International Economic Studies and Markus Jäntti of Abo Akademi University in Finland presented papers. The discussant was Steve Davies of Colorado State University.

Podkaminer's presentation focused on the effects of various policy regimes in postsocialist Poland. After 1990, a highly egalitarian economic policy regime was replaced by shock therapy, which included the sale of numerous public enterprises to private parties. Following these reforms, the unemployment rate rose from approximately zero to 6.5 percent; the average real wage fell about 25 percent; and retirement pay lost 15 percent of its value. In 1992, a more moderate policy took effect, and the size of government rose. In this period of moderation, economic growth and distribution improved greatly. Podkaminer criticized the latest reformist trend in policy, saying that it left the unemployed and aged with inadequate protection. The turn toward private provision of medical care has created a two-tier system, with only the wealthy able to afford high-quality care. The privatization of the social security system generated huge fees for foreign investment firms, but left the main pension fund short of money for its existing programs. The "Gini" measure of income inequality has, not surprisingly, risen. The reforms do not seem to have had their intended effect of spurring growth. Podkaminer concluded that economic performance has been strongest, and inequality lowest, during periods of heavy government intervention in the Polish economy.

Jäntii noted that direct taxes, such as income taxes, have been significantly reduced in Finland in the past eight years, yet the share of taxes in the GDP has remained stable. Jäntti used a threefold hypothesis to explain this: indirect taxes, which are taxes on sales of both consumer and intermediate goods, have not been lowered; income has shifted to higher-bracket taxpayers; and local taxes may have increased. The constancy of indirect taxes implies that the inequality of after-tax incomes may have increased, because poor people spend a greater proportion of their incomes than rich. Jäntti used household survey data, as well as data on the inputs and outputs of various industries, to gauge the effects of taxes on the inequality of income. Jäntti found that direct taxes on low-income workers have increased, while those on higher-income individuals fell between 1985 and 2001; meanwhile, the distribution of indirect taxes across income groups has stayed about the same. Overall, while Finland remains a relatively egalitarian society, the tax system has grown less progressive over recent years.

Davies argued that the macro data used by Podkaminer reflected many influences, not just government policy. He stressed the need, in a study such as Jäntii's, to account for externalities, or unpaid-for effects of firms' and individuals' activities on others.

Session 6. Distributional Effects at the Sub-national Level

The chair for this session was W. Ray Towle of the Levy Institute. Harvey Cutler of Colorado State University and Howard Chernick of Hunter College, City University of New York, gave presentations. Elissa Braunstein of the Political Economy Research Institute (PERI), University of Massachusetts, was the discussant.

Cutler, in a paper coauthored with Steve Davies, tested the effects of economic development on economic inequality in Fort Collins, a small city in Colorado. Many economists have studied this topic through the centuries; some have argued that high inequality can increase growth. If this is so, then policymakers may face a dilemma of mutually incompatible objectives. The two scholars tested this proposition using local and state data on payrolls, land use, and government expenditures. They constructed a computer model of the city's economy, made up of three groups of workers, six groups of households with varying levels of income, a local government, a housing market, and 17 different industries, all of which were assumed to maximize their profits. The main simulation was designed to gauge the impact on the local economy of expansions in five different industries: computer manufacturing, other manufacturing, the university sector, retail trade, and "high" services, a category made up of such high-paying sectors as medical and legal services. A 1,000-person increase in employment in the computer manufacturing area had the greatest impact on Gross City Product of all of the five industrial groups, partly because of the high wages paid in that area. Increases in university employment had the least overall effect, largely because the university did not provide many services to the local community. High services also had a relatively small effect, owing in part to the fact that they did not draw much business from outside their immediate geographic area. Regarding impact on disparities in income, expansions of computer manufacturing increased inequality, while additional retail development reduced it.

Chernick asked two questions in his presentation, which was based on work he did with Paul Sturm. Do American states with strongly redistributive spending and tax policies experience slower economic growth than states that have less progressive policies? And, what causal factors make some states' policies more progressive than others? To answer the first question, Chernick and Sturm measured the association of economic performance variables, such as economic growth and unemployment, with various indicators of the progressivity of states' policies. The latter gauges included the maximum welfare benefit in a state, the dispersion in the amount of per-pupil spending in a state's school districts, and the ratio of tax rates on poor and wealthy citizens. Chernick and Sturm found little to no significant effect of all of these distributional variables on economic success. Turning to the determinants of progressive policies, Chernick found several important variables, including the percentage of taxpayers in a state who itemize and Republican control of the legislative and executive branches of government.

In discussing the paper by Cutler and Davies, Braunstein pointed out that standard measures not only of inequality, but also of job quality, are important in assessing the impact of various types of economic development. She expressed interest in one somewhat puzzling result of the second paper: while progressive income taxes had little effect on the economic performance of the states that adopted them, they had a positive effect on neighboring states.

Teresa Ghilarducci

Session 7. Distributional Effects of Public Education and Social Security

The chair of this session was Caren Grown of the Poverty Reduction and Economic Growth Team, International Center for Research on Women. Giving presentations were William R. Johnson of the University of Virginia and Barbara Butrica of the Urban Institute. The discussant was Teresa Ghilarducci of the University of Notre Dame.

More than 25 years ago, a study by Lee Hanson and Burton Weisbrod found that the impact of higher education programs was regressive, meaning that the beneficiaries of college and university spending were wealthier than the taxpayers who paid part of the tuition bill. Johnson took up this issue using data from the National Longitudinal Study of Youth, a survey that has followed a group of adults born between 1957 and 1964. In his study, Johnson examined how the benefits of education were distributed by parental income and education and by student test scores. He took into account both direct subsidies, such as the costs of public universities paid by the government, and indirect subsidies, which include favorable tax treatment for college endowments. Johnson conservatively assumed that parents were taxed proportionally to their income. He found that while children from wealthy families benefited more from subsidies than the less well off, the higher taxes paid by the wealthy more than offset this imbalance. On the whole, higher education programs are progressive, he found; once the burden of taxes is taken into account, education spending helps families with moderate and low income to a greater extent than it does those with high incomes.

The paper by Butrica and her coauthors Howard M. Iams and Karen E. Smith projected the degree to which various forms of income would protect the economic security of the baby-boom generation in its retirement years. Combining information from several sources, including Social Security's data on earnings and benefits, the authors found that at age 67 the baby boomers would have lower rates of poverty and higher incomes, on average, than today's retirees. By the time the baby-boom generation retires, the poverty rate of 67-year-olds will fall by half, and the mean per capita income of 67-year-olds will increase from about $29,000 to $44,000 (in 2003 dollars). The bad news is that the replacement ratio—the percentage of average preretirement to postretirement income—will be lower across most income levels. Baby boomers will also rely on earnings in their retirement to a much greater extent than today's retirees. What is traditionally thought of as retirement income, including all types of pensions and Social Security, will make up 58 percent of 67-year-olds' income, down from 63 percent, largely as a result of the deterioration of the private, defined-benefit pension system. Finally, the picture of progress between generations is marred by a less optimistic forecast for minority group members, the less educated, and the nonmarried.

Ghilarducci asserted that both papers understated the insurance effects of government programs. If public education and Social Security are available, they provide some reassurance even to households that do not directly benefit. She commented that the assumed ratios of retirement to preretirement income in the second paper were probably too low, once the need for a rising standard of living and medical expenses are taken into consideration.

New Publication

Levy Institute Measure of Economic Well-Being: How Much Does Wealth Matter for Well-Being? Alternative Measures of Income from Wealth

EDWARD N. WOLFF, AJIT ZACHARIAS, AND ASENA CANER
www.levy.org/pubs/limew/limew0904.pdf

The Levy Institute Measure of Economic Well-Being (LIMEW) is a relatively new, comprehensive measure of households' access to or command of goods and services. LIMEW includes base money income (gross money income minus the sum of property income and government cash transfers), employer contributions for health insurance, income from wealth, net government expenditures (transfers and public consumption, net of taxes), and the value of household production. In a new report, the Institute's LIMEW team, which comprises Senior Scholar Edward N. Wolff of New York University and Research Scholars Ajit Zacharias and Asena Caner, examines the sensitivity of its findings with respect to alternative ways of reckoning the economic advantage from wealth.

The initial LIMEW reports, which were issued last year, measured income from home wealth differently from income from nonhome wealth. The value of a home was calculated as the cost of an equivalent rental unit, on the grounds that home ownership frees households from the burden of paying rent. The value of nonhome wealth was found in earlier publications by computing the amount of a lifetime annuity to which nonhome wealth could hypothetically be converted. A household's income from wealth is the sum of imputed rental cost and lifetime annuity. The LIMEW team argues that the economic advantage from wealth is best reflected by this measure.

For the sake of comparison, the new LIMEW publication estimates income from wealth in two different ways. The first measure replaces the imputed rental cost of homes with the annual return that could be obtained by converting households' home equity into an annuity. The second measure replaces the lifetime annuity from nonhome wealth with the sum of property income and realized capital gains (net of losses).

The new estimates support the authors' earlier conclusions: 1) the value of income from wealth and the value of LIMEW are highly correlated across households; 2) inequality in economic well-being was higher in 2000 than in 1989; and 3) the share of income from wealth in total income was higher in 2000 than in 1989. Further, in a new result, this report finds that changing the way income from nonhome (rather than home) wealth is counted has a significant effect on the level and distribution of economic well-being. The LIMEW team argues that actual income from nonhome wealth understates the benefits, and that their method better reflects the benefits accruing from nonhome wealth, especially to those at the top.

New Public Policy Brief

The Case for Rate Hikes: Did the Fed Prematurely Raise Rates?

L. RANDALL WRAY
Public Policy Brief No. 79; Highlights 79A
www.levy.org/pubs/ppb/ppb79.pdf

In a new public policy brief, L. Randall Wray evaluates the justifications offered by the Federal Open Market Committee for raising interest rates. Two rationales are often cited: first, that labor markets are tightening, leaving little room to continue economic expansion without causing inflation; and second, that the Fed must raise rates to follow through on the plans it has expressed publicly. Wray concentrates on the first justification. A comparison with the situation of a few years ago shows that the employment-population ratio reached 64.4 percent in 1999, then held steady into 2001. Between the spring of 1999 and the spring of 2000, the economy was adding the equivalent of four million new jobs per year, after generating about two million jobs per year during the previous seven years. This all happened without any apparent inflationary pressure. Because the pace of job creation has been so much slower in the recent recovery, a mystery is why many observers, including the Fed, have become so concerned about a possible acceleration of inflation.

At least as important as monetary policy, writes Wray, are the huge swings in the federal government's fiscal stance over the past few years. A few years ago, the government was running large surpluses, which played no small role in the recession of 2001. Starting in 2000, this stance eased considerably—by about 7 percent of GDP. Unfortunately, before the recovery gained momentum, the fiscal trend reversed itself once again, and personal and corporate tax revenues started growing. To offset rising taxes, writes Wray, the Fed should refrain from further rate increases, which had a weak rationale in the first place.

Levy Institute News

New Appointments

The Levy Institute welcomes **Diane Elson** as the senior scholar who will head its recently instituted program, Gender Equality and the Economy, working with the Institute's research associates Rania Antonopoulos and Nilüfer Çağatay. Elson holds positions at the University of Essex and the United Nations Development Fund for Women (UNIFEM). Her current research interests include the relationship of gender to fiscal policy and international trade. Recent publications include "The Social Content of Macroeconomic Policies" (with N. Çağatay), *World Development*, July 2000; Progress of the World's Women 2002 (with H. Keklik), UNIFEM, New York, 2002; "Engendering Government Budgets in the Context of Globalisation(s)," *International Feminist Journal of Politics*, forthcoming; and "Social Policy and Macroeconomic Performance: Integrating 'the Economic' and 'the Social,'" in T. Mkandawire, ed., *Social Policy in a Development Context*, Palgrave, forthcoming.

Diane Elson

Elson is a member of the United Nations Millennium Project Task Force on Education and Gender Equality and the Advisory Committee for the United Nations Research Institute for Social Development Policy Report on Gender and Development. She is vice president of the International Association for Feminist Economics. She is also a founding member of the International Working Group on Gender, Macroeconomics, and International Economics at the Department of Economics, University of Utah, under the direction of Professor Nilüfer Çağatay. Elson received a B.A. from Oxford University and a Ph.D. from the University of Manchester.

Nilüfer Çağatay has joined the Levy Institute as a research associate. An associate professor of economics at the University of Utah, she has focused her research on gender and development, international trade theories, and engendering macroeconomics and international trade theories and policies. In 1994, with Diane Elson and Caren Grown, she founded the International Working Group on Gender, Macroeconomics, and International Economics (GEM–IWG). Çağatay was coeditor of the November 1995 special issue of *World Development* on gender, adjustment, and macroeconomics, and the July 2000 special issue of *World Development* on growth, trade, finance, and gender inequalities. From 1997 to 2000 she worked as an economic advisor to the United Nations Development Programme's Social Development and Poverty Elimination Division in New York. She received a B.A. in economics and political science from Yale University and earned M.A. and Ph.D. degrees in economics from Stanford University.

Hyunsub Kum has joined the Levy Institute as a research scholar to develop the Levy Institute Measure of Economic Well-Being (LIMEW) within the distribution of income and wealth program. His research interests include the measurement of inequality, inequality and economic growth, and the distributional effects of public spending, including cross-country comparisons. He recently published articles with Senior Scholar James K. Galbraith in *CESifo Economic Studies* and *Review of Income and Wealth*. Kum received a Ph.D. in public policy from the University of Texas at Austin; an M.P.P from the University of Michigan, Ann Arbor; and an M.P.A. and B.A. from Seoul National University, Korea.

Rubaba Ali has joined the Levy Institute as a research assistant for the LIMEW. She will research different components of the LIMEW and develop and update the measure for additional years. Ali's research interests lie in the broader schema of development economics and include the impact on women's well-being of the absence of a social safety net in developing countries. A special interest is the role of Islamic laws of inheritance on gender bias in intrahousehold bargaining power, the allocation of resources, and the time devoted to housework. Ali received a B.A. in economics and mathematics from Bard College and plans to enroll in a Ph.D. program in economics in the fall of 2005.

Rebitzer Wins Award

Research Associate James B. Rebitzer has won an award from the National Institute for Health Care Management Research and Educational Foundation (NIHCM Foundation) for an article he completed with support from the Levy Institute. The article, coauthored with Martin Gaynor and Lowell J. Taylor, was published as "Physician Incentives in Health Maintenance Organizations" in *Journal of Political Economy*, Vol. 112, No. 4, 2004. The authors were cited for "excellence in original and creative health care research."

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

PHILIP ARESTIS *Institute Professor of Economics*

Publications: "Is There a Trade-Off between Inflation Variability and Output-Gap Variability in the EMU Countries?" (with K. Mouratides), *Scottish Journal of Political Economy*, Vol. 51, No. 5 (November 2004); "The Economic and Monetary Union: Current and Future Prospects" (with M. C. Sawyer), in F. Ferrari-Filho and L. F. R. de Paula (eds.), *Financial Globalisation: Essays on Open Economies* (in Portuguese), Vozes Publishers 2004; *What Global Economic Crisis?* (with M. Baddeley and J. McCombie), paperback edition, Palgrave Macmillan 2004; *The Post-Bubble US Economy: Implications for Financial Markets and the Economy* (with E. Karakitsos), Palgrave Macmillan 2004; *Re-examining Monetary and Fiscal Policies in the Twenty-First Century* (with M. C. Sawyer), Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2004; "Restrictive Fiscal Stance of German Economic Model Cuts Hopes of Robust Eurozone Recovery" (with W. Mosler), *Financial Times*, September 6, 2004; "Eurozone 'Surplus': 0.1 Per Cent of GDP is Hardly a Surplus At All," *Financial Times*, September 15, 2004; "O euro e a UME: lições para o Mercosul" (with F. Ferrari-Filho, L. Fernando de Paula, and M. C. Sawyer), *Economia Esociedade*, Vol. 12, No. 1, 2004.

Presentations: "Does Financial Structure Matter?" at the Annual International Conference of the ESRC-funded Money, Macro, and Finance Research Group held at Cass Business School, City University, U.K., September 6–8, 2004; "New Consensus Monetary Policy: An Assessment," at a staff/postgraduate student seminar of the University of the State of Rio de Janeiro, Rio de Janeiro, Brazil, October 4, 2004, and the University of Rio Grande do Sul, Porto Alegre, Brazil, October 6, 2004; "Economic Integration: EMU and Lessons for Mercosur," at a staff/postgraduate student seminar of the University of Getulio Vargas Foundation, Rio de Janeiro, Brazil, October 5, 2004, and the University of Rio Grande do Sul, Porto Alegre, Brazil, October 7–8, 2004; "Macroeconomic Policies of the EMU," at a staff seminar, Department of Land Economy, University of Cambridge, U.K., October 20, 2004; "Reinventing Fiscal Policy" and "Monetary Policies in the Eurosystem and Alternatives for Full Employment" (coauthored by M. C. Sawyer), at the International Symposium to honor John Kenneth Galbraith, sponsored by l'Université du Littoral Côte d'Opale, Dunkerque, and held at the Institut de Gestion Sociale, Campus Parodi, Paris, France, September 22–25, 2004; "Capital Stock, Unemployment and Wages in Selected EMU Countries" (coauthored by Michelle Baddeley and M. C. Sawyer), at the Eighth International Workshop on Wages, Distribution and Growth organized by the Hans Böckler Stiftung and held at the Willy-Brandt-Haus, Berlin, Germany, October 29–30, 2004.

MATHEW FORSTATER *Research Associate*

Publications: "Envisioning Provisioning: Adolph Lowe and Heilbroner's Worldly Philosophy," *Social Research*, Vol. 71, No. 2; "Full Employment and Social Justice" (with L. Randall Wray), in D. P. Champlin and J. T. Knoedler, eds., *The Institutionalist Tradition in Labor Economics*, Armonk, N.Y.: M. E. Sharpe, 2004; "'Jobs for All': A Fitting Tribute to the Rev. Dr. Martin Luther King, Jr." in D. Menkart, A. D. Murray, and J. L. View, eds., *Putting the Movement Back into Civil Rights*

Teaching, Washington, D.C.: Teaching for Change and Poverty & Race Research Action Council, 2004; "Cumulative Causation à la Lowe: Radical Endogeneity, Methodology, and Human Intervention" in *Growth, Distribution, and Effective Demand: Alternatives to Economic Orthodoxy: Essays in Honor of Edward J. Nell*, G. Argyrous, M. Forstater, and G. Mongiovi, eds., Armonk, N.Y.: M. E. Sharpe, 2004; edited *Growth, Distribution, and Effective Demand: Alternatives to Economic Orthodoxy: Essays in Honor of Edward J. Nell* (with George Argyrous and Gary Mongiovi), Armonk, N.Y.: M. E. Sharpe, 2004; edited *Full Employment and Price Stability: The Macroeconomic Vision of William S. Vickrey* (with Pavlina R. Tcherneva), Cheltenham, U.K.: Edward Elgar, 2004.

JAMES K. GALBRAITH *Senior Scholar*

Publications: "Unemployment, Inequality and the Policy of Europe, 1984–2000" (with Enrique Garcilazo), *Banca Nazionale del Lavoro Quarterly Review*, Vol. LVII, No. 228, March 2004; "The American Economic Problem," *Interventions*, Vol. 1, No. 1, March 2004, and *Post-Autistic Economic Review*, No. 25, May 21, 2004; a review of "Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century" by Mark Blyth in *International History Review*, Vol. XXVI, No. 1, March 2004; "Public Deficits and Private Savings: A Little Lesson," *Texas Observer*, April 2004; "On the Immigration Proposal," *The Responsive Community*, Vol. 14, Issue 2/3, Spring/Summer 2004; "Bankers Versus Base," *The American Prospect*, 5(11), May 2004; "In Memoriam: Walt Whitman Rostow" (with Douglas Dacy and Bobby R. Inman), *Documents of the General Faculty*, University of Texas at Austin, 2004; "The Worldly Philosophers and the War Economy," *Social Research*, Vol. 71, No. 2, Summer 2004; "The Experience of Rising Inequality in Russia and China during the Transition" (with Ludmila Krytynskaia and Qifei Wang), *European Journal of Comparative Economics*, Vol. 1, No. 1, 2004; epilogue in *Full Employment and Price Stability: The Macroeconomic Vision of William S. Vickrey* (Mathew Forstater and Pavlina R. Tcherneva, eds.), London: Edward Elgar, 2004; "Full Employment and the Perils of Empire" in *Patriotism, Democracy and Common Sense: Restoring America's Promise at Home and Abroad* (Alan Curtis, ed.), Lanham, Maryland: Rowman and Littlefield, 2004; "An Economy, not an Empire: A Progressive Program for Jobs and Security After the Election" in *What We Stand For: A Progressive Platform for a Changing America* (Mark Green, ed.), New York: Newmarket Press, 2004; "Full Economic Recovery and Full Employment" in *Taking Back America* (Robert Borosage and Katrina vanden Heuvel, eds.), New York: NationBooks, 2004; "The Bush Jobs Chasm," *Salon*, April 6, 2004; "How You Will Pay for the War," *Salon*, April 20, 2004; "Fidel, the Fall Guy," *Salon*, May 4, 2004; "The Man Who Stayed Too Long," *Salon*, May 20, 2004; "Coming to Our Senses?" *Salon*, May 22, 2004; "The Rich Got Richer," *Salon*, June 9, 2004; "Squeezing Workers," *Salon*, June 28, 2004; "Length Matters," *Salon*, July 7, 2004; "Pay Inequality in the Indian Manufacturing Sector, 1979–1998" (with Deepshikha Roy Chowdhury and Sanjeev Shrivastava), *Economic and Political Weekly*, New Delhi, Vol. 39, No. 28, July 10, 2004; "A People's Platform," *The Nation*, July 22, 2004; "Armed and Dangerous," *Salon*, July 22, 2004; "Fed Ache," a review of *A Term at the Fed: An Insider's View* by Laurence H. Meyer, *Washington Monthly*, Vol. 36, No. 7 & 8, July–August 2004; "Our Sinking Ship," *Salon*, August 10, 2004; "Dazzle Them With Demographics," review of *The Coming Generational Storm: What You Need to Know about America's Economic Future* by Laurence J. Kotlikoff and Scott Burns, *Texas Observer*, August 13, 2004; "November Surprise," *Salon*, August 20, 2004; "Social Security Scare Campaign," *Salon*, August 31, 2004; "The Plutocrats Go Wild," *The Washington Monthly*, September 2004; "The Issue Isn't Vietnam," *Salon*, September 7, 2004; "The Afghan Effect?" *Salon*, September 21, 2004; "Dissecting Cheney," *Salon*, October 5, 2004, and republished in *Slovo* (Moscow), October 15, 2004; "What Economic Recovery?" *Salon*, October 10, 2004, and republished in *Vanguardia* (Barcelona), October 13, 2004.

Presentations: "The Experience of Rising Inequality in Russia and China during the Transition," Department of Government, University of Texas at Austin, February 26, 2004; "Democracy and Globalization," 35th Anniversary Conference of CEDAL, San Jose, Costa Rica, February 28, 2004; "Toward a New Macro-Economics of Inequality: Examples from Global, Continental and National Studies" and "Strategic Alternatives for Peace and Security," University of Denver Economics Department, Denver, Colorado, March 29, 2004; panel participant on "The State of the U.S. and World Economies," 14th Annual Hyman P. Minsky Conference on Financial Structure, The Levy Economics Institute, Annandale-on-Hudson, New York, April 23, 2004; invited speaker, New Democracy Project, New York City, May 15, 2004; "Estimating Household Income Inequality," Conference on Growth and Distribution, Lucca, Italy, June 17, 2004; luncheon debates speaker, "European Unemployment and Inequality," European Commission, Brussels, Belgium, June 29, 2004; panel participant, "The American Economy," Center for American Progress, Washington, D.C., July 1, 2004; panel organizer and participant, "The Abuse of Power," Communitarian Summit, George Washington University, Washington, D.C., July 9, 2004; testimony, CSIS Infrastructure Commission, New York City, July 14, 2004; organizer and lead instructor, Workshop on the Measurement of Inequality, San Jose, Costa Rica, August 5–6, 2004; "Estimating Inequality of Household Incomes" and "Rising Inequality in Russia and China," World Institute for Development Economics Research, Helsinki, Finland, August 18, 2004; "Estimating Inequality of Household Incomes," International Association for Research on Income and Wealth, Cork, Ireland, August 26, 2004; keynote lecture, "The Problem of Unemployment in Europe and America," European Social Welfare Conference, Roskilde, Denmark, August 27, 2004.

HYUNSUB KUM *Research Scholar*

Presentations: "Income Inequality and Global Macroeconomics" (with J. K. Galbraith), Eastern Economics Association 2004 Conference, Washington, D.C., February 19–22, 2004; "Estimating the Evolution of Global Income Inequality" (with J. K. Galbraith), 100th American Political Science Association annual meeting, Chicago, September 2–5, 2004.

DIMITRI B. PAPADIMITRIOU *President*

Presentations: Interview regarding the state of the global economy with Al Scott, *Seattle Times*, October 4, 2004; interview regarding the economic impact of the current account deficit with Bill Shepherd, *Investment Dealers' Digest*, October 18, 2004.

MALCOLM SAWYER *Senior Scholar*

Publications: "Kalecki, Michal (1899–1970)" in *Oxford Dictionary of National Biography*, H. C. G. Matthew and Brian Harrison, eds., Oxford: Oxford University Press, 2004, http://www.oxforddnb.com/view/article/54007; "The NAIRU, labour market 'flexibility' and full employment," in Jim Stanford and Leah Vosko, eds., *Challenging the Market: The Struggle to Regulate Work and Income*, McGill–Queen's University Press, 2004; *Re-examining Monetary and Fiscal Policies in the Twenty-First Century* (with P. Arestis), Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2004; "O euro e a UME: lições para o Mercosul" (with P. Arestis, F. Ferrari-Filho, and L. Fernando de Paula), *Economia Esociedade*, Vol. 12, No. 1, 2004.

Presentations: "Policy Alternatives for the Euro Area" (coauthored by P. Arestis), at the International Symposium to honor John Kenneth Galbraith, sponsored by the l'Université du Littoral Côte d'Opale, Dunkerque, and held at the Institut de Gestion Sociale, Campus Parodi, Paris, France, September 22–25, 2004.

EDWARD N. WOLFF *Senior Scholar*

Publications: *What Has Happened to the Quality of Life in the Advanced Industrialized Nations?* (E. N. Wolff, ed.), Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2004; "Recent Trends in Living Standard in the United States" in *What Has Happened to the Quality of Life in the Advanced Industrialized Nations?* (E. N. Wolff, ed.), Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2004.

Presentations: "The Transformation of the American Pension System, 1983–2001," at the conference on Pension Fund Capitalism and the Crisis of Old-Age Security in the United States, New School University, New York, September 10–11, 2004; "On Point," hosted by Tom Ashbrook, NPR Radio, September 28, 2004; "An Overall Assessment of the Distributional Consequences of Government Spending and Taxation in the U.S., 1989 and 2000" (with A. Zacharias), conference on The Distributional Effects of Government Spending and Taxation, The Levy Economics Institute, Annandale-on-Hudson, New York, October 15–16, 2004.

L. RANDALL WRAY *Senior Scholar*

Publication: "The War on Poverty Forty Years On" (with Stephanie Bell), *Challenge*, September–October 2004, Vol. 47, No. 5.

Presentations: Teorias del Dinero, del credito y del Estado (Credit and State Theories of Money); Aspectos internacionales de la politica monetaria (International Aspects of Monetary Policy); El nuevo consenso monetarista (The New Monetary Consensus), and Globalizacion y desarrollo economico (Globalization and Economic Development); at a conference, *Estrategias & Politicas Para El Desarrollo Economico En Paieses En Desarrollo*, held at Universidad Nacional Autonoma De Mexico (Mexico City), September 9–10, 2004.

AJIT ZACHARIAS *Research Scholar*

Presentations: "A Levy Institute Measure of Economic Well-Being (with E. N. Wolff and A. Caner), 28th General Conference of the International Association for Research in Income and Wealth, Cork, Ireland, August 22–28, 2004; "An Overall Assessment of the Distributional Consequences of Government Spending and Taxation in the U.S., 1989 and 2000" (with E. N. Wolff), conference on the Distributional Effects of Government Spending and Taxation, The Levy Economics Institute, Annandale-on-Hudson, New York, October 15–16, 2004.

GENNARO ZEZZA *Research Scholar*

Presentation: "Distribution and Growth in a Post-Keynesian Stock-Flow Consistent Model," international conference on Economic Growth and Distribution: on the Nature and Causes of the Wealth of Nations, Lucca, Italy, June 16–18, 2004.

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